

**OVERVIEW**

Our headquarters is located in Harbin, Heilongjiang Province. We were the second largest commercial bank in Heilongjiang Province and the largest commercial bank in Harbin in terms of total assets as of 31 December 2012 and net profit for the year ended 31 December 2012. Our total assets were RMB270,090.2 million as of 31 December 2012, representing 11.5% of the total assets of all banking institutions in Heilongjiang Province. Our net profit was RMB2,871.5 million for the year ended 31 December 2012, representing approximately 11.2% of the net profit of all banking institutions in Heilongjiang Province for the same year, according to the record of the CBRC Heilongjiang Bureau.

In recent years, our Bank has experienced rapid growth in profits. Our net profit increased from RMB1,227.2 million for the year ended 31 December 2010 to RMB2,871.5 million for the year ended 31 December 2012, representing a CAGR of 53.0%. For the nine months ended 30 September 2013, our net profit was RMB2,371.3 million.

We were ranked 4th among the city commercial banks in the PRC according to the “2013 Research Report on Asian Bank Competitiveness Rankings” released by the 21st Century Business Herald, representing an advancement of five places as compared with 2012. The ranking is based on statistics of eight aspects relating to a bank’s capabilities to enhance capital value for its shareholders, such as return on capital, market share, asset quality and capital adequacy ratio<sup>1</sup>. We were ranked 33rd in terms of total assets among the “Top 50 Banks in China” published by Standard & Poor’s in 2012. We were ranked 9th among the city commercial banks with assets scale of over RMB200 billion as published by The Banker, a PRC-based magazine in 2013. City commercial banks are ranked by a number of indicators of financial performance, including total assets, risk profile, capital structure, profitability and liquidity ratio. Our Bank was ranked 313th in the “Top 1000 World Banks 2013” recently announced by The Banker, a UK-based magazine, in terms of total tier 1 capital<sup>2</sup>, representing an advancement of 85 places as compared with our ranking in the same list of the previous year. According to the list, 96 banks in the PRC ranked among the “Top 1000 World Banks 2013”. Among these PRC banks on the list, we were ranked 27th, 7th among city commercial banks, and first among city commercial banks in Northeast China.

We adopted the operating philosophy of “Inclusive Finance, Harmonious Co-Enrichment”, and our core strategy is to become a “first-class domestic and internationally renowned microfinance bank”. We possess strong core competitiveness in the microcredit market. As of 31 December 2012 and 30 September 2013, the balance of our microcredit loans (including our loans to Small Enterprises, loans to Small Enterprise Owners, loans to farmers and personal consumption loans) amounted to RMB58,448.1 million and RMB72,527.0 million, respectively, representing 67.0% and 69.1%, respectively, of our total loans to customers.

We believe that our businesses, strong operating results and high-quality services have enabled us to become a market leader in various banking business segments:

- We were one of the first city commercial banks in the PRC to launch microcredit business, and the first commercial bank in the PRC to export microcredit know-how and technology to other banking institutions;
- We were the first city commercial bank in Northeast China to obtain an operating permit for foreign exchange business;

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<sup>1</sup> A bank’s asset scale, liquidity and efficiency indicators, deposit structure and branch network are also taken into consideration.

<sup>2</sup> The banks are also assessed with other secondary indicators, namely, assets, capital asset ratio, pre-tax profits, profit on capital, return on assets, capital adequacy ratio, NPL to total loans, loans to assets, risk weighted assets to assets and cost to income.

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## BUSINESS

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- We are one of the four market makers for Renminbi-Ruble tradings in the interbank foreign exchange market of the PRC, the domestic bank with the largest scale of Ruble cash exchange and also the pilot bank for various banking businesses with Russia;
- We were one of the first city commercial banks in Northeast China to launch investment banking and interbank business; and
- We are one of the three promoters of the Asia Financial Cooperation Association<sup>1</sup>.

We have been focusing on providing microcredit services, differentiated financial services and various integrated financial service solutions. We believe that “Harbin Bank” has become one of the first-class microcredit financial service brands in the PRC. We have received a number of honours and awards for our strong business performance. In recent years, our major honours and awards include the following:

- In 2011, we were awarded the “Best SME Banking in China” (中國最佳中小企業銀行服務獎) award by The Asian Banker, being the only city commercial bank in the PRC to receive such award. We were also recognised as ‘the “Market Maker of Emerging Currency with the Greatest Improvement” (最大進步新興貨幣市場做市商) by the China Foreign Exchange Trade System and an outstanding debt valuation member by China Central Depository & Clearing Co. Ltd.;
- We received the award for “Leading Banking Institution Providing Services to Small and Micro Enterprises” (全國銀行業金融機構小微企業金融服務先進單位) by the CBRC for five consecutive times; and
- In 2012, we were honoured as the “Outstanding Investment Bank in China – Investment Bank with the Greatest Growth Potential” (中國區優秀投行—最具成長性投行) by Securities Times.

### OUR STRENGTHS

We believe that our competitive strengths are as follows:

#### I. We believe we are one of the leading providers of microcredit in the PRC

We are one of the only two commercial banks in China to be awarded “Leading Banking Institution Providing Services to Small and Micro Enterprises” (全國銀行業金融機構小微企業金融服務先進單位) by the CBRC for five consecutive times. Furthermore, we are the first PRC commercial bank to export microcredit know-how and technology to other banking institutions which is a testament to our advanced microcredit know-how and technology. On these bases and also on the basis of the following factors, we believe we are one of the leading providers of microcredit in the PRC.

**We were a pioneer of, and have strategically focused on, developing microcredit business in China.** In 2004, on the basis of our comprehensive understanding of the market positioning and operating characteristics of city commercial banks in China, we analysed the development trends of SMEs in the PRC. Leveraging on the PRC government’s ongoing support to the development of SMEs at a policy

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<sup>1</sup> Asia Financial Cooperation Association is a regional financial cooperation organisation formed by certain small and medium-sized banks and non-banking financial institutions in Asia on 24 April 2012 in Sanya, Hainan. The association strives to provide a cooperation platform for its members, facilitate compliance management of its members and assist its members to overcome development delays, thus contributing to the development of the economy and the financial sector.

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## BUSINESS

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level, we developed a strategy focusing on the development of our microcredit business. We set the goal of our strategic development to become a “first-class domestic and internationally renowned microfinance bank” and adopted the idea of “Inclusive Finance, Harmonious Co-Enrichment” as our growth philosophy. We launched microcredit products, including loans to Small Enterprises, loans to Small Enterprise Owners, loans to farmers and personal consumption loans and have achieved positive results.

**Our microcredit business has grown rapidly and we have achieved high loan yields.** From 2010 to 2012, the total balance of our microcredit loans grew at a CAGR of 33.6%. The balance of our microcredit loans, as a proportion to total loans and advances to customers, consistently accounted for over 60% over the same period. Interest income from microcredit loans accounted for over 63% of our total interest income for each of the years ended 31 December 2010, 2011 and 2012. As of 30 September 2013, the total balance of our microcredit loans reached RMB72,527.0 million, representing 69.1% of our total loans and advances to customers. The number of customers of our microcredit business as of 30 September 2013 increased to more than 480,000, representing 99.0% of the total customers of our loan business. In addition, the loans of our microcredit business consistently maintained relatively high loan yields during the Track Record Period. For the years ended 31 December 2010, 2011 and 2012 and the nine months ended 30 September 2013, the average yields of the loans of our microcredit business were 7.05%, 7.82%, 8.54% and 7.80% (annualised), respectively. Benefiting from our strong pricing ability in the microcredit business, the average yields of our total loans for the years ended 31 December 2010, 2011 and 2012 and the nine months ended 30 September 2013, were 6.37%, 7.63%, 8.00% and 7.48%, respectively, and were higher than those of all Listed PRC Commercial Banks<sup>1</sup> in the same periods. While realising rapid development in the microcredit business, we have also focused on asset quality. As of 30 September 2013, the non-performing loan ratio of our microcredit loans was 1.14%.

**We have a sophisticated management model for our microcredit business.** We adopted a development model for our microcredit business that features “localisation plus internationalisation” and “specialisation and characterisation”. Our credit business for Small Enterprise Customers is jointly run by marketing managers, risk managers and product managers, while a vertical management model is adopted for our loans to farmers. In addition, we established a microcredit research and development centre and developed a microcredit IT system with proprietary intellectual property rights with a comprehensive set of risk management measures. We have successfully introduced our microcredit know-how and technology to many regions in the PRC, which we believe will help us to attain a leading position in the microcredit industry in the PRC. As of 30 September 2013, the total balance of our microcredit loans of our branch outlets outside Heilongjiang Province accounted for 39.49% of the total balance of our microcredit loans.

**We were the first commercial bank in the PRC to export microcredit know-how and technology to other banking institutions in China.** As a testament to our advanced microcredit know-how and technology, we were the first commercial bank in the PRC to export microcredit know-how and technology to other banking institutions, including rural credit cooperatives, city commercial banks and rural commercial banks in China. As of 30 September 2013, we had entered into 22 contracts for the exportation of microcredit know-how and technology, 10 of which have been completed. Our exportation of microcredit know-how and technology was presented by the CBRC with the award for “Achievement Exhibition of Small Enterprise Financial Services of the PRC Banking Industry (中國銀行業小企業金融服務成就展)” in 2013.

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<sup>1</sup> Listed PRC Commercial Banks: the 19 PRC commercial banks listed in A-share and H-share capital market as of the Latest Practicable Date, consisting of the Five Large Commercial Banks, China Merchants Bank, China CITC Bank, China Minsheng Bank, Hua Xia Bank, Industrial Bank, Ping An Bank, Shanghai Pudong Development Bank, China Everbright Bank and the 6 Listed PRC City Commercial Banks and Rural Commercial Banks.

**We are committed to developing a localised microcredit financial services team with international standards.** As of 30 September 2013, we had more than 1,000 employees dedicated to microcredit business, of which 29 were microcredit know-how and technology exportation professionals and 10 were microcredit business professionals with international experience. We have approximately 340 employees dedicated to loans to Small Enterprises and loans to Small Enterprise Owners, including approximately 200 marketing managers, approximately 130 risk managers and approximately 10 product managers. We have approximately 460 employees dedicated to loans to farmers, including approximately 350 marketing managers and approximately 110 risk managers. We have approximately 280 employees dedicated to personal consumption loans, including approximately 200 marketing managers, approximately 60 risk managers and approximately 20 product managers. Two of our employees have been awarded the “Person of the Year in China Microfinance Industry” (中國小額信貸年度人物), three have won the title of “Leading Individuals in Serving SME in China” (全國服務中小企業發展先進個人) and three have won the First Prize of Urban Loan Officer of the “China Banking Association (Citigroup) Micro-entrepreneurship Award” (中國銀行業協會 (花旗集團) 微型創業獎城市信貸員).

**Our “Just-for-you” (乾道嘉) microcredit business brand is highly recognised in domestic and overseas markets.** In 2013, a series of microcredit products under our brand of “Just-for-you” (乾道嘉) was recognised as “Best Microfinance Product in China in 2013” (2013 年度中國最佳小額信貸產品) by The Asian Banker. As a result of our outstanding performance in the microcredit industry in China, we have been honoured as a “Leading Banking Institution Providing Services to Small and Micro Enterprises in China” (全國銀行業金融機構小微企業金融服務先進單位) for five consecutive times by the CBRC, one of only two commercial banks in China to receive this award for five consecutive times. In addition, we were also awarded the “Best SME Banking Services in China” (中國最佳中小企業銀行服務) by The Asian Banker in 2011 and were the only city commercial bank in China to receive this honour in that year.

We have commenced business dialogue with leading international microfinance organisations, such as PlaNet Finance in France, ACCION International in the United States, Grameen Bank in Bangladesh and ICICI Bank in India, entered into strategic cooperation agreements with institutions such as the IFC to explore business innovation in various areas, and entered into an agreement with the United Nations Development Programme (“UNDP”) for cooperation in microcredit projects. We have also co-founded the Asia Financial Cooperation Association. In 2010, our “Just-for-you” (乾道嘉) microcredit business brand was listed in the Microfinance Information Exchange in the United States.

We have been a top city commercial bank with microcredit business as our core competitive strength. From 2010 to 2012, the CAGR of our total assets was 46.5%, and the CAGRs of total loans and deposits were 27.1% and 28.6%, respectively. The net profit attributable to our shareholders grew faster with a CAGR of 52.7% over the same period, which was higher than that of all Listed PRC City and Rural Commercial Banks.<sup>1</sup>

## **II. We have comparative advantages among city commercial banks in terms of our cross-regional operating network**

We were one of the first city commercial banks that received approval to establish and operate a cross-regional operating network outside home province. We are also one of the city commercial banks with the broadest regional coverage and the most comprehensive branch network outside home provinces. As of 31 January 2014, we had a total of 304 branch outlets consisting of 15 branches, 245 sub-branches,

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<sup>1</sup> Listed PRC City and Rural Commercial Banks: Chongqing Rural Commercial Bank and the five PRC city commercial Banks listed in A-share or H-share capital market as of the Latest Practicable Date, consisting of Bank of Beijing, Bank of Nanjing, Bank of Ningbo, Bank of Chongqing and Huishang Bank.

24 Village and Township Banks and their 20 sub-branches under them in the PRC. Through our cross-regional network, we believe we are well positioned to capitalise on the rapid growth of the major economic regions in the PRC.

Our headquarters is in Heilongjiang Province, the geographic centre of Northeast Asia. Apart from our ten branches in the Heilongjiang Province, we have also established five branches in the economically developed cities in China such as Tianjin, Dalian, Shenyang, Chongqing and Chengdu. Furthermore, we have indirectly entered the Pearl River Delta region through an equity investment in Guangdong Huaxing Bank Co., Ltd. to extend our operating network. As of 30 September 2013, the total deposits and loans of our branch outlets outside Heilongjiang Province accounted for 38.2% and 48.0%, respectively, of our total deposits and loans. For the nine months ended 30 September 2013, these branch outlets realised profit before provision of RMB1,297.8 million in aggregate, representing 36.6% of our total profit before provision and have been an important part of our business development.

We operate 24 Village and Township Banks in 14 provinces and municipalities directly under the State Council, which made us one of the city commercial banks with the largest number of Village and Township Bank subsidiaries in the PRC as of 31 December 2012. In order to achieve standardised operational management and strategy between the Bank and our Village and Township Banks, we have established a specialised unit within the Bank that governs and controls the operations of each Village and Township Bank. As a result, all Village and Township Banks have adopted the Bank's advanced microcredit know-how and technology and business model. Most of our Village and Township Banks have now become profitable. For instance, Huining Huishi Village and Township Bank in Huining, Gansu Province, a county relying on financial support from the central government, realised over RMB15.68 million accumulated net profits since its establishment in 2009 until the end of 2012.

Our cross-regional network provides us with a low-cost funding base and plays an important role in the growth of our business and financial results. As of 31 December 2012, the proportion of demand deposits to total deposits of our Bank was 52.0%, higher than the average level of the Listed PRC City and Rural Commercial Banks. For the year ended 31 December 2012, the average interest rate of deposits was 2.0%, lower than the average level of the Listed PRC City and Rural Commercial Banks.

We believe that with the continued growth of the PRC economy, we will be able to capitalise upon our experience and advantages in serving small and micro enterprises and in rural finance based on our existing cross-regional network and market positioning of serving small and micro enterprises and rural customers to promote future development.

### **III. We are a pioneer among PRC city commercial banks in launching rural financial services**

We were the first city commercial bank to launch rural financial services. In 2005, while other city commercial banks were not focused on rural financial services, we successfully anticipated the trends of national policies and launched our rural financial business, which further enhanced our development potential. Based on our deep understanding of the agricultural industry and the rural financial markets in the PRC, we have developed an advanced rural financial services business model to capitalise on the growth of rural banking.

Our Bank has established an extensive network for rural financial services, comprising 40 rural financial service centres and 24 Village and Township Banks. We also cooperated with the IFC to introduce mobile banking as a new electronic service channel for rural financial services. Over 700 “Just-for-you” (乾道嘉) e-outlets were established under our marketing strategy in Heilongjiang Province, and we intend to promote this business model nationwide and expand into the extensive rural market.



As of 30 September 2013, we offered our rural banking services in 14 provinces and directly controlled municipalities, 70 counties, 67 farms and over 7,300 villages in China, with over 1.4 million customers. We currently employ approximately 460 professionals with significant experience in rural financial services. As such we believe that we are able to target customers with low default rates and maintain our pricing power in this segment. During the Track Record Period, we priced our loans to farmers on average of at least 1.4 times the relevant benchmark rate. For the nine months ended 30 September 2013, the average annualised yield on loans to farmers was 9.27%, which was the highest yield among all of our loan products.

According to the NBSC, Heilongjiang Province ranked first in China in terms of grain output in 2012. The people's government of Heilongjiang Province promulgated favourable regulations to support agricultural business. In particular, the development of two major plains in Heilongjiang Province has become a national strategic development project. Capitalising on the advantages of Heilongjiang Province in the traditional agricultural sector, our Bank has implemented the strategy of "extensive rural financial services" to diversify our rural financial services centred around the agricultural industrial chain and urbanisation. We believe that our strategy of innovating and improving rural services and financial systems in Heilongjiang Province, together with our wide coverage in rural areas and large customer base, will further contribute to our competitiveness as compared to other city commercial banks in the PRC.

#### **IV. We are the leading PRC city commercial bank in Russian financial services**

We are the first city commercial bank in the PRC to launch Russian Ruble banking services. We are also a participant of the Financial Cooperation Sub-committee of the Regular Sino-Russian Premier-level Meeting Committee (中俄總理定期會晤委員會金融合作分委會). We have developed our core competitiveness in Russian banking businesses as a result of exploration and innovation in the development of our business network, operating systems, featured products, talent pool and cross-border e-commerce services. We had entered into agency agreements with 107 Russian banks as of the Latest Practicable Date. Out of more than 40 commercial banks in the far-east region of Russia, we have established agency relationships with 20 banks. As of 31 December 2012, half of the top ten enterprises in Heilongjiang Province that had import or export transactions with Russia in 2012 had business relationships with our Bank and settled certain of their transactions through our Bank.

We are a pioneer in Ruble business and extended the first cross-border RMB-denominated loan to Russia in the PRC. We were also the first domestic bank to offer direct Ruble-Renminbi exchange rates. We are a major service provider in the PRC in terms of Ruble currency and cash exchange. In November 2010, we received approval from the PBOC to act as one of the four market makers for Renminbi-Ruble tradings in the interbank foreign exchange market of the PRC. We are also the only market maker for minor currencies trading among city commercial banks in the PRC. For the years ended 31 December 2010, 2011 and 2012 and the nine months ended 30 September 2013, the aggregate volume of our onshore market-making transactions for Renminbi-Ruble tradings were RUB22.4 million, RUB2,541.1 million, RUB6,557.1 million and RUB3,461.4 million, respectively. We are also a pilot bank for Ruble cash exchange, Ruble cross-border trading and purchase and sales of RMB from and to Russian banks. For the years ended 31 December 2010, 2011 and 2012 and the nine months ended 30 September 2013, our total Ruble cash exchange volume was RUB130.9 million, RUB113.3 million, RUB1,015.1 million and RUB4,170.6 million, respectively. As of 30 September 2013, our Ruble cash exchange represented more than half of the total Ruble cash exchange volume of financial institutions in the PRC. We handled cross-border transportation of Ruble cash amounting to RUB555.0 million between our commencement of such business in February 2012 to 30 September 2013. For the nine months ended

30 September 2013, the total income generated from our Russian financial services amounted to RMB91.0 million, consisting of interest income of RMB78.0 million and fee and commission income of RMB13.0 million.

The CAGR of the total Sino-Russian import and export volume amounted to 17.18% between 2010 and 2013. According to the relevant joint declaration entered into by the PRC and Russia in 2013, the target trade volume between the PRC and Russia is US\$100 billion by 2015 and US\$200 billion by 2020 so as to facilitate the diversification of the trade structure. The trade volume between the PRC and Russia is expected to continue to increase along with the deepening of the comprehensive strategic cooperative partnership between the PRC and Russia. We believe that with the development and opening up of Heilongjiang Province and the Eastern border of Inner Mongolia, along with the implementation of development strategies of Eastern Russia, Harbin will develop into a regional financial centre encompassing Russia and Northeast Asia. We will continue to implement and benefit from our strategies in relation to Russian banking businesses and maintain our status as the leading domestic bank in conducting Russian-related financial services.

#### **V. We have a prudent and improving risk management and internal control system**

Our Bank has adopted a conservative approach to risks and continues to improve our comprehensive risk management system. We have established a professional and vertically centralised risk control and management structure in each of our front office, middle office and back office functions. We have established a coordinated, effective “three-layer defence” risk prevention and control system with duties and responsibilities being clearly defined. We have recently worked on the construction of various risk governance structures, policy systems, procedures and methods. Our risk control measures and tools have been improved to match our risk profile, which has further enhanced the integrity, synergy and effectiveness of our risk management.

We are improving our comprehensive risk management system with reference to the requirements of the Basel III Accords. We have improved our capabilities to identify, measure, monitor and control various risks facing us in our overall risk management, by formulating bank-wide unified risk management policies and utilising tools such as economic capital, risk limit, risk pricing, internal fund transfer pricing, stress tests, risk control and self-assessment, data loss prevention and key risk indicators. During economic downturns, we implemented risk limit management in major sectors such as local government financing vehicles, real estate and industries with excess production capacity, strictly complied with the guidance of national industrial development policy, satisfied the financing needs of the real economy and SMEs, and optimised the structure of our credit assets. In addition, we have further improved the technology and method of risk management and implemented an internal ratings-based approach. Scorecards for applicants for loans to Small Enterprise Customers and behavioural scorecards are used in daily risk management. Optimisation of credit-rating models for corporate and personal banking customers is in progress.

We have further improved our risk management mechanism by establishing a risk-based performance assessment system to encourage the implementation of risk control by each operating unit. We have further implemented and improved our use of the six mechanisms of credit risk management, including pre-approval investigation, credit review and approval, credit disbursement, post-disbursement management, risk alert and non-performing asset management based on the various characteristics of regional risks and customer risks. Further, we have streamlined our risk management procedures for risk policy, limit management, warning and supervision, and performance assessment. In respect of our strategic microcredit business, we have established a standard and comprehensive quality management

and internal control system. We allocate human resources according to the business models of different microcredit businesses to improve the level of microcredit management and enhance risk identification and control capabilities of various businesses.

We have been optimising our internal control system. We have taken into account major areas of internal control for each business system by streamlining our bank-wide rules and business procedures. As a result, our internal controls are being transformed from a manual process to an automated process. Our automation control rate has been enhanced to prevent operational risk and staff fraud risk more effectively. In addition, we launched an off-site audit system to timely detect, inspect and address off-site pre-warning information. On-site inspection has also been improved. We established an effective and coordinated joint inspection mechanism and a rectification follow-up mechanism to facilitate synergies among the three lines of defence, namely, business departments, compliance management and internal audit. These mechanisms focus on the integration of on-site and off-site monitoring and the combination of inspection and prevention, so as to prevent and resolve potential risks. In addition, the risk compliance awareness of all staff has been enhanced.

In order to strengthen our risk management and internal control capabilities, we engaged Deloitte (Shanghai) in 2011 to provide consultation services for our comprehensive risk management planning and internal control system construction. In addition, we commenced implementing the Basel III Accords and adopting related improvements to our internal control system in 2012.

We believe that our consistent and sound asset quality is attributable to our risk management efforts. As of 31 December 2010, 2011 and 2012 and 30 September 2013, our non-performing loan ratio was 0.79%, 0.62%, 0.64% and 0.86%, respectively, while the provision coverage ratio was 192.60%, 347.16%, 353.52% and 263.01%, respectively.

## **VI. We have an experienced and dedicated management team and a competent staff base**

Our management team have made significant achievements in the financial industry by leveraging their experience, insights and commitment to improvement. Mr. GUO Zhiwen, the Chairman of the Board of our Bank, has over 19 years of experience in the financial industry and has served our Bank for over 16 years. Mr. GUO was nominated for the “Leader of the Year Award” of the global microfinance industry (全球微型金融領軍人物提名獎) and has extensive experience in the financial industry. Ms. GAO Shuzhen, the president of our Bank, has over 25 years of experience in the financial industry and has served our Bank for over 13 years. She was awarded the “Person of the Year in China Microfinance Industry” (中國小額信貸年度人物獎) and has extensive experience in banking management. Our senior management team has over 19 years of experience in the financial industry on average, and has remained relatively stable with nine members of our senior management team having served our Bank for more than 13 years on average. All members of our management team are familiar with the operation and management of the banking business and have a thorough understanding of the macro-economic environment and the banking industry in China, especially the development of microfinance business, based on their experience in our Bank and other PRC financial institutions. Under the leadership of our senior management team, the operating capacities and financial performance of our Bank have improved significantly.

In addition, we have cultivated a team of quality staff by leveraging our advanced human resource management concept, efficient recruitment system, competitive remuneration system, up-to-date training system and sound performance appraisal system. As of 30 September 2013, the average age of our employees was 31 years and over 80% of them had obtained a bachelor’s degree or above.



### OUR STRATEGIES

Our goal is to become a “first-class domestic and internationally renowned microfinance bank”. We will continue to apply the development philosophy of “Inclusive Finance, Harmonious Co-Enrichment”. We strive to further enhance our leading position in microcredit business and improve our general competitiveness with the aim of establishing our Bank as a city commercial bank with “sound corporate governance, clear positioning, distinctive features, a strong capital base, an excellent team and an advanced corporate culture”.

We plan to achieve these goals by adopting the following strategic measures:

#### **Maintain and further enhance our competitive edge in the microcredit industry**

We intend to further develop our microcredit business to maintain and enhance our competitive advantages and improve our influence on microcredit business in the international arena.

We plan to regularly review and refine our core microcredit technologies, further enhance our research in microcredit technologies and improve our microcredit know-how and technology system, to continue to tailor our microcredit know-how and technology systems and management model to the economic conditions in China. We are also devoted to building our Bank as repository of talent and technologies related to microcredit business so as to contribute to the development of inclusive finance in China by further promoting the exportation of our microcredit know-how and technology to other institutions in the banking industry in China.

We will seek to further enhance our market position in the microcredit market in Harbin and other regions in the Heilongjiang Province, while strategically focusing on developed areas, including the Bohai Rim economic region, the Pearl River Delta region and the economic centres in Western China, to expand our base of Small Enterprise Customers.

We plan to continue applying our centralised management model for credit business for personal consumption as well as refining our tiered customer classification, cross-selling marketing and joint marketing system, to improve the loyalty and overall contribution of our customers. We will also strive to develop premium mid-end individual customers and high-net-worth individuals.

We intend to continue to strengthen the branding power of the “Just-for-you” (乾道嘉) brand for our microcredit products, maintain and improve the development and innovation of our microcredit products and continue to enrich the product system of our business.

We will further develop and expand our Small Enterprise Customer base, while prioritising the support to Small Enterprise Customers from urban commercial districts, strategic emerging industries, emerging culture and the internet industries and other industries closely related to people’s livelihood in accordance with the 12th Five-Year Plan of the PRC. In addition, we intend to establish a Small Enterprise Customers union, to promote the transformation of our microcredit business into a microfinance business that provides more comprehensive financial services to customers.

We intend to further expand the electronic service channels of our microcredit business and establish a competitive e-business model for small and micro financing in the PRC SME financial services community.

**Achieve comprehensive development of rural financial services**

The nationwide development of modern agriculture and urbanisation has facilitated the expansion of our rural financial services. We have adopted the marketing strategy of “Extensive Rural Financial Services”, and plan to accelerate the adjustment of our organisation structure and actively promote product and service innovation to further improve the market competitiveness and awareness of our rural financial services. Furthermore, we intend to adjust the management structure and business lines of our rural financial services. We expect to restructure all of our agriculture-related businesses and unify them under our rural financial services management. The integration of our relevant corporate banking business, products for Small Enterprise Customers in agriculture-related industries and relevant customer resources will be carried out to provide diversified financial services for supporting the development of new rural areas.

We intend to capitalise on the opportunities arising from the nationwide development of modern agriculture and urbanisation. In particular, we plan to explore business opportunities arising from the production, processing, sales and logistics market of agricultural products and production materials along the industry chain of rural financial business; consider the capital needs from both rural infrastructure construction and urbanisation; accelerate and promote product and service innovation; and expand our emerging customer base consisting of farmers’ cooperatives, family farms and family ranches by taking advantage of our existing connections and geographical coverage.

We intend to improve the establishment of rural financing channels. By focusing on the establishment of both physical outlets and electronic channels, we intend to establish a three-level channel network covering counties, towns and villages. The county-level networks are expected to be primarily composed of physical integrated outlets. Simplified physical outlet networks will be established at township level, consisting of ATMs and lower-cabinet businesses, while e-outlets for rural customers and mobile banking platforms will be employed at village level. We believe that a service channel network built on this basis will enable us to meet the demand for the development of rural financial institutions and facilitate the payment and settlement by customers of rural financial services.

**Accelerate the development of international financial business for small enterprises and micro enterprises and cross-border Russian financial services**

We intend to further improve our international financial services for small enterprises and micro enterprises and enhance our core competitiveness in our cross-border financial business with Russia, to accelerate the development of our international business.

We plan to continue targeting export-oriented small enterprises and micro enterprises as the main customers of our international business, while developing large enterprise customers based on our capabilities. We intend to actively develop domestic and overseas customers for our cross-border financial business with Russia. We will focus on established markets outside Heilongjiang Province as our primary markets, and cities within Heilongjiang Province with established branches that are rich in resources and sub-branches in border cities as our secondary markets. We expect to further develop interbanking and offshore financial services provided to Russian financial institutions and corporate customers. We intend to expand our offshore financing and cross-border RMB business in Hong Kong.

We will improve interbank financial products and trade financing products to Russian counterparties, exploit and develop foreign exchange derivative products and foreign exchange wealth management products, gradually strengthen our international financial products and services, and establish a competitive product portfolio for small enterprises and micro enterprises and cross-boarder financial services to Russia.

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## BUSINESS

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We intend to adopt a broad expansion strategy to accelerate the development of our financial services to Russia. Specifically, we plan to expand our international business and launch cross-border financial services in all branches and border sub-branches to achieve overseas market expansion. We intend to develop a series of new international financial products and services. We also plan to expand our customer base to cover Chinese merchants conducting business in Russia, Russian merchants conducting procurement business in China, domestic companies that engage in trading with Russia and overseas Chinese companies. As part of this strategy we intend to establish a specific business department in our headquarters at an appropriate time to concentrate resources on developing our international business customer base. We also intend to focus on establishing and enhancing cooperation with relevant government authorities of the PRC, establish strategic alliance with policy financial institutions and small and medium sized commercial banks.

### **Strategically expand our operating regions and further improve our multi-channel distribution network**

We intend to strategically expand our operating regions to enlarge our customer base and achieve growth in our profits. In particular, we plan to selectively expand our operating network in regions where we already have a presence, and leverage on our being a cross-regional bank. Subject to applicable laws and regulations, we will seek to expand our business into other regions in China where we do not yet have branches.

We are committed to optimising our multi-channel distribution network by further expanding our sub-branch network and enhancing the establishment of distribution channels on the basis of our existing network. The role of information technology will be emphasised in the establishment of distribution channels, as we expect the proportion of business conducted via electronic distribution channels to increase. We intend to increase the number of our sub-branches in developed regions and improve the layout of our distribution network in county areas. We intend to install and apply self-service equipment and simplified outlet models in those regions lacking financial services. We plan to enhance the establishment of our electronic distribution channels to achieve higher efficiency in distribution via electronic channels and wider customer coverage. We also intend to actively explore the online financial market in the future.

### **Further enhance our corporate governance, risk management and internal controls**

Our Bank intends to further enhance our corporate governance structure. We plan to enhance the management capabilities of our headquarters and operating capabilities of our branches and sub-branches to facilitate our transformation from a “department-based bank” to a “process-based bank”. By enhancing our corporate governance, we plan to further improve our capital management capabilities, develop a multi-level capital replenishment mechanism, and prepare strategic capital reserves buffers and capital adequacy ratio buffers necessary for satisfying the capital demand of future development.

We intend to further improve our overall risk management system and internal controls. In particular, we plan to enhance the management of our credit asset quality; promote the transformation of the recovery mode of non-performing loans; improve the management mechanism of non-performing loans; and reinforce the guidance on credit asset quality management. We intend to enhance risk management on a consolidated basis, unify risk control policies and standards, and strictly prevent and control the risks relating to financing investment banking and wealth management business. We plan to further improve our market risk limit system and integrate the transformation of our front, middle and back offices in the fund transfer system. We intend to adopt stringent risk-based credit access standards and allocate resources to enhance stop-loss management and profitability of risk-covered transactions. In

accordance with the requirements on internal control compliance and the application of the Basel Accords projects, we intend to improve the deployment of risk management positions and personnel for each business line. We intend to reinforce the second line of defence of our compliance department and risk control department of each branch, continue our investment in the establishment of corporate governance structures and personnel training.

### **Rely on information technology to drive business development and management**

We aim to develop our business with the assistance of technology and to cultivate our core competitiveness in terms of our information technology systems in order to provide comprehensive IT support to strengthen our leading position in the microcredit business.

We set up a designated IT strategy planning and implementation office to ensure the implementation and enforcement of our IT strategies and schemes. We also commenced the construction of a new version of data platform, the whole-process credit system, the ECIF system, the enterprise master service project, a new version of online banking platform and other projects so as to extend department-level projects to bank-wide projects.

Our IT governance strategies include: (1) establishing a multi-tiered and specialised team to prepare for technology development in the next five to ten years and to ensure the successful implementation of our IT development plans; (2) adopting a flexible recruitment strategy to attract external IT talents with high calibre to join our IT team and further optimising the structure of our IT team to enhance our research and development capabilities in respect of IT systems; and (3) promoting the establishment of our IT R&D centre, which has independent research and development capabilities so as to achieve self-reliant IT research and development relating to major business lines of our Bank. We intend to establish an operating maintenance centre solely operated by our Bank to ensure the stable operation of our various IT systems, including business systems of our 15 branches and 24 Village and Township Banks.

We strive to develop our electronic banking business as well as integrate and improve channels of our electronic banking business to realise comprehensive transformation of our electronic banking business. We aim to expedite the establishment and optimisation of our basic system platforms and the development and application of channels relating to our electronic banking business. We intend to expand the coverage of our electronic banking business to facilitate growth in the number of our customers using our electronic banking business and to provide business expansion. In addition, our Bank has accelerated the research, development and application of new technologies. We endeavour to transform technology innovations into business innovations to promote the development of our electronic banking business.

### **Continue to implement our “talent-oriented” strategy**

We believe that the key to success lies in our ability to recruit, retain, incentivise and cultivate capable and experienced professional staff. We aim to attract, retain, incentivise and cultivate talents in all fields, and strengthen the management of the talent pool for managerial positions and positions that require technical skills. We intend to further enhance the allocation of human resources, gradually increase the proportion of staff for our microcredit business, sales positions and core managerial positions, as well as the proportion of professional talents, to form an even stronger staff base within our Bank. We plan to implement diversified and differentiated remuneration strategies and combinations to create a wide range of incentive packages for our staff. We intend to introduce innovative staff training to improve staff quality and create staff development systems for various career paths. We intend to establish performance assessment modes in line with market standards, placing emphasis on evaluation of contribution from our staff so as to enhance their level of contributions to our business.

## BUSINESS

### OUR PRINCIPAL BUSINESS ACTIVITIES

Our principal businesses include corporate banking business, personal banking business, treasury operations and other businesses. The table below sets forth our operating income by business segments and the percentage of our total operating income in the periods indicated:

	For the year ended 31 December						For the nine months ended 30 September			
	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 business . . . . .	1,502.5	46.3	2,000.2	36.9	2,585.6	33.5	1,722.4	31.4	2,034.7	34.3
Personal banking business . . . . .	1,309.0	40.3	1,947.6	36.0	2,228.7	28.9	1,808.8	33.0	1,761.4	29.7
Treasury operations . . . . .	377.4	11.6	1,425.6	26.3	2,808.6	36.4	1,907.1	34.8	2,111.8	35.7
Other businesses <sup>(1)</sup> . . . . .	56.5	1.8	40.6	0.8	88.4	1.2	40.7	0.8	15.7	0.3
<b>Total operating income . . . . .</b>	<b>3,245.4</b>	<b>100.0</b>	<b>5,414.0</b>	<b>100.0</b>	<b>7,711.3</b>	<b>100.0</b>	<b>5,479.0</b>	<b>100.0</b>	<b>5,923.6</b>	<b>100.0</b>

Note:

- (1) Other businesses comprise businesses that cannot be identified as an independent segment or to a reasonable extent not considered part of our corporate banking business, personal banking business and treasury operations. Income generated from other businesses mainly includes government subsidies, leasing income, technology consultation fees and gains from disposals of fixed assets.

### Corporate Banking Business

Corporate banking business (including international corporate banking business) is our main source of income. For the years ended 31 December 2010, 2011 and 2012 and the nine months ended 30 September 2013, income from our corporate banking business accounted for 46.3%, 36.9%, 33.5% and 34.3%, respectively, of our total operating income. Our corporate customers include state-owned enterprises, privately owned enterprises, foreign-invested enterprises and government institutions. We provide comprehensive corporate banking products and services, such as corporate loans, discounted bills, corporate deposits as well as fee- and commission-based corporate banking services for our corporate customers. As of 31 December 2010, 2011 and 2012 and 30 September 2013, corporate loans (excluding discounted bills) accounted for 43.4%, 52.0%, 58.6% and 58.7%, respectively, of our total loans and advances to customers, while corporate deposits accounted for 71.4%, 71.1%, 70.2% and 70.1%, respectively of our total due to customers. See “Assets and Liabilities”.

For details of our international corporate banking business, see “– International Business”.

### Corporate Customer Base

We have built a strong customer base in Northeast China, especially in Heilongjiang Province. We seek to expand our corporate customer base in other regions in China and the number of our corporate customers from these regions is increasing. As of 30 September 2013, we had over 7,000 corporate customers, which had accounts with our Tianjin, Chengdu and Chongqing branches, with a CAGR of 39.7% from 2010 to 2012. As of 30 September 2013, we had over 57,000 corporate customers.



## BUSINESS

In addition to medium and large enterprise customers we also have many Small Enterprise Customers, which include small and micro enterprises. As of 30 September 2013, we had over 4,500 Small Enterprises customers. We strive to consolidate and strengthen the dominant position of our credit services for Small Enterprises and have nurtured a group of loyal customers of corporate loans provided to Small Enterprises.

We prioritise cooperation with customers from industries with higher credit ratings and benefit from preferential governmental policies, to optimise the structure of our customer base and improve the quality of customers. As of 30 September 2013, loans to our corporate loan customers who were from industries such as the (i) wholesale and services, (ii) manufacturing, (iii) construction, (iv) rental and commercial services and (v) agriculture, forestry, husbandry and fishery sectors, accounted for 36.0%, 21.7%, 9.0%, 6.5% and 5.1%, respectively, of our total corporate loans. See “Assets and Liabilities – Assets – Loans and Advances to Customers – Corporate Loans – Distribution of Loans by Industry”.

### *Corporate Banking Products and Services*

#### *Corporate Loans*

Corporate loans have historically been the largest component of our loan portfolio, substantially all of which are RMB-denominated loans. As of 31 December 2010, 2011 and 2012 and 30 September 2013, the total amount of our corporate loans (excluding discounted bills) was RMB 23,420.8 million, RMB35,601.1 million, RMB51,108.1 million and RMB61,639.4 million, respectively. The CAGR of our corporate loans from 2010 to 2012 was 47.7%. See “Assets and Liabilities – Assets – Loans and Advances to Customers – Corporate Loans”. In terms of loan maturity, our corporate loans comprise short-term loans and medium- and long-term loans. In terms of the types of customers, our corporate loans consist of loans to Small Enterprises and loans to other companies. The majority of our corporate loans were granted to corporate customers in Northeast China. As of 31 December 2010, 2011 and 2012 and 30 September 2013, the balance of our loans to corporate customers in Northeast China was RMB18,586.6 million, RMB26,534.2 million, RMB36,293.6 million and RMB35,436.6 million, respectively, accounting for 79.4%, 74.5%, 71.0% and 57.5%, respectively, of our total corporate loans as of those dates.

#### *Distribution of Corporate Loans by Maturity*

The following table sets out our corporate loans by loan maturity as of the dates indicated.

	As of 31 December						As of 30 September	
	2010		2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Short-term loans . . . . .	17,285.9	73.8	27,324.3	76.8	39,524.7	77.3	47,891.6	77.7
Medium-and long-term loans . . . . .	6,134.9	26.2	8,276.8	23.2	11,583.4	22.7	13,747.8	22.3
<b>Total corporate loans . . . . .</b>	<b>23,420.8</b>	<b>100.0</b>	<b>35,601.1</b>	<b>100.0</b>	<b>51,108.1</b>	<b>100.0</b>	<b>61,639.4</b>	<b>100.0</b>

*Short-term loans.* Under the General Rules for Loans of the PBOC, short-term loans are loans with maturities of one year or less. Our loans are mainly short-term loans, including working capital loans, which are our main short-term loan products. As of 31 December 2010, 2011 and 2012 and 30 September 2013, our short-term loans were RMB17,285.9 million, RMB27,324.3 million, RMB39,524.7 million and

## BUSINESS

RMB47,891.6 million, respectively, representing 73.8%, 76.8%, 77.3% and 77.7%, respectively, of our total corporate loans (excluding discounted bills) as of those dates.

*Medium- and long-term loans.* Under the General Rules for loans of the PBOC, medium- and long-term loans are loans which mature in more than one year. As of 31 December 2010, 2011 and 2012 and 30 September 2013, our medium- and long-term loans were RMB6,134.9 million, RMB8,276.8 million, RMB11,583.4 million and RMB13,747.8 million, respectively, representing 26.2%, 23.2%, 22.7% and 22.3%, respectively, of our total corporate loans (excluding discounted bills) as of those dates.

### *Distribution of Corporate Loans by Types of Customers*

The following table sets forth the distribution of our corporate loans by types of customers as of the dates indicated.

	As of 31 December						As of 30 September	
	2010		2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)								
Loans to Small Enterprises	9,062.6	38.7	15,171.9	42.6	23,638.0	46.3	31,657.6	51.4
Other corporate loans (excluding loans to Small Enterprises)	14,358.2	61.3	20,429.2	57.4	27,470.1	53.7	29,981.8	48.6
<b>Total corporate loans</b>	<b>23,420.8</b>	<b>100.0</b>	<b>35,601.1</b>	<b>100.0</b>	<b>51,108.1</b>	<b>100.0</b>	<b>61,639.4</b>	<b>100.0</b>

Loans to Small Enterprises are an important component of our microcredit business. In order to meet the capital needs for daily operation of Small Enterprises, and in addition to offering general corporate credit products and services such as working capital loans, we provide special RMB-denominated credit products tailored for Small Enterprises. See “– Microcredit Business”. As of 30 September 2013, the Bank had a total of over 4,500 customers of corporate loans to Small Enterprises. As of 31 December 2010, 2011 and 2012 and 30 September 2013, the balance of loans to Small Enterprises of our Bank amounted to RMB9,062.6 million, RMB15,171.9 million, RMB23,638.0 million and RMB31,657.6 million, respectively, and accounted for 38.7%, 42.6%, 46.3% and 51.4%, respectively, of our total corporate loans (excluding discounted bills) as of the same dates. For the years ended 31 December 2010, 2011 and 2012 and the nine months ended 30 September 2013, our interest income from corporate loans to Small Enterprises was RMB461.9 million, RMB889.6 million, RMB1,315.6 million and RMB1,448.8 million, respectively, representing 11.5%, 10.8%, 10.1% and 14.0%, respectively, of our total interest income during those periods.

### *Discounted Bills*

We purchase bank and commercial acceptance bills with remaining maturities of no more than six months at a discounted price from corporate customers, mainly to satisfy the short-term capital needs of the corporate customers. We also purchase commercial acceptance bills from companies with credit ratings meeting our requirements.

The interest yields from discounted bills of our Bank may fluctuate along with the changes in the overall liquidity of the interbank market and the market demand for discounted bills. As of 31 December 2010, 2011 and 2012 and 30 September 2013, the balance of our discounted bills was RMB6,935.6 million, RMB3,743.0 million, RMB1,346.2 million and RMB2,501.6 million, respectively.

## BUSINESS

### *Corporate Deposits*

We provide corporate customers with demand deposits and time deposits bearing interest rates within the statutory floating range. Our corporate deposits are mainly denominated in RMB with a small portion denominated in foreign currencies. We offer short-term, medium-term and long-term time deposits for corporate customers and provide RMB time deposits products with maturities of up to five years. In addition, we provide certain types of negotiated RMB deposit products with negotiable interest rates, including deposits from insurance companies and social security trust funds, usually with maturities of more than five years.

As of 31 December 2010, 2011 and 2012 and 30 September 2013, our corporate deposits amounted to RMB80,591.2 million, RMB103,699.2 million, RMB131,039.8 million and RMB134,135.8 million, respectively. The CAGR of our corporate deposits from 2010 to 2012 was 27.5%. See “Assets and Liabilities – Liabilities and Sources of Funds – Due to Customers”. As of 31 December 2010, 2011 and 2012 and 30 September 2013, corporate deposits denominated in foreign currencies amounted to RMB127 million, RMB166 million, RMB511 million and RMB494 million, respectively.

The following table sets out the distribution of demand deposits and time deposits from corporate customers by product type as of the dates indicated.

	As of 31 December						As of 30 September	
	2010		2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in RMB million, except percentages)							
Demand deposits . . . .	58,850.2	73.0	70,284.4	67.8	69,981.5	53.4	62,369.8	46.5
Time deposits . . . . .	21,741.0	27.0	33,414.8	32.2	61,058.3	46.6	71,766.0	53.5
<b>Total corporate deposits . . . . .</b>	<b>80,591.2</b>	<b>100.0</b>	<b>103,699.2</b>	<b>100.0</b>	<b>131,039.8</b>	<b>100.0</b>	<b>134,135.8</b>	<b>100.0</b>

### *Fee- and Commission-Based Corporate Banking Products and Services*

We provide various fee- and commission-based business products and services for corporate customers, including assets management services, consulting and financial advisory services, clearance and settlement services, guarantee services and entrusted loans. We place a strong emphasis on the development of our fee- and commission-based corporate banking business. For the years ended 31 December 2010, 2011 and 2012 and the nine months ended 30 September 2013, the net fee and commission income from our corporate banking business amounted to RMB39.8 million, RMB40.1 million, RMB65.6 million and RMB196.4 million, respectively. The CAGR of our net fee and commission income from our corporate banking business from 2010 to 2012 was 28.4%. See “Financial Information – Net Fee and Commission Income”.

*Assets Management Services.* Our Bank has launched various wealth management products with different terms and yields based on the market volatility and customers’ risk tolerance in order to satisfy the financial and investment needs of corporate customers. Since 2010, our Bank has been developing its corporate wealth management products under the brand of “Lilac”. It provides integrated financial services for corporate customers through developing wealth management products including bills, bonds and monetary instruments, investment with yield and portfolio investments.

*Consulting and Financial Advisory Services.* Our Bank provides consulting and advisory services for corporate customers in respect of enterprise merger and acquisition, financing, investment,

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## BUSINESS

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restructuring, asset management and business integration, which mainly include formulating investment and financing plans, and capital operation plans and providing assets and liabilities arrangement services for customers.

*Clearance and Settlement Services.* Our Bank provides settlement services in relation to domestic and international corporate banking businesses. The domestic settlement services include settlement effected through cash, drafts, promissory notes, cheques and other negotiable instruments. We also provide entrusted recovery, disbursement and payment services on behalf of corporate customers. For the international settlement services of our Bank, see “– International Business”.

*Guarantee Services.* Our Bank provides guarantee services for corporate customers primarily through letters of guarantee denominated in RMB (including performance guarantees and bid guarantees), standby letters of credit and loan commitments. Our Bank receives fees for providing these guarantee services.

*Entrusted Loans.* Our Bank provides lending services on behalf of our corporate customers. Our Bank extends loans to borrowers on behalf of our corporate customers in accordance with the lending targets, purpose, amount, terms and interest rates of the loan determined by our corporate customers. We monitor the utilisation and assist with the collection of the payments of loans on behalf of our corporate customers. Our corporate customers, being the principals, assume the credit risk of loans, while we charge agency fees based on the size of the entrusted loans.

### ***Marketing***

Our Bank has established a comprehensive system for the marketing of our corporate banking business. Our headquarters is responsible for the formulation of overall promotion and marketing strategies, according to which the branches are responsible for formulating specific marketing plans, allocating marketing resources and implementing marketing plans based on their analysis of the market and policies.

We subdivide the market and customers into different segments and groups, to which we provide differentiated marketing, services and management. We have established a tiered marketing services model. Our headquarters, branches and sub-branches conduct differentiated marketing management of customers based on their scale, industry ranking and overall revenue contribution.

Marketing models of our Bank include cross-selling and joint marketing. Our headquarters assists the branches to organise the customer information of each business segment to identify the target customers for cross selling, coordinating the whole bank to carry out joint marketing among customers of different business segments, so as to promote the joint development of our corporate banking business and personal banking business.

### **Personal Banking Business**

We offer a wide range of products and services to individual customers, which mainly include loans, deposits, debit cards, credit cards as well as fee- and commission-based personal banking products and services. Personal banking business (including international personal banking business) contributed 40.3%, 36.0%, 28.9% and 29.7%, of our total operating income for the years ended 31 December 2010, 2011 and 2012 and the nine months ended 30 September 2013, respectively. As of 31 December 2010, 2011 and 2012 and 30 September 2013, our personal loans accounted for 43.8%, 42.5%, 39.9% and 38.9%, respectively, of our total loans and advances to customers. As of those same dates, our personal

## BUSINESS

deposits accounted for 28.6%, 28.9%, 29.8% and 29.9%, respectively, of our total due to customers. See “Assets and Liabilities”.

### *Customer Base*

We have established a broad individual customer base which comprises Small Enterprise Owners, farmers, civil servants, payroll payment agencies, private business owners, sole proprietors and policyholders of social insurance. As of 30 September 2013, we had approximately 5,590,000 individual customers, of which 479,000 had a loan balance with our Bank, including 28,000 customers of loans to Small Enterprise Owners, 237,000 customers of loans to farmers and 214,000 customers of personal consumption loans.

In order to improve the quality of the services for individual customers, we continue to upgrade our e-banking and mobile banking systems, while increasing the number of our ATMs and outlets. We also provide “one-to-one” customer service for mid- and high-end customers whose balance of financial assets with us is no less than RMB300,000.

In recent years, we have sought to optimise our customer structure by focusing on maintaining and enlarging the customer base of mid-end individual customers and high-net-worth individuals, developing wealth management services and various value-added services, and supporting Small Enterprise Owner and farmers customers with good records.

### *Personal Banking Products and Services*

#### *Personal Loans*

Personal Loans consist primarily of loans to Small Enterprise Owners, personal consumption loans and loans to farmers. As of 31 December 2010, 2011 and 2012 and 30 September 2013, our total personal loans amounted to RMB23,668.2 million, RMB29,139.7 million, RMB34,810.1 million and RMB40,869.4 million, respectively. Personal loans have been an important component of our microcredit business, see “– Microcredit Business”. The following table sets forth our personal loans by product type as of the dates indicated.

	As of 31 December						As of 30 September	
	2010		2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Loans to Small Enterprise Owners .....	8,443.6	35.7	11,540.0	39.6	13,731.2	39.4	14,966.8	36.6
Personal consumption loans .....	7,363.2	31.1	8,909.6	30.6	11,203.3	32.2	14,294.4	35.0
Loans to farmers .....	7,861.4	33.2	8,690.1	29.8	9,875.6	28.4	11,608.2	28.4
<b>Total personal loans</b> ....	<u>23,668.2</u>	<u>100.0</u>	<u>29,139.7</u>	<u>100.0</u>	<u>34,810.1</u>	<u>100.0</u>	<u>40,869.4</u>	<u>100.0</u>

#### *Loans to Small Enterprise Owners*

Loans to Small Enterprise Owners primarily include personal business loans, micro loans and small amount secured loans. See “– Microcredit Business”. As of 31 December 2010, 2011 and 2012 and 30 September 2013, our loans to Small Enterprise Owners amounted to RMB8,443.6 million, RMB11,540.0 million, RMB13,731.2 million and RMB14,966.8 million, respectively, representing 35.7%, 39.6%, 39.4% and 36.6%, respectively, of our total personal loans. Our interest income from



## BUSINESS

loans to Small Enterprise Owners amounted RMB498.6 million, RMB943.1 million, RMB1,061.4 million and RMB856.9 million, respectively, for the years ended 31 December 2010, 2011 and 2012 and the nine months ended 30 September 2013, representing 12.4%, 11.5%, 8.2% and 8.3%, respectively, of our total interest income during those periods.

The following table sets forth the distribution of our loans to Small Enterprise Owners as of the dates indicated.

	As of 31 December						As of 30 September	
	2010		2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Personal business loans . . .	6,033.4	71.4	8,972.2	77.7	11,398.6	83.0	13,166.3	88.0
Micro loans . . . . .	1,634.3	19.4	1,268.8	11.0	1,190.3	8.7	572.4	3.8
Small amount secured loans . . . . .	<u>775.9</u>	<u>9.2</u>	<u>1,299.0</u>	<u>11.3</u>	<u>1,142.3</u>	<u>8.3</u>	<u>1,228.1</u>	<u>8.2</u>
<b>Total loans to Small Enterprise Owners . . . .</b>	<u><u>8,443.6</u></u>	<u><u>100.0</u></u>	<u><u>11,540.0</u></u>	<u><u>100.0</u></u>	<u><u>13,731.2</u></u>	<u><u>100.0</u></u>	<u><u>14,966.8</u></u>	<u><u>100.0</u></u>

In order to provide flexible financing services to our customers of loans to Small Enterprise Owners, we customise our products based on their operating conditions and composition of assets, and accept a variety of assets as collateral, such as movable properties, inventory and accounts receivable.

### *Personal Consumption Loans*

Our personal consumption loans consist primarily of “Fangquantong” (房全通) personal consumption loans secured by personal real estates, personal residential mortgage loans, comprehensive consumption loans, personal auto consumption loans, national student loans and credit card overdrafts. We require the provision of security for most of such loans. As of 31 December 2010, 2011 and 2012 and 30 September 2013, our personal consumption loans amounted to RMB7,363.2 million, RMB8,909.6 million, RMB11,203.3 million and RMB14,294.4 million, respectively, representing 31.1%, 30.6%, 32.2% and 35.0%, respectively, of our total personal loans as of those dates.

Personal residential mortgage loans and “Fangquantong” personal consumption loans are the main products of our personal consumption loans. As of 31 December 2010, 2011 and 2012 and 30 September 2013, our personal residential mortgage loans and “Fangquantong” personal consumption loans amounted to RMB5,196.0 million, RMB6,063.0 million, RMB7,864.0 million and RMB9,317.0 million, respectively, representing 70.6%, 68.1%, 70.2% and 65.2%, respectively, of our total personal consumption loans as of those dates. In addition, as the host bank offering national student loans in Heilongjiang Province, we introduced featured national student loans in 2007 for the college students in and from Heilongjiang Province.

### *Loans to Farmers*

We were the first city commercial bank in China to provide rural financial services. Since 2005, we have been committed to developing rural financial services, especially loans to farmers. Our loans to farmers refer to the RMB-denominated loans applied by rural households and granted to individual family members of the farmer household who meet the relevant requirements of our Bank, in order to meet their funds needs for production operation and daily consumption. We develop and offer a number of loans to farmers, including planting loans, animal husbandry loans, loans for the purchase of

## BUSINESS

agricultural machinery and tools, housing renovation loans for farmers in reclamation areas, loans to farmers in agriculture-related industry, loans to farmers working overseas, revolving credit loans for farmers, loans for agricultural orders and loans for farmers as members of agricultural cooperatives.

As of 31 December 2010, 2011 and 2012 and 30 September 2013, our loans to farmers amounted to RMB7,861.4 million, RMB8,690.1 million, RMB9,875.6 million and RMB11,608.2 million, respectively, representing 33.2%, 29.8%, 28.4% and 28.4%, respectively, of our total personal loans.

### *Personal Deposits*

We offer various demand deposits and time deposits in RMB and foreign currency (mainly U.S. dollars, Rubles, HK dollars, Japanese Yen, Euro and GBP) to personal customers. Substantially all of our personal deposits are denominated in RMB. We currently offer RMB-denominated time deposits with maturities ranging from three months to five years and foreign currency-denominated time deposits ranging from one month to two years. Our personal deposits increased during the Track Record Period. As of 31 December 2010, 2011 and 2012 and 30 September 2013, our personal deposits amounted to RMB32,300.4 million, RMB42,263.2 million, RMB55,602.6 million and RMB56,994.2 million, respectively, representing a CAGR of 31.2% from 2010 to 2012. See “Assets and Liabilities – Liabilities and Sources of Funds – Due to Customers”.

The following table sets forth the distribution of our deposits from individual customers by product type as of the dates indicated.

	As of 31 December						As of 30 September	
	2010		2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
<b>Personal Deposits</b>								
Demand deposits . . . . .	14,505.0	44.9	19,292.7	45.6	27,107.2	48.8	24,399.3	42.8
Time deposits . . . . .	17,795.4	55.1	22,970.5	54.4	28,495.4	51.2	32,594.9	57.2
<b>Total personal deposits . . . . .</b>	<u>32,300.4</u>	<u>100.0</u>	<u>42,263.2</u>	<u>100.0</u>	<u>55,602.6</u>	<u>100.0</u>	<u>56,994.2</u>	<u>100.0</u>

### *Debit Cards*

Our debit card services were launched in 2001. Currently, our primary debit cards include our Lilac Debit Card (丁香借記卡系列產品), Lilac Social Insurance Card (丁香社保卡), Ice City and Summer Capital Tourist Card (冰城夏都旅遊卡) and Funong Debit Card (福農借記卡), and RongXing Puhui Card (融興普惠卡) issued by the Village and Township Banks controlled by us. Being a member of UnionPay, our debit cards are accepted by our network as well as the UnionPay network globally. After launching the Financial IC Card in 2012, we launched VIP debit and credit cards tailored to customers’ needs for debit and credit in 2013. As of 30 September 2013, we had issued over 5,620,000 debit cards.

### *Credit Cards*

Our RMB credit card services were launched in 2008. Currently, our primary credit cards include our Lilac Credit Card (丁香信用卡), Card for Government Officials (公務卡) and Joint Credit Cards (聯名卡). The types of credit cards our customers may apply for depend on their income level, financial status and credit records. Our credit cards are accepted by our network as well as the UnionPay network globally. As of 30 September 2013, we had issued over 107,000 credit cards, of which at least 48,000

were gold and platinum credit cards. For the years ended 31 December 2010, 2011 and 2012 and the nine months ended 30 September 2013, the income from our credit card services amounted to RMB 1.1 million, RMB7.6 million, RMB45.6 million and RMB118.7 million, respectively.

***Fee- and Commission-based Personal Banking Products and Services***

We provide various fee- and commission-based personal banking products and services for our individual customers, including but not limited to wealth and investment management services, bancassurance, fund distribution agency services. Our key business strategy is to focus on the promotion of our wealth management services. For the years ended 31 December 2010, 2011 and 2012 and the nine months ended 30 September 2013, the fee and commission income from our personal banking services amounted to RMB11.8 million, RMB17.2 million, RMB48.3 million and RMB117.3 million, respectively, and the fee and commission expense from our personal banking services were RMB17.9 million, RMB24.4 million, RMB44.8 million and RMB48.3 million, respectively over the same periods. See “Financial Information – Net Fee and Commission Income”.

*Wealth and investment management services.* Our wealth management business mainly includes general wealth management services and wealth management services for mid and high-end customers who have a balance of financial assets of no less than RMB300,000 with us. Wealth management products are our main fee- and commission-based products. Our first wealth management product was launched in 2007. Since 2007, we have developed a comprehensive wealth management product portfolio, which includes “Lilac Wealth Management” (丁香花理財), “Lilac Huirong” (丁香花惠融) and “Lilac Huijin” (丁香花惠金), to satisfy various demands of customers. Our “Lilac” wealth management services product was recognised as one of the “Top 10 Financial Products Awards” (金融產品十佳獎) in the “2008 China Financial Marketing Award” (2008年度中國金融營銷獎) hosted by The Banker, a PRC-based magazine. We believe our “Lilac” product has developed into a wealth management product brand with a strong reputation and market influence in China. While our “Lilac Wealth Management” (丁香花理財) product is promoted as a wealth management product for the general public, we have also upgraded our wealth management services in 2013 through the launch of a high-end wealth management brand “Lilac Wealth” (丁香財富), which mainly provides comprehensive investment and wealth management services for mid- and high-end customers. We have established a wealth management team consisting of over 400 staff, to offer “one-to-one” investment and wealth management services to mid- and high-end customers. See “– Wealth Management Products”.

*Bancassurance.* We distribute insurance policies within the scope authorised by the relevant insurance firms as their agent, and charge agency fees from these insurance companies. We have cooperated with a number of major insurance companies such as Pacific Life and China Life Insurance.

*Fund distribution agency services.* As a distribution agency of open-ended funds approved by the CSRC and on behalf of fund managers, we provide subscription, purchase and redemption services of open-ended fund units to investors through our fund distribution outlets and internet banking channel. As of 30 September 2013, we cooperated with 12 fund companies and distributed a total of 331 fund products.

*Other Products and Services.* We provide a number of other fee- and commission-based personal banking products and services, such as remittance, payment agency, settlement and safe deposit box services, to meet various needs of our individual customers.

***Marketing***

Our headquarters has formulated bank-wide personal banking services strategies and promotes our personal banking products and services via branches, sub-branches and Village and Township Banks. E-banking, phone banking and mobile banking are also used to promote such products and services. We conduct marketing for these products and services and organise advertising activities through television, print media and other media channels.

We conduct a wide range of marketing activities targeting different customer groups according to the characteristics of our individual customers by leveraging the differentiated strengths of our personal banking products. In particular, we have set up a small enterprise department to conduct marketing of our loans to Small Enterprise Owners, and a rural financial department to implement vertical management for our rural financial services. We have also implemented joint marketing and cross-selling models for personal financial products and are devoted to strengthening the synergies among various business segments. Capitalising on the advantages of integrated operations, we have developed cross-selling models for personal wealth management, funds, bank cards, E-banking and personal deposit and loan businesses, so as to enhance the sharing of various product resources and customer bases. We are also dedicated to developing our branch outlets into integrated sales centres of personal banking products by adopting various marketing approaches and advanced technologies.

We had established a frontline sales team for our personal banking business consisting of approximately 1,100 salespeople as of 30 September 2013, who are responsible for the sales of personal banking products and provision of customer services. In addition, we have strengthened our cooperation and interaction with other city commercial banks and held various marketing activities with them.

***Wealth Management Products***

For the years ended 31 December 2010, 2011 and 2012 and the nine months ended 30 September 2013, we issued 81, 189, 308 and 281 tranches of wealth management products to our customers, respectively, and raised funds in total of RMB23,028.3 million, RMB31,557.1 million, RMB59,865.7 million and RMB59,313.4 million, respectively.

## BUSINESS

For the years ended 31 December 2010, 2011 and 2012 and the nine months ended 30 September 2013, the average size of each tranche of wealth management products issued by us was RMB284.3 million, RMB167.0 million, RMB194.4 million and RMB211.1 million, respectively. The table below sets out a breakdown, by the size of each tranche, the wealth management products issued by us.

	For the year ended 31 December						For the nine months ended 30 September	
	2010		2011		2012		2013	
	Number of tranches issued	Amount	Number of tranches issued	Amount	Number of tranches issued	Amount	Number of tranches issued	Amount
	(in millions of RMB, except number of tranches)							
Up to RMB 10 million . . .	–	–	1	8.7	9	66.0	–	–
Over RMB 10 million to RMB 50 million . . . . .	3	116.6	43	1,434.0	72	2,226.5	32	1,001.6
Over RMB 50 million to RMB 100 million . . . . .	33	2,830.7	59	4,931.5	72	5,835.2	42	3,164.7
Over RMB 100 million to RMB 500 million . . . . .	35	6,646.5	77	19,937.9	131	30,907.3	195	43,612.9
Over RMB 500 million . .	10	13,434.5	9	5,245.0	24	20,830.7	12	11,534.2
Total . . . . .	81	23,028.3	189	31,557.1	308	59,865.7	281	59,313.4

The table below sets out a breakdown of our principal-protected and non-principal protected wealth management products during the Track Record Period.

	For the Year ended 31 December						For the nine months ended 30 September	
	2010		2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentage)							
Principal-protected . . . . .	–	–	1,651.2	5.2	6,348.4	10.6	4,983.9	8.4
Non-principal protected . . . . .	23,028.3	100.0	29,905.9	94.8	53,517.3	89.4	54,329.5	91.6
Total . . . . .	23,028.3	100.0	31,557.1	100.0	59,865.7	100.0	59,313.4	100.0

As most of the wealth management products issued by us are non-principal protected products, we are not liable for any loss suffered by investors from these products. During the Track Record Period, the investors of our non-principal protected products or our principal-protected wealth management products have also not suffered any losses.

As of 30 September 2013, the balance of our investment of funds raised from wealth management products in bonds, due from banks and other financial institutions, financial assets held under reverse repurchase agreements and fund trust plans and directional asset management plans amounted to RMB3,665.0 million, RMB8,692.8 million, RMB1,521.4 million and RMB16,298.0 million, respectively, representing approximately 12.2%, 28.8%, 5.0% and 54.0%, respectively, of the total balance of our investment of funds raised from wealth management products.

For the years ended 31 December 2010, 2011 and 2012 and the nine months ended 30 September 2013, the yield from investments of funds raised from wealth management products issued by us ranged from 5.5% to 8.5%, 5.3% to 9.0%, 3.7% to 9.7% and 3.6% to 9.0%, respectively, while the interest



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## BUSINESS

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payable to customers of our wealth management products ranged from 2.0% to 7.0%, 3.5% to 7.3%, 3.1% to 7.3% and 3.3% to 6.8%, respectively.

We manage each of our wealth management products independently with separate accounting and book-keeping. Each of our wealth management product is linked to its underlying investments, which complies with the relevant requirements issued by the CBRC.

The maturity of the wealth management products issued by us is usually shorter than those of the underlying investments. As of 30 September 2013, the outstanding balance of our wealth management products with maturity mismatch with the underlying investments was RMB11,674.3 million. We control liquidity risk brought on by such mismatch by issuing new wealth management products, arranging alternative funding in advance of the maturity date, and increasing the proportion of the investment of funds raised from wealth management products in bonds which have higher liquidity. We have also established contingency plans for liquidity risk in relation to these wealth management products. These plans include measures to increase the types of products to be issued and the maturity of these products and expand distribution channels.

For the years ended 31 December 2010, 2011 and 2012 and the nine months ended 30 September 2013, fee and commission income generated from our non-principal protected wealth management products amounted to RMB18.2 million, RMB121.8 million, RMB96.9 million and RMB204.5 million, respectively. During the Track Record Period, we recognised the income from the underlying investments of our principal-protected wealth management products under our total interest income, while the payments we made to customers of the wealth management products issued by us are recognised under our total interest expenses.

### **Treasury Operations**

Our treasury operations (including international treasury operations) primarily include monetary market transactions, investments in securities and other financial assets, treasury operations conducted on for customers' accounts, bond underwriting and distribution, financial derivatives transactions and interbank discounts and rediscounts of bills. For the years ended 31 December 2010, 2011 and 2012 and the nine months ended 30 September 2013, the operating income of our treasury operations (including international treasury operations) amounted to RMB377.4 million, RMB1,425.6 million, RMB2,808.6 million and RMB2,111.8 million, respectively, and accounted for 11.6%, 26.3%, 36.4% and 35.7%, respectively, of our total operating income for those periods. Our treasury operations are performed by the financial market department of our Bank.

### ***Transactions with Financial Institutions***

A large number of our treasury operations are conducted with financial institutions, which primarily include money market transactions with other domestic banks and non-bank financial institutions, and investments in securities and other financial assets issued by financial institutions. See “– Monetary Market Transactions” and “– Investments in Securities and Other Financial Assets”.

For further details about our international treasury operations, see “– International Business”.

### ***Monetary Market Transactions***

Interbank monetary market transactions are an important means for us to manage our risks and liquidity. Our monetary market transactions primarily consist of (i) short-term borrowings from and

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## BUSINESS

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lending to other domestic banks and non-bank financial institutions, and (ii) repurchases and reverse repurchases of securities with other domestic banks and non-bank financial institutions. Securities underlying repurchase and reverse repurchase transactions consist primarily of bonds issued by the PRC central government and policy banks and bank acceptance bills. In 2012, our RMB denominated financing transactions amounted to RMB1,185,836 million. We were elected as one of the “Top 100 Traders in National Interbank Bond Market (by Transaction Volume)” (全國銀行間市場交易量100強機構) for ten consecutive years from 2003 to 2012 by the National Interbank Funding Centre. We were awarded “the Greatest Influential Award” (最具市場影響力獎) in 2009 and 2010 and were named as “Outstanding Dealers of the Interbank Renminbi Trading in National Interbank Bond Market” (全國銀行間本幣市場優秀交易成員) in 2011 and 2012 by the National Interbank Funding Centre.

As of 31 December 2010, 2011 and 2012 and 30 September 2013, the balance of our due from banks and other financial institutions and financial assets held under reverse repurchase agreements were RMB27,701.4 million, RMB65,880.6 million, RMB71,692.4 million and RMB55,513.5 million, respectively, representing 22.0%, 31.9%, 26.6% and 21.2%, respectively, of our total assets. As of 31 December 2010, 2011 and 2012 and 30 September 2013, the balance of our due to banks and other financial institutions and financial assets sold under repurchase agreements were RMB5,465.9 million, RMB46,023.6 million, RMB59,356.2 million and RMB43,497.9 million, respectively, representing 4.5%, 23.6%, 23.4% and 17.9%, respectively, of our total liabilities.

Our interest income from these investments increased by 457.1% from RMB351.9 million for the year ended 31 December 2010 to RMB1,960.3 million for the year ended 31 December 2011, and further increased by 67.9% to 3,291.3 million for the year ended 31 December 2012. For the nine months ended 30 September 2013, our interest income from these investments increased by 13.3% to RMB2,871.5 million compared to RMB2,535.5 million for the nine months ended 30 September 2012. These increases were mainly attributable to changes in our investment portfolios. See “Assets and Liabilities — Assets — Debt Investments” and “Financial Information — Results of Operations”.

The results of operations with respect to our monetary market transactions are affected by material fluctuations in interbank rates, liquidity and other factors in the PRC financial markets. The average cost on our short-term borrowings from other financial institutions significantly increased to 5.37% for the year ended 31 December 2011 from 1.76% for the year ended 31 December 2010 as a result of tight market liquidity, which was in turn caused by increases in PBOC benchmark interest rate and adjustment of monetary policies by the PBOC since the second half of 2010. See “Risk Factors — Risks Relating to the PRC Banking Industry — We are subject to changes in interest rates and other market risks”.

### ***Investments in Securities and Other Financial Assets***

Our investments in securities and other financial assets include bond investments and investment in debt instruments issued by financial institutions.

#### ***Bond Investments***

Our bond investments include our investment in treasury bonds, financial bonds, corporate bonds and mid- and short-term notes. We trade bonds in the inter-bank market. According to China Central Depository & Clearing Co., Ltd., our Bank’s trading volume of bonds for the nine months ended 30 September 2013 amounted to RMB1.81 trillion. We were recognised as an Outstanding Settlement Member in the National Interbank Bond Market by China Central Depository & Clearing Co., Ltd. for four consecutive years from 2009 to 2012.

## BUSINESS

The following table sets forth, as of the dates indicated, the components of our bond investments.

	As of 31 December						As of 30 September	
	2010		2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Government bonds . . . . .	4,655.8	30.0	2,752.2	11.8	3,117.3	10.7	3,198.8	9.4
Bonds issued by financial institutions . . . . .	—	—	—	—	—	—	329.0	1.0
Corporate bonds . . . . .	1,962.7	12.7	4,951.4	21.2	6,906.3	23.8	8,320.7	24.5
Bonds issued by policy banks . . . . .	8,895.3	57.3	15,683.2	67.0	18,987.9	65.5	22,136.6	65.1
<b>Total bond investments . . . . .</b>	<u>15,513.8</u>	<u>100.0</u>	<u>23,386.8</u>	<u>100.0</u>	<u>29,011.5</u>	<u>100.0</u>	<u>33,985.1</u>	<u>100.0</u>

During the Track Record Period, we provided financing to local governments in the PRC, in part by investing in bonds issued by the financing vehicles of the local governments. As of 31 December 2010, 2011 and 2012 and 30 September 2013, our exposure to bonds investments issued by local government financing vehicles amounted to RMB332.8 million, RMB870.8 million, RMB1,383.6 million and RMB1,415.0 million, respectively. In recent years, regulatory authorities in the PRC have adopted various measures that increased restrictions on providing financings to local governments financing vehicles to minimise the risks relating to debts of local governments in the PRC. Any adverse change in the ability of the local government financing vehicles to service their bonds may have an adverse impact on our financial condition and results of operations. See “Risk Factors — Risks Relating to Our Loan Portfolio — Any deterioration in the ability of local government financing vehicles to repay debt or any change in national policy relating to local government financing vehicles may have an adverse impact on our asset quality, financial condition or results of operations”.

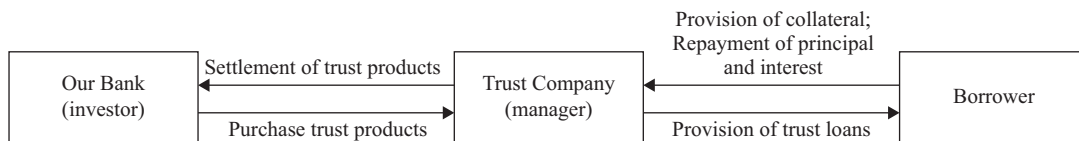
### *Investments in Debt Instruments Issued by Financial Institutions*

Our principal investments in debt instruments issued by financial institutions primarily consist of fund trust plans and structured wealth management products. Fund trust plans are financial instruments that are linked with the beneficiary rights of trust plans sponsored by trust companies. Structured wealth management products include directional asset management plans managed by securities companies and other types of wealth management products issued by commercial banks.

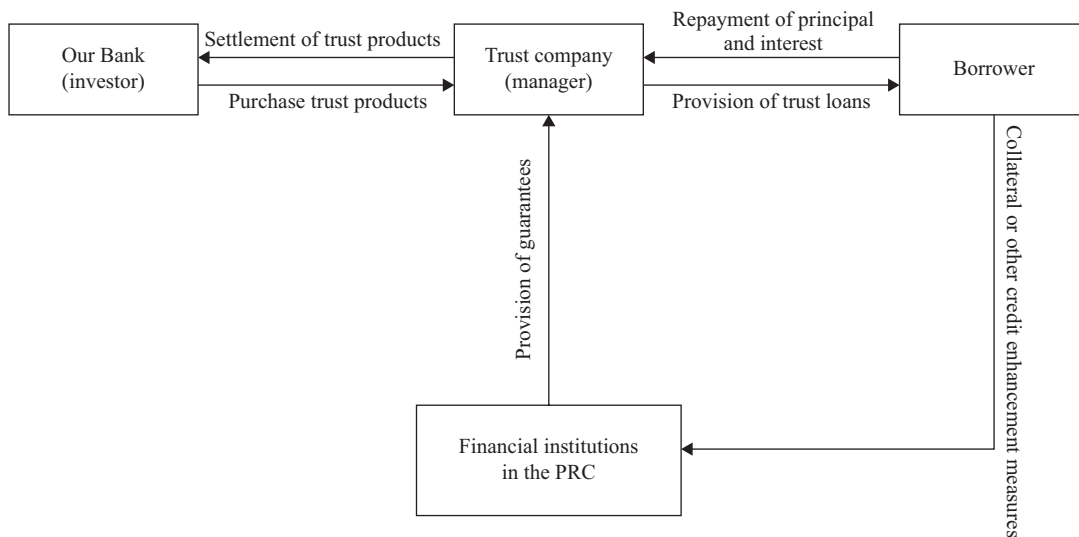
## BUSINESS

Through investing in fund trust plans, we entrust trust companies with the management of our funds and allow them to lend our funds to borrowers in their own names. The borrowers provide collateral such as properties, land, certificates of deposit under their names or letters of guarantee, unconditional repurchase agreements or irreversible undertakings provided by third-party financial institutions in the PRC to the trust companies in favour of the borrowers, or guarantee the obligations of the borrowers to the trust companies. To minimise their own risks arising from such guarantees, these financial institutions generally require the borrowers to provide collateral or arrange other counter-guarantee arrangements. The relationship of the parties involved in our fund trust plans is illustrated by the following charts:

In the case where borrowers provide collateral to the trust companies:



In the case where third-party financial institutions provide guarantees to the trust companies:



Under directional asset management plans, we enter into directional asset management contracts with securities companies and such securities companies are entrusted by us to provide loans to borrowers under designated accounts and in accordance with the terms and conditions of such contracts. The use of funds is specified in the asset management contract and the asset management arrangement is secured by guarantees provided by financial institutions in the PRC or by the collateral provided by borrowers, including properties, land and certificates of deposit of adequate value.

Funds under directional asset management plans are managed by securities companies out of the designated accounts in accordance with the terms of the asset management contracts. Directional asset management plans are not part of trust loans or the loan portfolio of our Bank and are non-standard debt securities of our Bank.

As of 31 December 2010, 2011 and 2012 and 30 September 2013, the balance of our investments in debt instruments issued by financial institutions amounted to RMB2,710.8 million, RMB12,642.9 million, RMB22,144.0 million and RMB17,836.9 million, respectively. As of 31 December 2013, such balance amounted to RMB43,345.0 million, representing 13.5% of our total assets as of that date. For the years ended 31 December 2010, 2011 and 2012 and the nine months ended 30 September 2013, the

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## BUSINESS

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interest income from these investments amounted to RMB56.9 million, RMB570.6 million, RMB1,889.5 million and RMB823.9 million, respectively, and the weighted average yield of these investments was 8.56%, 8.77%, 8.83% and 8.82%, respectively.

For a discussion of the increase in our investment in debt instruments issued by financial institutions during the Track Record Period, see “Assets and Liabilities – Assets – Investment Securities and Other Financial Assets – Debt Investments”.

As of 30 September 2013, our funds under fund trust plans and directional asset management plans were for the purpose of providing credit to the following types of borrowers (i) approximately 11.71% was provided to local government financing vehicles; (ii) approximately 29.77% was provided to financial institutions; (iii) approximately 0.28% was provided to communications, software and IT service companies; (iv) approximately 11.60% was provided to the real estate industry; (v) approximately 12.58% was provided to wholesale and retailing companies; (vi) approximately 1.38% was provided to construction industry and (vii) approximately 32.68% was provided to other industries.

Our investment strategy for fund trust plans and directional asset management plans is to invest our funds in financial products issued or distributed by financial institutions other than banks to generate long term and stable income. We believe that fund trust plans and directional asset management plans offer stable returns and manageable risks, and investment in them is in compliance with the industry and regulatory policies of the PRC government. The fund trust plans and directional asset management plans we invested in have one of reasonable terms. We are able to secure our return from these products by controlling the net profit margin by closely monitoring the fluctuations in market interest rates. Our Bank has implemented certain risk management measures. We strictly control the selection of counterparties and the credit exposure. In addition, our investment banking division coordinates with our credit approval department to conduct an annual review of the credit limits of counterparties that are financial institutions. We strictly manage our source of funds to match the maturity of funding and investment and prohibits mismatches to avoid liquidity risk.

Repayment of principal and interest of our fund trust plans and directional asset management plans is fully secured by financial institutions in the PRC or by collateral provided by borrowers, such as properties, land and certificates of deposit. As of 30 September 2013, the guarantees of our investment in fund trust plans and directional asset management plans were provided as to approximately 38.06% by financial institutions in the PRC, as to approximately 19.41% by certificates of deposit provided by borrowers and as to approximately 42.53% by properties, land and other collateral provided by borrowers. Our Bank only accepts guarantees from financial institutions that are subject to the supervision of the CBRC. We will not accept pledges of certificate of bank deposits with a deposit amount less than the aggregate amount of principal and interests payable by the borrower. We will only accept collateral including properties and land with clear, legal and valid title and ownership. The value of such collateral is assessed and determined by our designated appraisal institutions. We typically require the loan-to-value ratio (representing the loan amount divided by the value of the collateral) to be no more than 60%. If the borrowers fail to repay the principal and interest to the issuers of the fund trust plans and directional asset management plans, we can demand that the trust companies or securities companies enforce the guarantee or collateral to recover or minimise our loss. The exercise of the rights under guarantees by trust companies and securities is generally not subject to any conditions.

According to Jun He Law Office Beijing, our PRC legal advisor, entrusted assets are different from assets owned by trustees and shall be separated from the assets of the trustee in accordance with the Trust Law of the People’s Republic of China. Therefore, the guarantees received from guarantors by trust companies cannot be used to repay the debts of the trust companies. Our rights under the guarantees and

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## BUSINESS

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our investment in fund trust plans should not be affected by any financial difficulties of the trust companies.

Investment in debt instruments issued by financial institutions can be divided in three stages.

*Preliminary investigation:* The relevant business department will review the due diligence investigation conducted by the trust companies, securities companies or the relevant guarantors on the borrowers and financed projects for approval by the investment management committee of branches, which they will in turn submit to the Investment Banking and Interbank Department of our headquarters before making investments.

*Follow-up investigation:* Upon receipt of the investment application from branches, the Investment Banking and Interbank Department of our headquarters reviews the structure of the investment, the counterparty and the investment return, and provides an investment proposal. Our Capital Investment Banking Business Risk Control Centre under our Credit Approval Department Risk Management Department will also provide their independent views.

*Final approval:* The investment proposal and the independent views from the credit approval department and risk control office will be submitted to the investment management committee of our headquarters for approval. If approved, the investment proposal will be forwarded to the Investment Banking and Interbank Department for execution. Currently, all fund trust plans and directional asset management plans we invested in are subject to the approval of the investment management committee of our headquarters.

We control the risks of our fund trust plans and directional asset management plans in the following manners:

- As the relevant trust company or securities company and the relevant guarantors have conducted due diligence on borrowers and the financial projects underlying a trust plan or directional asset management plan, we will review the due diligence conducted by them prior to investment in a trust plan or directional asset management plan. However, as we are not the direct lender to the underlying borrowers, we do not evaluate the creditworthiness of the borrowers, the trust plans or directional asset management plans.
- According to the agreements between our Bank and the trust companies, trust companies shall effectively manage fund trust plans and produce regular management reports. If trust companies identify any risk that may have adverse effect on our fund trust plans, they are required to promptly notify us and take active measures to reduce relevant risks.
- If trust companies or securities companies fail to repay principal and interest under the fund trust plans or directional asset management plans, we may demand that trust companies or securities companies to take measures to minimise our loss including, but not limited to, exercising their rights under the guarantees.
- We review and revise approval limits on an annual basis, taking into account the implementation of approval limits and actual circumstances.

Investments in receivables, which typically have predetermined rates of return and fixed terms, carry certain credit risks. We rely on the issuers and ultimate borrowers for such products to make investment decisions to achieve the agreed-upon rates of return. If the agreed-upon rates of return cannot be achieved or the principal of our investments cannot be maintained, we rely on the issuers to reduce our losses and exercise our rights under the related contracts and guarantees to recover losses from the



issuers and any guaranteeing entities. See “Risk Factors – Risks Relating to Our Business – We have made substantial investments in receivables, and any adverse development relating to these types of investments could materially and adversely affect our profitability”.

### ***Treasury Operations Conducted on Behalf of Customers***

Our treasury operations also manage funds received from the issuance of wealth management products to our corporate and personal customers. As of 31 December 2010, 2011 and 2012 and 30 September 2013, the total outstanding amount of wealth management products issued by us was RMB21,252.6 million, RMB10,894.1 million, RMB37,426.5 million and RMB30,177.2 million, respectively. As of 30 September 2013, the balance of our investments in non-standard debt-based assets<sup>(1)</sup> amounted to RMB16,298.0 million, representing approximately 54.0% of the total balance of our Bank’s wealth management products as of 30 September 2013 and approximately 6.0% of our total assets as of 31 December 2012. The balance of our investments in non-standard debt-based assets as of 30 September 2013 exceeded the limits set out in the Notice on the Regulation of the Investment and Operation of Wealth Management Business by Commercial Banks issued by the CBRC on 25 March 2013<sup>(2)</sup>, since some of our investment in non-standard debt-based assets had not reached their maturity as of 30 September 2013. As of the Latest Practicable Date, we had not been subject to any penalties nor had we been ordered by the CBRC or its relevant local branches to suspend the sale of our wealth management products due to this issue.

As our investments in non-standard debt-based assets gradually reached their maturity, the balance of our investments in non-standard debt-based assets as of 31 December 2013 complied with the regulatory requirements of the CBRC. For the balance of our investments in non-standard debt-based assets as of 31 December 2013, see “Appendix IV – Unaudited Preliminary Financial Information of the Bank for the Year Ended 31 December 2013 – Business Review”.

### ***Bond Underwriting and Distribution***

Our bond underwriting and distribution businesses include our underwriting business, under which we subscribe for bonds from primary markets as an underwriting member of the bond underwriting syndicates, and our distribution business, under which we bid for bonds on behalf of other institutions and transfer relevant bond subscription rights to such institutions after we have won the bidding within the required distribution period, or purchase and re-distribute bonds distributed from other institutions. We are a primary dealer in the public markets and a member of government bond underwriting syndicates. Our Bank is also a member of underwriting syndicates of financial bonds issued by China Development Bank, Agricultural Development Bank of China and the Export-Import Bank of China. We were recognised as an “Excellent Underwriter” (優秀承銷商) by the Agricultural Development Bank of China for three consecutive years from 2009 to 2011. In 2012, the amount of bonds underwritten by us amounted to RMB16.4 billion.

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- (1) Non-standard debt-based assets refer to debt-based assets that are not traded in the interbank markets or on the stock exchanges, including but not limited to, credit assets, trust loans, entrust credit rights, acceptance bills, letters of credit, account receivables, various beneficial interests (or the right to receive income) and equity financing with a buy-back clause.
- (2) According to the Notice on the Regulation of the Investment and Operation of the Wealth Management Business by Commercial Banks, the balance of wealth management funds invested by a commercial bank in non-standard debt-based assets cannot exceed the lower of (i) 35% of the balance of the commercial bank’s wealth management products, and (ii) 4% of the commercial bank’s total assets as disclosed in its annual audited report for the prior fiscal year. The CBRC may order a commercial bank which failed to comply with this requirement to suspend the sale of relevant wealth management products and may also impose an administrative penalty.

***Financial Derivatives Transactions***

In 2012, we were authorised to carry out financial derivatives transactions. Our financial derivatives transactions mainly include interest rate swap transactions. Interest rate swap transactions refer to financial contracts in which both parties agree to exchange interests based on agreed amount of nominal principal in the same currency in certain future time which enable us to effectively control our costs of funding and minimise market risks. See “Risk Factors – We are subject to changes in interest rates and other market risks”.

***Interbank Discounts and Rediscounts of Bills***

We engage in interbank discounts of commercial bills with other qualified financial institutions or rediscounts of commercial bills with the PBOC, to generate working capital and income from interest spreads. Our interbank discount services involve bills buyout, bills sell-out, bills held under reverse repurchase agreements and bills held under repurchase agreements. We rediscount bills according to requirements of the PBOC.

**MICROCREDIT BUSINESS**

In 2004, on the basis of our understanding of the market positioning and operating characteristics of city commercial banks in the PRC, we analysed the development trends of SMEs in the PRC. Leveraging off the PRC government’s ongoing support to the development of SMEs at a policy level, we developed a strategy focusing on the development of our microcredit business. We set the goal of our strategic development to become a “first-class domestic and internationally renowned microfinance bank” and adopted the idea of “Inclusive Finance, Harmonious Co-Enrichment” as our growth philosophy. Under the development strategy of microcredit business, we have established our leading position in microcredit business. See “ Our Strengths – 1. We are a leading provider of microcredit in the PRC”.

Our microcredit business comprises loans to Small Enterprises, loans to Small Enterprise Owners, personal consumption loans and loans to farmers.

As of the Latest Practicable Date, neither the CBRC nor the PBOC had prescribed any official standards on the definition or composition of microcredit business. There is also no prevailing industry standard on the definition or composition of microcredit business in the PRC banking industry. In grouping our loans to Small Enterprises, loans to Small Enterprise Owners, personal consumption loans and loans to farmers under our microcredit business, we have taken into account the common risk profile shared by customers of these types of loans, being that they normally have difficulty in providing sufficient collateral or other security for the loans or are more susceptible to fluctuations of the economic environment. Given the risk profile shared by these customers, we have applied similar management methodology to these loans, developed products to meet the particular needs of these customers and implemented a tailored risk control mechanism so as to maximise business opportunities created by these customers who usually do not have access to financing. This is also consistent with our operating philosophy of “Inclusive Finance, Harmonious Co-Enrichment”.

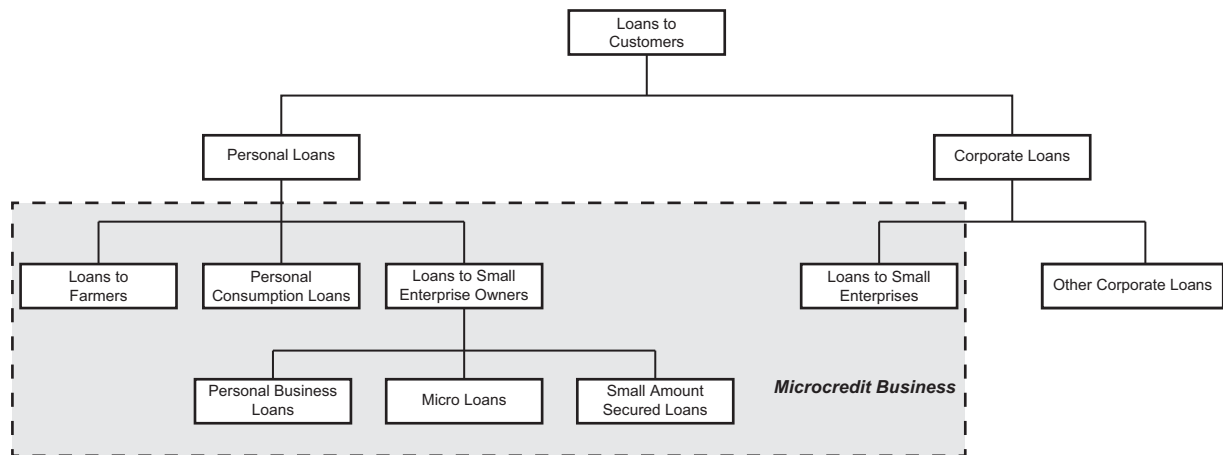
In view of the aforesaid risk profiles shared by customers of our microcredit business, we have exerted control over the amount of each loan granted to these customers. The amount of each loan granted to farmers generally does not exceed RMB two million, while the amount of each personal consumption loan generally does not exceed RMB five million. With respect to loans to Small Enterprises and loans to Small Enterprise Owners, we determine the amount of each loan to be provided on a case-by-case basis based on the actual circumstances of the relevant small enterprise or micro

## BUSINESS

enterprise and approval of such loan is based on our internal rating of the relevant enterprises and our internal risk management policy. See “Risk Management”.

Our loans to Small Enterprises refer to loans granted to small enterprises<sup>1</sup> and micro enterprises<sup>2</sup> as defined in the SMEs Classification Standards. Based on the Supplementary Notice of Supporting Commercial Banks in Further Improving Financial Services for Small and Micro Enterprises (關於支持商業銀行進一步改進小型微型企業金融服務的補充通知) issued by the CBRC on 24 October 2011, we categorise our loans to individual owners of small enterprises and micro enterprises (as defined in the SMEs Classification Standards) as loans to Small Enterprise Owners. Furthermore, our categorisation of personal consumption loans and loans to farmers is conducted in accordance with the standards in the Interim Measures for the Administration of Personal Loans (個人貸款管理暫行辦法) issued by the CBRC on 12 February 2010 and Administrative Measures of Loans to Farmers (農戶貸款管理辦法) issued by the CBRC on 17 September 2012, respectively.

Financial information for each type of loan of our microcredit business is presented in the “Business” section of this prospectus. As the customers of loans to Small Enterprises are legal entities, relevant financial figures of such loans are presented in the corporate banking business section in this prospectus. See “– Our Principal Business Activities – Corporate Banking Business – Corporate Banking Products and Services – Corporate Loans”. Since the customers of our loans to Small Enterprise Owners are individuals, relevant financial figures of such loans are presented in the personal banking business section in this prospectus. See “– Our Principal Business Activities – Personal Banking Business – Personal Banking Products and Services – Personal Loans”. For relevant financial figures of our personal consumption loans and loans to farmers, see “– Our Principal Business Activities – Personal Banking Business – Personal Banking Products and Services – Personal Loans”. The following diagram illustrates our microcredit business.



As of 31 December 2010, 2011 and 2012 and 30 September 2013, the total balance of our microcredit loans amounted to RMB32,730.8 million, RMB44,311.6 million, RMB58,448.1 million and RMB72,527.0 million, respectively, representing 60.6%, 64.7%, 67.0% and 69.1%, respectively, of our total loans to customers as of those dates. For the years ended 31 December 2010, 2011 and 2012 and the

<sup>1</sup> According to the SMEs Classification Standards, there are different classification standards for different industries. For example, industrial enterprises having more than 20 but fewer than 1,000 employees and generating more than RMB3 million in operating income in a year are classified as small enterprises, while enterprises having more than five but fewer than 200 employees and generating more than RMB10 million in operating income in a year in the wholesale industry are also classified as small enterprises.

<sup>2</sup> According to the SMEs Classification Standards, there are different classification standards for different industries. For example, industrial enterprises having fewer than 20 employees or generating less than RMB3 million in operating income in a year are classified as micro enterprises, while enterprises having fewer than five employees or generating less than RMB10 million in operating income in a year in the wholesale industry are also classified as micro enterprises.

## BUSINESS

nine months ended 30 September 2013, our interest income from microcredit business amounted to RMB2,031.6 million, RMB3,262.4 million, RMB4,146.5 million and RMB3,706.0 million, respectively, representing 65.1%, 69.5%, 63.4% and 67.8%, respectively, of our total interest income from loans to customers for the same periods.

The following table sets forth the distribution of the total balance of microcredit loans by product type as of the dates indicated.

	As of 31 December						As of 30 September	
	2010		2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Loans to Small								
Enterprises . . . . .	9,062.6	27.7	15,171.9	34.2	23,638.0	40.4	31,657.6	43.6
Personal loans <sup>(1)</sup> . . . . .	23,668.2	72.3	29,139.7	65.8	34,810.1	59.6	40,869.4	56.4
<b>Total balance of microcredit loans . . . . .</b>	<b>32,730.8</b>	<b>100.0</b>	<b>44,311.6</b>	<b>100.0</b>	<b>58,448.1</b>	<b>100.0</b>	<b>72,527.0</b>	<b>100.0</b>

Note:

(1) Include loans to Small Enterprise Owners, loans to farmers and personal consumption loans.

The microcredit product series under our brand “Just-for-you” (乾道嘉) offer loans with high flexibility and efficiency, meeting a variety of customer needs. In recent years, the brand received a number of awards for serving Small Enterprises. For example, the brand was awarded the “Best SME Financial Products Brand” (最佳小微企業金融品牌) in the selection of the Most Respected Bank & Best Personal Bank of China in 2011 and 2012 (2011年及2012年中國最受尊敬銀行暨最佳零售銀行評選活動) hosted by Money Weekly, the “Most Satisfactory Model Brand of SME Financial Service of China” (中國中小企業金融服務客戶滿意最佳典範品牌) in the Third National Survey on Customer Satisfaction of the Service Industry in 2012 (2012年第三屆全國服務業公眾滿意度調查活動) hosted by the Committee of the National Survey on Customer Satisfaction of the Service Industry, “Best SME Service Award” (最佳中小企業服務獎) in 2012 from the Modern Bankers, and the “Most Popular Featured SME Financial Product of China in 2012” (2012全國中小企業最受歡迎金融特色產品) from the Annual Conference of Entrepreneur from Chinese SMEs (中國中小企業家年會).

The featured products in the microcredit product series under our brand “Just-for-you” (乾道嘉) are:

- “Fangquantong (房全通)” loans: loans to borrowers who provided personal real estate as collateral and comprise of “Fangquantong” personal consumption loans and “Fangquantong” personal business loans. “Fangquantong” personal consumption loans refer to loans provided to borrowers for daily personal consumption. “Fangquantong” personal business loans refer to loans provided to Small Enterprise Owners as working capital for their day-to-day business operations. As of 30 September 2013, the total balance of our “Fangquantong” loans was RMB7,620.5 million. For the nine months ended 30 September 2013, the interest income and the average yield of such loans were RMB456.3 million and 7.94%, respectively.
- Cross joint-guaranteed loans for Small Enterprises: loans to three to seven small enterprises as a joint guarantee body with each borrower agreeing to bear joint guarantee obligations for the entire loans. As of 30 September 2013, the total balance of our cross joint-guaranteed loans for Small Enterprises was RMB2,364.7 million. For the nine months ended 30 September 2013, the interest income and the average yield of such loans were RMB113.7 million and 8.51%, respectively.

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## BUSINESS

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- “Shangquantong” (商全通) loans: loans for the same use to a group of Small Enterprise Customers that have close business relationships with one major enterprise (entity) for their business operations. As of 30 September 2013, the total balance of our “Shangquantong” (商全通) loans was RMB2,001.1 million. For the nine months ended 30 September 2013, the interest income and the average yield of such loans were RMB92.0 million and 8.20%, respectively.
- Secured (pledged) revolving loans for Small Enterprises: revolving credit facilities to the Small Enterprises, who may re-borrow and repay the loans within the credit limit at any time during the prescribed period, as working capital for their day to day business operations. As of 30 September 2013, the total balance of our secured (pledged) revolving loans for Small Enterprises were RMB1,555.3 million. For the nine months ended 30 September 2013, the interest income and the average yield of such loans were RMB62.0 million and 7.77%, respectively.
- Small amount secured loans: secured loans to individuals for career and business development. As of 30 September 2013, the total balance of our small amount secured loans was RMB1,220.9 million. For the nine months ended 30 September 2013, the interest income and average yield of such loans were RMB82.1 million and 9.39%, respectively.
- Micro loans: single loans in the amount of not more than RMB500,000 provided to Small Enterprise Owners. As of 30 September 2013, the total balance of our micro loans was RMB572.4 million. For the nine months ended 30 September 2013, the interest income and the average yield of such loans were RMB62.5 million and 11.56%, respectively.

In addition to the above featured products, in order to meet the personalised financing needs of Small Enterprise Customers during different stages of business development, we also offer a wide variety of loan products and financing plans tailored to their business operations and asset structures, based on our understanding of their needs.

We are the first commercial bank to export microcredit know-how and technology to other banking institutions in the PRC. We have provided other rural credit cooperations, city commercial banks and rural commercial banks with the following types of microcredit know-how and technology relating to the credit business for Small Enterprise Customers and loans to farmers: (i) identification of target customers, (ii) product development and design of product portfolio, (iii) sales management, (iv) on-site training, (v) risk management techniques, collection, analysis and assessment of financial information, (vi) identification and verification of supplementary information, (vii) staffing, performance management and assessment, (viii) establishment of management structure, (ix) design of business model, (x) brand management and (xi) establishment of microcredit IT systems. We provide this microcredit know-how and technology tailored to the needs of counterpart banking institutions by providing training and participating in product development. Experts from our Bank will form a team to carry out preliminary market surveys and formulate business plans after we have entered into agreements with counterpart banking institutions.

Since we entered into the first contract for the exportation of microcredit know-how and technology in 2011, our Bank had entered into 22 contracts for the exportation of microcredit know-how and technology, 10 of which had been completed, as of 30 September 2013. Our bank has successfully introduced our microcredit know-how and technology to various provinces in China, including Sichuan, Henan, Shandong, Jiangsu and Zhejiang. For the years ended 31 December 2011, 2012 and the nine months ended 30 September 2013, fee income generated from exportation of microcredit know-how and technology amounted to RMB1.0 million, RMB5.2 million and RMB6.8 million, respectively.

**INTERNATIONAL BUSINESS**

We have established a department specially responsible for carrying out and managing our international businesses. Our international business primarily comprises corporate banking business. We were authorised to engage in foreign exchange business in October 2002, being the first licensed city commercial bank in Northeast China to engage in foreign exchange business. The corporate customers of our international business mainly are small and medium export-oriented industry and trade companies and foreign trade companies. Our international corporate banking businesses include foreign currency loan and financing business, foreign currency deposit business and foreign exchange fee- and commission-based business.

*Foreign Currency Loan and Financing Business.* We extend loans denominated in foreign currency to corporate customers, including foreign currency loans to enterprises in and outside China. We also provide short-term financing or credit facilities such as bills purchase, delivery guarantees, packing finance, foreign exchange discounted bills, export buyer's credit and other trade financing products and services in relation to import and export trade settlement between exporters and importers. As of 31 December 2010, 2011 and 2012 and 30 September 2013, the balance of our foreign currency loan (before allowance for impairment losses) to corporate customers amounted to US\$37.7 million, US\$82.2 million, US\$185.8 million and US\$152.4 million, respectively.

*Foreign Currency Deposit Business.* We provide foreign currency denominated demand and time deposits to corporate customers. Currently, we offer deposits denominated in U.S. dollars, Rubles, HK dollars, Japanese Yen, Euro and GBP. As of 31 December 2010, 2011 and 2012 and 30 September 2013, the balance of our foreign currency deposit from corporate customers amounted to US\$19.2 million, US\$26.4 million, US\$81.3 million and US\$80.3 million, respectively.

*Foreign Exchange Fee- and Commission-based Business.* Our foreign exchange fee- and commission-based business mainly consists of international settlement business, including international settlement, capital transactions and settlement and sale of foreign exchange provided to domestic and foreign corporate customers. We offer international banking services to our domestic and foreign individual customers, which include foreign currency deposits, foreign currency cash exchange service, settlement and sale of foreign exchange and foreign exchange remittances.

We also engage in the international capital business. We are a market-maker of Ruble in the interbank foreign exchange market, providing quotation of RMB against Ruble to market participants and customers. In 2011 and 2012, we were honoured as the “Best Compliant Trading Member” (最佳交易規範會員) in the national interbank foreign exchange market. We also won the “Member with the Greatest Improvement in 2012 Award” (2012年度最大進步會員獎). We had been honoured as “Class A Bank (Foreign Exchange Management)” (外匯管理A級行) for four consecutive years (from 2009 to 2012) by the Heilongjiang branch of the SAFE.

We are committed to the development of financial business with Russia and established an exclusive brand for financial business with Russia in 2011. By offering a wide range of banking products for banking business with Russia, we have formed a specialised products system covering settlement, financing, liquidation, exchange, capital transaction and agency services. We were the first commercial bank in the PRC to commence banking business with Russia, and were the first licensed bank to announce direct exchange rate of Ruble against RMB. We also extended the first RMB-denominated loan to Russia from the PRC. As of 30 September 2013, we were the city commercial bank with the largest scale of Ruble cash exchange within the PRC. See “– Our strengths – We are the leading PRC city commercial bank in Russian financial services”.



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## BUSINESS

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International business is one of the key areas in our strategies for future development. See “– Our Strategies – Accelerate the development of international financial business for small enterprise and micro enterprise and cross-border financial business with Russia”.

### PRICING

The interest rates we charge on our RMB-denominated loans are generally regulated by the PBOC. For RMB-denominated corporate loans and personal loans (other than personal residential mortgage loans and credit card overdraft), we have adjusted the lower limit of the interest rate floating range to 80% of the relevant PBOC benchmark rate since 8 June 2012. Since 6 July 2012, we have further adjusted the lower limit of the interest rate floating range to 70% of the relevant PBOC benchmark rate. We have been allowed to determine interest rate for loans by ourselves since 20 July 2013. With respect to interest rates for personal residential mortgage loans, from 27 October 2008, the lowest interest rate we can charge on personal residential mortgage loans is 70% of the PBOC benchmark lending rate. From 17 April 2010, the lowest interest rate we may charge for personal residential mortgage loans to second-time home buyers is 110% of the PBOC benchmark lending rate pursuant to a notice issued by the State Council. 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 regulated by the PBOC. Our interest rates for foreign currency-denominated loans are negotiated with reference to the LIBOR and the prevailing market interest rate.

Interest rates for our RMB-denominated deposits cannot be higher than 110% of the relevant PBOC benchmark rates according to the current PRC laws and regulations. However, we are permitted to provide negotiated time deposit interest rates under certain circumstances to institutions such as insurance companies and social insurance institutions. We are permitted to negotiate the interest rates on foreign currency deposits other than those denominated in U.S. dollars, HK dollars, Japanese Yen and Euro with a term of one year or less and in an amount less than US\$3 million or equivalent, which shall not exceed the interest rates on small amount foreign currency deposits. The interest rate of small amount foreign currency deposits is prescribed by the PBOC. See “Supervision and Regulations – PRC Banking Supervision and Regulation – Pricing of Products and Services – Interest Rates for Loans and Deposits”.

With respect to fee- and commission-based business, the prices for relevant products and services are generally determined according to the market conditions, while certain services are subject to government pricing guidelines, such as basic Renminbi settlement services specified by the CBRC and the NDRC. See “Supervision and Regulations – PRC Banking Supervision and Regulation – Pricing of Products and Services – Pricing for Fee- and Commission-based Products and Services”.

Our Assets and Liabilities Management Committee is responsible for determining our pricing policies and benchmark prices. The specific prices for various products and services are determined by respective business departments within their pricing power authorised by our headquarters. In compliance with applicable regulatory requirements, we determine our pricing based on various criteria, such as the risk profile of our assets, customers’ contribution to our revenue, our underlying costs and risks involved and the expected returns. In addition, we also consider general market conditions, our market position and prices for similar products and services charged by our competitors in pricing our products and services.

### DISTRIBUTION NETWORK

We deliver our products and services to customers through a variety of distribution channels, including branches, sub-branches, Village and Township Banks and their sub-branches, online banking,

phone banking, mobile banking and self-service terminals. As of 31 January 2014, we had a total of 304 branch outlets comprising 15 branches and their 245 sub-branches, 24 Village and Township Banks and their 20 sub-branches. In addition, we also had 724 self-service terminals in the PRC.

### **Branch Outlets**

Our branch outlets are our main sales channels. As of 31 January 2014, we had 15 branches and 245 sub-branches, including 10 branches and 198 sub-branches in Heilongjiang Province, as well as five branches and 47 sub-branches outside Heilongjiang Province. Our branches and sub-branches are mainly located in Heilongjiang Province, covering all 18 counties in Harbin. Each branch is responsible for the businesses in its region, while each sub-branch provides comprehensive services to our customers in divisions covered by respective branch.

Our branch outlets also include Village and Township Banks and their sub-branches. The first Village and Township Bank was established in 2009. As of 31 January 2014, we had a total of 24 Village and Township Banks with 20 sub-branches), covering 14 provinces and municipalities of China. We set up a board of directors for Village and Township Banks in 2011, which is responsible for operation and management of all of the Village and Township Banks.

See “– Our Strengths – We have comparative advantages among city commercial banks in terms of our cross-regional operating network” and “Our History and Operational Reform – Our Shareholding and Corporate Structure”.

### **Electronic Banking**

We offer 24-hour, seven-days a week services through electronic banking channels such as self-service terminals, online banking, customer service centres, phone banking and mobile banking to our corporate and personal customers.

### ***Self-service Terminals***

As of 31 January 2014, we had 724 self-service terminals (include ATMs, cash recycling systems and multi-media inquiry machines), offering cash deposit and withdrawal, account inquiry, bill payment, passcode changing and fund transfer services. Our self-service terminals are in various locations, including shopping malls, main streets, hotel lobbies, supermarkets, large residential areas, hospitals and universities in order to support our business and provide convenient access to our customers.

We are a member of China UnionPay Co., Ltd., which operates bank card, exchanges interbank e-banking information and provides network services in the PRC. After we became a member of China UnionPay Co., Ltd., our distribution network significantly broadened by allowing our customers to use any self-service terminals within the UnionPay network in the PRC and overseas.

### ***Internet Banking***

We have provided online banking services for our corporate and personal customers since 2009. As of 30 September 2013, more than 305,381 customers opened accounts through our online banking platform. Our corporate online banking services comprise a variety of services under 14 different categories, including account inquiry, money transfer and remittance, group customer services, corporate loans, international business, e-bills, bill payment, advanced inquiry services, management of payee list and enterprise operators management. Our personal online banking services comprise a variety of services under 15 different categories, including account management, money transfer and remittance,

basic wealth management, credit card, agency business, government bond business, “Lilac (丁香花)” wealth management and funds. Since the commencement of the online banking services in 2009 and as of 30 September 2013, the total volume of our corporate banking transactions and personal banking transactions conducted via our online banking platform were RMB1,900,980.3 million and RMB232,581.4 million, respectively.

#### ***Customer Service Centre and Phone Banking***

Since 2010, we have offered 24-hour, seven-days a week operator services and automatic voice services through our national customer service hotline “95537”. These services include account inquiry, bill payment, credit card, oral report of loss, advisory and call-out services.

#### ***Mobile Banking***

Our mobile banking service was launched in 2012, consisting primarily of various financial and derivative services such as business inquiry, money transfer and fee payment. These services support a variety of functions such as account management, basic wealth management, money transfer and remittance, bill payment, credit card and funds.

### **INFORMATION TECHNOLOGY**

Our IT systems are an integral part of our business operations. Our IT Management Committee is responsible for the overall management of the development and operation of our IT systems. The establishments of advanced IT systems that are compatible with our overall business service strategies will greatly improve our efficiency, customer service capabilities, risk management and financial management capabilities. We have made and will continue to make large-scale investments in our IT systems. We have set up an IT research and development centre in Beijing, and have engaged Deloitte (Shanghai) to provide consultation services on internal controls. See “– Information Technology – IT Planning”.

#### **IT System**

##### ***Components of Our IT System***

Our IT system consists of five levels, namely channel management (including online banking, customer service centre and self-service terminals), business processing (including core business system, credit system and credit system for Small Enterprise Customers), management analysis (including off-site audit system, risk management system and assets and liabilities management system), internal management (including financial management system, office automation system and IT service management system) and integrated management (including various front line systems and enterprise service bus). These systems are either researched and developed by us or provided by IT product and service providers.

Our major application system comprises our core business system, credit business system, credit system for Small Enterprise Customers, online banking system, off-site audit system, assets and liabilities system and financial system.

##### ***Core Business System***

Our core business system is the most important application system for our business operations. It has real-time accounting functions, such as account management, product management, transaction management, financial statement management, cash management and general ledger. The information contained in the core business system is the main source of data for the management of our IT system.

***Credit Business System***

We can input, search, modify and manage the basic information of our corporate and individual customers and information related to our credit business via our credit business system. The functions of this system can be divided into 13 categories, including batch supervision, customer information management, credit facilities management, business approval management, credit contracting, granting and payment management, credit line management, accounting management, post-disbursement management, guarantee management, asset preservation, inquiry and statistics, regional management and system management.

***Small Enterprise Credit System***

Pursuant to our strategy of developing our credit business to Small Enterprises and Small Enterprise Owners and supporting the expansion of such business, we have devoted resources to the research and development of our credit system for Small Enterprise Customers, to realise digitalisation and automation of the management, statistical analysis, monitoring, approval and control of our credit business to Small Enterprises and Small Enterprise Owners. The system provides a rapid business acceptance platform in line with the characteristics of our credit business to Small Enterprises and Small Enterprise Owners. It can also store, consolidate and collect information related to such business and other relevant business, thus providing information support for supervision and precaution at each level of our business management.

***Online Banking System***

We established our online banking system in 2009 to provide electronic financial services to customers and improve the experience and satisfaction level of our customers. The internet banking system includes, among others, personal online banking, corporate online banking, internal management system of internet banking, personal mobile banking (WAP) and personal mobile banking (user terminals).

***Off-site Audit System***

Our off-site audit system provides a basic management platform, audit platform and fraud identification platform for our risk control. Through immediate detection, inspection and dealing with off-site warning messages, the efficiency and accuracy of the internal audit of our Bank were enhanced. We deployed and commenced extensive audit inspections on all branches and business segments. Penalties including fines, dismissal and demotion were imposed on the persons in charge to serve as warnings or deterrents and raise the compliance awareness of all employees.

***Assets and Liabilities System***

Functions of the assets and liabilities system include identification and quantification of our interest rate risk and liquidity risks and the issuance of the statement of liquidity risk exposure, to form basis for our assets/liabilities allocation. It also features the functions of projection of and analysis on the term structure of our assets/liabilities and provision of forward-looking planning for relevant regulatory indicators.

***Financial System***

Our financial system contains both financial accounting and internal management functions. Accounting management system provides a basis for assessing the profitability of each segment from different perspectives and data support for our strategic positioning.

**IT System Risk Management**

We focus on the employment of advanced security technology, including firewall technologies, digitalised verification, intrusion detection and advanced Internet security technology in the banking industry to ensure the security of our IT system. We intend to invest approximately RMB226 million to establish a new data centre, the core component of which will have the highest Tier 4 standards of Uptime Tier Classification and TIA942 upon completion. As for the management of information security, we have established relatively comprehensive information security management systems in accordance with the ISO27001 international standard and obtained the certification from the China Information Technology Security Evaluation Centre in 2012. We are one of the few city commercial banks in China that obtained the ISO27001 certification. To ensure business continuity, we have adopted measures include building two disaster recovery centres in Harbin and Shuangyashan in the event of major disruption or failure of our main data centres. See “Risk Factors – Our business is highly dependent on the proper functioning and improvement of our information technology systems”.

**IT Research and Development**

We have an experienced IT team. As of 30 September 2013, we had more than 220 employees undertaking IT-related positions and responsibilities. We developed and maintained the key areas of our own IT system, thus ensuring the stable operation and sustainable development of our business systems.

We established our IT research and development centre in Beijing in 2010, and developed core capability in respect of IT research and development. As of 30 September 2013, the IT centre hosted more than 150 research and development employees. Currently, we have strong research and development capacities in a wide range of fields such as our core business system, credit system, fee- and commission-based business system, customer relationship management system and data platform. In addition, we place emphasis on cooperation with domestic and overseas IT research and development experts, as well as other experts, to strengthen our IT innovation.

**IT Planning**

We plan to further increase investment in our IT systems. In 2011, we worked with Deloitte (Shanghai) to formulate three-year IT development plan for 2012 to 2014. According to the development plan, we will extend the application of our systems to all business operations, providing efficient IT support for the front, middle and back offices to our business operations. Therefore, we can further enhance our comprehensive strengths in channel service integration, customer relationship management, product and service expansion, risk control management, performance improvement and operation management. During the period of the plan, we will carry out ten major projects including data platform establishment, customer management and credit management development. Under the three-year development plan, we expect to incur a total research and development expense of approximately RMB508.4 million of which an aggregate amount of RMB272.8 million had been incurred as of 30 September 2013.

**COMPETITION**

The banking industry in China is becoming increasingly competitive under the current macroeconomic environment. In particular, the introduction of and changes to relevant policies in the PRC in recent years have intensified competition in certain financial business areas of the domestic banking industry. See “Industry Overview – Current Competitive Landscape of PRC Banking Industry”.

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## BUSINESS

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We mainly face competition from Large Commercial Banks, Nationwide Joint-stock Commercial Banks and other city commercial banks which have established branches in Heilongjiang Province as well as local banks in Heilongjiang Province. We also face competition from foreign banks that carry out their business in Heilongjiang Province. We also face competition from banks in other regions in which we operate. We compete with our competitors primarily on product variety and prices, service quality, brand recognition and distribution channels. In addition, we compete with non-banking financial institutions, such as small-credit firms and insurance companies, in the provision of financial services.

The intensifying competition may have adverse effects on our future business and results of operations. See “Risk Factors – Risks Relating to the PRC Banking Industry – Intensifying competition in the PRC banking industry and competition in the emerging capital markets of the PRC in terms of capital could have material adverse effects on our business, financial condition, results of operations and prospects”.

### Staff

As of 31 December 2010, 2011 and 2012 and 30 September 2013, we had 3,944, 5,237, 6,546 and 7,414 full-time employees, respectively. The table below sets forth a breakdown of all our full-time employees by function as of 30 September 2013:

	<u>Number of employees</u>	<u>Percentage</u>
Corporate banking .....	1,160	15.6%
Personal banking .....	2,720	36.7%
Treasury operations .....	84	1.1%
Finance and accounting .....	695	9.4%
Risk management, internal audit and legal compliance .....	355	4.8%
Information technology .....	269	3.6%
Management <sup>(1)</sup> .....	552	7.4%
Others <sup>(2)</sup> .....	<u>1,579</u>	<u>21.3%</u>
<b>Total</b> .....	<u>7,414</u>	<u>100.0%</u>

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#### Notes:

- (1) Including senior management of the headquarters, general managers, deputy general managers and assistants to general managers of departments of the headquarters and direct-affiliated entities; branch presidents, deputy presidents of branches and assistants to branch presidents; presidents of sub branches, deputy sub-branch presidents and assistants to sub-branch presidents.
- (2) Including staff of departments, such as human resources, administration and supporting staff, operation management, electronic banking management and service.

As of 30 September 2013, the average age of our full-time employees was 31 years, and over 80% of our full-time employees had bachelor’s degrees or above.

We provide social insurance and other benefits to our employees, such as basic pension insurance, basic medical insurance, work injury insurance, unemployment insurance, maternity insurance, housing funds and personal accident insurance pursuant to the PRC Labour Law and relevant requirements of the national and local government. Basic pension insurance, basic medical insurance, unemployment insurance and housing funds are contributed by us and the employees at a certain proportion in accordance with the relevant local requirements. The social insurance premiums payable by employees are paid by us on behalf of them.

We have established an employee appraisal, training and personnel training system. We have developed a three-level training system with coordination between the headquarters, branches and sub-branches. We have also developed an electronic training and education platform. We combine our



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## BUSINESS

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development strategy with the career development of individual employees, and pay much attention to the training of young employees, senior management and professionals, in particular. The implementation of our “Professional Managers Training Plan” (職業經理人培養計劃) since 2009 provides a talent reserve for our future growth. As of 30 September 2013, we attracted and cultivated more than 170 graduates from universities in the PRC and abroad. We have established effective employee incentive mechanisms to promote the career development of employees through the implementation of business line management, performance management and remuneration package management.

We have not experienced any strikes or other material labour disturbances that have interfered with our operations. Our management, the labour union and employees have maintained good relationships with each other.

### PROPERTIES

Our headquarters is located at 160 Shangzhi Avenue, Daoli District, Harbin, Heilongjiang Province, the PRC. We owned 334 properties in the PRC as of 31 January 2014 and leased 362 properties in the PRC as of 31 January 2014.

#### Owned Properties

As of 31 January 2014, we owned and occupied 334 properties in the PRC with an aggregate GFA of approximately 260,357.16 square metres.

We have obtained the relevant building ownership certificates and land use right certificates for 253 properties, with an aggregate GFA of approximately 211,283.96 square metres, accounting for approximately 81.15% of the aggregate GFA of all our owned properties.

We have not obtained the land use right certificates or building ownership certificates in respect of 81 properties with aggregate GFA of approximately 49,073.2 square metres, representing approximately 18.85% of the aggregate GFA of our owned properties. Such properties are mainly used as our offices, outlets or for other commercial purposes. Among these properties:

- We have not obtained the land use right certificates in respect of 37 properties with aggregate GFA of approximately 7,836.08 square metres, representing approximately 3.01% of the aggregate GFA of our owned properties. However, we have obtained the relevant building ownership certificates. We have been advised by Jun He Law Offices Beijing, 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 may be restricted unless we obtain the corresponding land use right certificates.
- We have not obtained the land use right certificates and building ownership certificates in respect of 44 properties with an aggregate GFA of approximately 41,237.12 square metres, representing approximately 15.84% of the aggregate GFA of our owned properties. We have been advised by Jun He Law Offices Beijing, our PRC legal advisor, that we should obtain the building ownership certificates and the land use right certificates in accordance with the law before we are entitled to legally occupy, use, benefit from or dispose of such properties.

The Directors of our Bank are of the view that such title defects will not have material effect on our operation. We are currently in the process of obtaining the relevant title certificates of the properties with defective legal title and if necessary, we would be able to replace these properties with comparable

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## BUSINESS

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alternatives without any material adverse effect to our operations. See “Risk Factors – Risks Relating to Our Business – We have not obtained the title certificates for some of the properties held by us, and some of the lessor of the properties we leased have not obtained the relevant title certificates, which may materially and adversely affect our rights to use such properties”.

### **Properties Under Construction**

As of 31 January 2014, we held one property under construction in the PRC. The construction of the property has not yet commenced. We have obtained all relevant construction-related permits and approvals as required by the PRC laws except for the construction permit.

### **Property to be Acquired**

As of 31 January 2014, we had entered into agreements with some real estate developers or sellers to purchase 21 properties with an estimated aggregate GFA of 49,725.63 square metres. As of the Latest Practicable Date, the rights of use and ownership titles of such properties had not transferred to our Bank. We have been advised by our PRC legal advisor that the relevant real estate sale and purchase contracts entered into by the seller and purchasers are binding upon both parties, and our Bank has fulfilled our payment obligations according to the contracts.

### **Leased Properties**

As of 31 January 2014, we leased 362 properties with an aggregate lettable available area of approximately 136,791.235 square metres in the PRC.



Among these 362 leased properties, 75 leased properties, with an aggregate lettable area of approximately 32,746.34 square metres were leased from lessors who were not able to provide the title certificates, representing 23.94% of total GFA of leased properties of our Bank. In respect of this, our Bank has proactively procured these lessors to apply for the relevant title certificates or provide us the consent to lease properties. With respect to these leased properties with defective legal title, the lessors of 61 leased properties (with an aggregate lettable area of approximately 26,956.51 square metres, representing approximately 82.32% of total GFA of properties leased from lessors who were not able to provide title certificates) have provided undertaking letters to undertake to us that they have the right to lease these properties, and undertake to compensate us for losses arising from the defective legal title of these leased properties. As advised by our PRC legal advisor, we will have the right to seek compensation from the lessors pursuant to the applicable laws and regulations, the relevant lease agreements or undertaking letters in respect of the above 75 leased properties with defective legal title.

We are of the view that the absence of valid title certificates to these leased properties will not have any material adverse impact on our operation. This is because most of our leased properties can, if necessary, be replaced by other comparable alternative premises, and no significant practical difficulties are expected in the course of relocation to these alternative premises. See “Risk Factors – Risks Relating to Our Business – We have not obtained the title certificates for some of the properties held by us, and some of the lessors of the properties we lease have not obtained the relevant title certificates, which may materially and adversely affect our rights to use such properties”.

### **INTELLECTUAL PROPERTY RIGHTS**

We conduct our business under the names of “Harbin Bank” and “哈尔滨银行”. We own a total of 24 PRC registered trademarks and four Hong Kong registered trademarks. We have applied for registration

of 47 trademarks in the PRC. We are also the registered owner of the domain name of our website “www.hrbc.com.cn”. See “Appendix VIII – Statutory and General Information – Further Information about Our Business – Our Intellectual Property Rights”.

The trademark “” (individually and collectively with our Chinese and/or English name), for which we have the copyright, has been widely used on our signboards, badges, publicity materials and internal documents. We have applied to the Trademark Appeal Board of the State Administration for Industry and Commerce of the PRC (the “Trademark Appeal Board of SAIC”) for registration of such trademarks. However, since such trademarks involve pending disputes on the exclusive right of trademark, we have not completed the registration process and have not obtained the exclusive right to use such trademarks as of the Latest Practicable Date. As of the Latest Practicable Date, of the two trademark disputes, one had been judicially finally determined and one dispute is still pending. As advised by our PRC legal advisor, when we use such trademarks before the exclusive right is obtained, we are not able to enjoy the protection applicable to the holders of exclusive right of trademark under the PRC laws and regulations, but our copyright and use right in the trademark “” was confirmed by the PRC judicial authority. In addition, we have completed relevant trademark registration in Hong Kong. See “– Compliance and Legal Proceedings” and “Appendix VIII – Statutory and General Information – Further Information about Our Business – Our Intellectual Property Rights”.

## **COMPLIANCE AND LEGAL PROCEEDINGS**


### **Licences**

As of the Latest Practicable Date, we had obtained all necessary licences for our business operations.


### **Claims and Legal Proceedings**

We are involved in certain claims against us and are involved in a number of legal proceedings arising from the ordinary course of our business. Most of these claims and legal proceedings involve enforcement claims initiated by us to demand repayment of our loans. As of the Latest Practicable Date, we had 16 pending lawsuits, each with claim amount of over RMB10 million. We are a plaintiff in these lawsuits and the total potential amount of these claims is approximately RMB703.7 million. We have been advised by Jun He Law Offices Beijing, our PRC legal advisor, that none of the above mentioned 16 legal proceedings will, have a material impact on our financial condition or results of operations. Our Directors do not expect any of such legal proceedings to, whether individually or in the aggregate, have a material adverse effect on our financial condition or results of operations.

### ***Trademark Dispute***


The registration of our trademark “” (individually and collectively with our Chinese and/or English name) has not been completed due to the following disputes.

### ***Judicially concluded disputes between our Bank and LV Qiuyang***

Lv Qiuyang, an individual, submitted an application for registration of the trademark “” (registration No.: 5867623) and obtained the exclusive right of the trademark in 2007 and subsequently filed a lawsuit against us in 2011, claiming that the trademarks used by us infringed his exclusive right of trademark. The court acknowledged that we have the copyright of the disputed trademark due to our prior use of the trademark. Therefore, the court ruled against Lv Qiuyang, holding that our use of the

trademark does not constitute an infringement against Lv Qinyang's exclusive right of trademark. On 4 January 2013, the Trademark Appeal Board of SAIC decided to withdraw Lv Qiuyang's exclusive right of the disputed trademark (registration No.: 5867623). On 26 February 2013, Lv Qiuyang initiated administrative proceedings against the Trademark Appeal Board of SAIC (as defendant) in Beijing First Intermediate People's Court, requiring the defendant to revoke the decision to withdraw plaintiff's exclusive right over the disputed trademark (registration No.: 5867623). We were the third party in the proceedings. Beijing First Intermediate People's Court upheld the decision of the Trademark Appeal Board of SAIC to withdraw LV Qiuyang's exclusive right of the disputed trademark (registration No.:5867623) on 12 July 2013. On 11 October 2013, Beijing People's High Court issued the final ruling to turn down the appeal by Mr. Lv on the judgment of the Beijing First Intermediate People's Court.

***Pending disputes between our Bank and Guangzhou Dingjun Corporate Management Consultants Ltd.***

Guangzhou Dingjun Corporate Management Consultants Ltd. (廣州市鼎駿企業管理顧問有限公司) owned exclusive right of trademark “” under registration No. 9587315. On 14 December 2012, we applied to the Trademark Appeal Board of SAIC to cancel the registered trademark No. 9587315 due to the fact that its trademark had infringed our existing copyright and bore similarity with the trademark under registration No. 5867623, (the registration of which has now been cancelled). As of the Latest Practicable Date, the dispute resolution procedure was still in progress.

See “Risk Factors – We may be involved in legal and other disputes in relation to our business operations from time to time, which may lead to potential liabilities and risks”.

**Findings of Regulatory Examinations and Compliance with Core Indicators**

We are subject to various regulatory requirements and guidelines set forth by the PRC regulatory authorities, which include without limitation the CBRC, the PBOC, the CSRC, the SAFE, the MOF, the SAIC, the CIRC, the NAO and the SAT, and their respective local branches and offices. These regulatory authorities carry out inspections and examinations in respect of our compliance with the required ratios as provided in the Core Indicators (Provisional) issued by the CBRC, legal and regulatory requirements and guidelines relating to our business operations, risk management and internal controls. These inspections and examinations have previously resulted in findings of incidents of non-compliance, for which we have been penalised. Although these incidents and penalties did not materially and adversely affect our business, financial condition or results of operations, we have implemented improvements in our compliance systems and remedial measures to prevent the recurrence of such incidents.

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## BUSINESS

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### *Administrative Penalties*

During the Track Record Period and up to the Latest Practicable Date, we were subject to one fine imposed by the PBOC, amounting to approximately RMB20,000. This fine was imposed by the local branch of the PBOC on our Chengdu branch. We have paid the fine in full and have taken steps to address the issues described above. Details of the fine imposed on us and our primary remedial measures are set forth below:

#### ***PBOC***

<b>Details of fine</b>	<b>Our primary remedial measures</b>
In June 2011, the Chengdu branch of the PBOC discovered during an inspection that certain staff members at our Chengdu branch requested the individual credit reports of our customers in the absence of the written authorisation of the customers. As a result, a fine of RMB20,000 was imposed.	Provided training on credit inquiry system to our employees; penalised the person-in-charge; strictly implemented the credit inquiry management system; and strengthened the authorisation management of credit inquiries.

We have fully settled the fine. This fine did not materially and adversely affect our business, financial condition or results of operations. In addition to the primary remedial measures taken in response to the past administrative penalty, we have also adopted operational measures, which include supervising and improving our credit inquiry management system, accountability system and other relevant systems, strictly executing and implementing such systems, and enhancing the training of our staff in business departments.

#### *Findings of Regulatory Examinations*

Although certain routine or *ad hoc* examinations conducted by the PRC regulatory authorities did not result in fines or other penalties imposed on us, certain deficiencies or failures of strict compliance with applicable regulatory requirements or guidelines were identified in our business operations, risk management and internal controls. The primary results identified during these examinations are summarised below.

#### ***CBRC***

The CBRC Heilongjiang Bureau and other relevant local branches of the CBRC conduct routine and *ad hoc* inspections on our Bank, including on-site inspections of our headquarters, branches and sub-branches. Based on these inspections, the local branches of the CBRC issued inspection reports setting forth their inspection results and guidance.

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## BUSINESS

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During the Track Record Period and up to the Latest Practicable Date, the relevant local branches of the CBRC carried out routine and *ad hoc* inspections on our Bank. During these inspections, the relevant local branches of the CBRC identified certain issues in some of our branches and sub-branches, which mainly included deficiencies in the operating procedures of our loan business, discounted bills and accounts management, as well as deficiencies in the establishment and enforcement of our risk management and internal control systems. The key issues identified and main recommendations proposed by the relevant local branches of the CBRC in its reports and our main remedial measures are summarised below:

<u>Material issues and main recommendations</u>	<u>Our primary remedial measures</u>
<p>Improve credit management and asset quality through strictly complying with and enforcing rules and guidelines of the CBRC relating to credit management and business operation and strengthening loan review and approval, risk assessment and post-disbursement management.</p> <p>In particular, the deficiencies identified included:</p> <ul style="list-style-type: none"><li>• we did not carry out at lending and post-lending investigations for certain loans; and</li><li>• the procedures for and standard loan agreements of certain branches were not refined on a timely basis.</li></ul> <p>Strengthen the establishment of the management system of discounted bills and the management of operating procedures; strengthen the prevention of corporate credit risks and industry concentration risks.</p> <p>In particular, the deficiencies identified included:</p> <ul style="list-style-type: none"><li>• high industry concentration of acceptance bills business of our Tianjin Branch; and</li><li>• insufficient inspection, review and post-lending inspection of certain bills business of certain branches.</li></ul> <p>Strictly implement the compulsory leave policies and strengthen the prevention of operational risks.</p> <p>Strengthen account management and capital disbursement management.</p> <p>In particular, the deficiencies identified included:</p> <ul style="list-style-type: none"><li>• the opening of certain general deposit accounts and the management of account information did not fully comply with applicable requirements; and</li><li>• certain branches did not strictly comply with the requirements of entrusted payments.</li></ul>	<p>Improve internal control and risk management systems based on the CBRC guidelines on credit approval procedures and post-disbursement management; strengthen the management of the details of our loan granting process and post-disbursement supervision and management; penalise the person responsible for the non-compliance incidents; enhance our employees' capabilities to enforce the systems through training and assessment; upgrade the functions of information technology system.</p> <p>Improve the management system of our discounted bills business; provide training on compliance and risk management for operational staff; improve the enforcement of the relevant systems through conducting our business in strict compliance with applicable laws and regulations as well as our internal rules and procedures; tighten the supervision of the source of deposits and the application of discounted cash; investigate the responsibilities of the person who committed the non-compliance and impose penalties accordingly; strictly control industry concentration risks.</p> <p>Arrange rotation and compulsory leave for employees in important positions pursuant to applicable regulations; carry out exit audits of employees.</p> <p>Optimise our account management system and capital disbursement management system; strictly comply with the rules regarding entrusted payments; strengthen account review and conduct account reconciliation with enterprises in a timely manner; and enhance staff training.</p>



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## BUSINESS

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In addition to the above, the CBRC Heilongjiang Bureau conducted on-site and off-site inspections on our business performance on an annual basis and issued annual inspection reports according to the inspection results, mainly setting out (1) the main business development achievements of our Bank for the year; and (2) the material issues and major recommendations. In the annual report of the three financial years from 2010 to 2012, the CBRC Heilongjiang Bureau affirmed the results of operations of our Bank and confirmed that the major regulatory indicators of our Bank fulfilled the standards and the material risks were controllable. The inspection report for the three years contained certain suggestions and recommendations in respect of the material issues. We also took measures to improve or strengthen our management capability in the relevant year or the following year, the details of which are as follows:

<u>Material issues and major recommendations</u>	<u>Measures to further improve and strengthen our management capability</u>
<b>Credit risks and management</b>	
Strictly comply with the loan management policies, and enhance the disposal of non-performing loans, the management of remote loans and granting of credit.	<ul style="list-style-type: none"><li>• Continue to strengthen comprehensive risk management and carry out on-going monitoring and early warning;</li><li>• Formulate and issue credit risk management policies on an annual basis to further improve the controlling standards for non-performing loan ratios, and strengthen the management on precaution of risks; establish management mechanisms for problem loans;</li><li>• Impose strict entry requirements on remote loans; set up supervision and handling systems for overdue loans to farmers; and formulate strict credit policies in respect of remote loans of small enterprises.</li></ul>
<b>Liquidity risks and management</b>	
Enhance the stability of core deposits and liabilities dependence, improve liquidity management techniques and optimise our revenue structure.	<ul style="list-style-type: none"><li>• Develop and improve the assets and liabilities implementation information system, and optimise the structure of assets and liabilities; as of November 2013, the core liabilities dependence of the Bank satisfied and surpassed the regulatory standards, and our assets and liabilities structure has been improved;</li><li>• Conduct liquidity risk stress test on a regular basis, and engage a well-known consulting firm, to make suggestions on the liquidity risk management of the Bank;</li><li>• Create high-quality liquidity asset reserves, and strengthen the liquidity of assets;</li><li>• Strengthen the analysis and monitoring of the debt concentration, and enhance the management of assets and liabilities maturity mismatch.</li></ul>

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## BUSINESS

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Material issues and major recommendations	Measures to further improve and strengthen the management capability
<p><b>Operation risks</b></p> <p>Management of accounts and account opening of certain branches are not standardised; the grant of credit is not implemented in strict accordance with procedures; and some internal control and risk management systems have defects.</p>	<ul style="list-style-type: none"><li>• Standardise non-compliance accounts, and impose restrictions and adjustments on terms of reference of different tellers; strictly enforce separation of loan approval and grant; carry out staff training and enhance supervision;</li><li>• Conduct rectification on relevant branches. Each branch shall carry out self-examination on its accounts and shall strictly comply with operating procedures for account opening;</li><li>• Establish comprehensive credit management quality evaluation system for the branches, and carry out comprehensive assessment, inspection and management;</li><li>• Our Bank adjusted the relevant internal control and risk management systems in January 2013 to eliminate the existing defects.</li></ul>
<p><b>Technology risks</b></p> <p>Strengthen the IT management and system establishment carried out by the risk management department and Internal Audit Department.</p>	<ul style="list-style-type: none"><li>• Risk management department takes the lead to organise the IT risk management, responsible for coordinating the formulation of IT risk management policies;</li><li>• Engage Deloitte (Shanghai) to conduct comprehensive internal control arrangement for our Bank, and carry out internal audit on the IT projects;</li><li>• Network of the headquarters was restructured, and Phase II of disaster recovery system was set up to mitigate IT risks.</li></ul>
<p><b>Corporate governance</b></p> <p>Strengthen the remuneration incentive mechanism and the transparency of remuneration appraisal; and further improve the internal audit and management capability of consolidated statements of risks of subsidiaries.</p>	<ul style="list-style-type: none"><li>• Comprehensive remuneration and performance appraisal system was established, and total performance-based remuneration of the senior management for the year was disclosed in the annual report. Organisational structure, hierarchy and the consolidated statements management of each department were further improved. Efforts were made to strengthen risk-oriented internal audit capability and enhance the training for internal audit staff;</li><li>• A number of risk management systems were formulated, such as Measures on Compliance Risk Management of Harbin Bank (哈爾濱銀行合規風險管理辦法) and Measures on IT Risk Management of Harbin Bank (哈爾濱銀行信息科技風險管理辦法).</li></ul>

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## BUSINESS

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Material issues and major recommendations	Measures to further improve and strengthen the management capability
<p><b>Management of branches and rural subsidiaries</b></p> <p>Strengthen the management of bills business and innovative business of certain branches in other provinces; enhance the management of risk concentration and liquidity of rural subsidiaries; and optimise the corporate governance and internal control of branches and rural subsidiaries.</p>	<ul style="list-style-type: none"><li>• Verification and management were enhanced to ensure the authenticity of the bills margin of branches, and strict appraisal, review and post-loan management were conducted on guarantor enterprises; possible risks were disclosed for new businesses and corresponding measures were carried out in branches to prevent the risks;</li><li>• Credit risk management for rural banks was strengthened;</li><li>• Management levels of the branches were defined to further refine the formulation of network planning;</li><li>• Distribute the Notice Regarding Further Improvement on Corporate Governance (進一步完善公司治理的通知) to rural banks to strengthen their corporate governance knowledge; strengthen the training for rural banks; adjust and coordinate the idle funds in rural banks.</li></ul>

Our Bank has submitted a report in relation to the implementation of regulatory opinions reflected in inspection reports issued by the CBRC Heilongjiang Bureau and other relevant local branches of the CBRC. As of the Latest Practicable Date, the CBRC Heilongjiang Bureau and other relevant local branches of the CBRC had no further comments on the implementation of regulatory opinions by us. We have not received any notice requiring us to take further measures or imposing any penalties. According to the inspection results by the CBRC Heilongjiang Bureau, we believe that our business operations, internal audit, internal controls and risk management do not have any material deficiencies. The suggestions on management and risks and guidance opinions given by the CBRC Heilongjiang Bureau and other relevant local branches of the CBRC enable us to improve or enhance our risk prevention and management capabilities, and such suggestions and recommendations have no material and adverse impact on our business, financial condition or results of operations.

### ***PBOC***

Relevant local branches of the PBOC conduct routine and *ad hoc* inspections of our Bank, including on-site inspections of our branches, sub-branches and other outlets. Based on these inspections, the relevant local branches of the PBOC issue inspection reports setting forth their findings and recommendations.

During the Track Record Period and up to the Latest Practicable Date, the relevant local branches of the PBOC carried out several routine and *ad hoc* inspections of our Bank. During these inspections, the relevant local branches of the PBOC identified non-compliance incidents or deficiencies in our Bank in respect of anti-counterfeit currency procedures and anti-money laundering procedures, management of credit investigation systems, cash business management and management of payment and settlement. The

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## BUSINESS

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key issues identified and main recommendations made by the relevant local branches of the PBOC in their reports and our main remedial measures are summarised below:

<u>Material issues and main recommendations</u>	<u>Our primary remedial measures</u>
<p>Strictly comply with counterfeit banknote handling procedures, and improve the internal control system of our cash business.</p>	<p>Strictly comply with the standards in dealing with counterfeit currency; establish and improve internal control and review systems; enhance training for staff at the counters.</p>
<p>Strengthen anti-money laundering management and fulfil anti-money laundering obligations such as “know-your-customers”. Strictly and accurately comply with the system of reporting suspicious transactions.</p>	<p>Establish and maintain anti-money laundering systems; Carry out an accountability system for anti-money laundering; organise staff training to enhance their anti-money laundering awareness and understanding of relevant rules and procedures; improve customer identification and data preservation procedures.</p>
<p>Establish a perfect credit investigation system, and enhance the management of our credit investigation systems.</p> <p>In particular, the deficiencies identified included:</p> <ul style="list-style-type: none"><li>• delay in data reporting in the credit investigation system;</li><li>• irregularities in enquiry and management of individual credit reports; and</li><li>• irregularities in user password management and post-lending management enquiry in certain branches and sub-branches as well as absence of filing of changes of user information.</li></ul>	<p>Rectify any irregularities; increase investment in IT development to update our information platform server, thus ensuring an accurate and timely reporting of credit investigation data and building a transmission system of credit investigation data; enhance the training on credit investigation; establish an enquiry and management system for credit investigation and improve its operation procedures; formulate different systems regarding individual credit investigations and enterprise credit investigations.</p>
<p>Strengthen payment and settlement management, and carry out proper registration of opening and closing of accounts.</p> <p>In particular, the deficiencies identified included:</p> <ul style="list-style-type: none"><li>• failure to strictly comply with the registration requirements in respect of the opening, closing and filing of accounts by certain branches; and</li><li>• failure to comply with the requirements of the formats and contents of RMB purchase and sales data reports and RMB exposure ledgers.</li></ul>	<p>Carry out self-examination on payment and settlement business; rectify any irregularities; improve the payment and settlement and the operation procedures of counter business; optimise audit examination and follow-up control; enhance the training for relevant personnel.</p>
<p>Regulate bank card acceptance business and enhance risk management; improve relevant systems of acquiring business.</p> <p>In particular, the deficiencies identified included:</p> <ul style="list-style-type: none"><li>• failure to strictly comply with the market rules for acquiring business; and</li><li>• deficiencies in relevant systems of acceptance business.</li></ul>	<p>Revise relevant systems of acceptance business; enhance the entry examination of merchants; give guidance to the branches for identifying merchant category efficiently and managing files for merchants, and supervise the compliance of branches; enhance loan approval; strictly control the risk of credit card advances.</p>

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## BUSINESS

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As of the Latest Practicable Date, we had not been subject to any penalties for the aforesaid issues or requested by the PBOC or its relevant local branches to take further remedial measures. According to the inspection results by the relevant local branches of the PBOC, we believe that our business operations, internal audit and risk management do not have material deficiencies that may result in material and adverse impact on our business, financial condition or results of operations.

### *Audit Office of Heilongjiang Province*

The Audit Office of Heilongjiang Province conducts audits on the assets, liabilities and profits and losses of the Bank from time to time in accordance with law. Between June and October 2011, the Audit Office of Heilongjiang Province audited our assets, liabilities and profits and losses for the year 2010, and issued the 2010 annual audit report based on its auditing findings. The main problems identified in the audit report and our main remedial measures are listed as follows:

<u>Main problems identified in audit report</u>	<u>Our main remedial measures</u>
There are certain business management irregularities in relation to the Bank's credit business management, credit settlement and timeliness, as well as investment effectiveness.	<ul style="list-style-type: none"><li>• Rectification and regulation of the relevant irregularities, settlement of outstanding current accounts, special research on investment effectiveness and allowance for impairment according to actual circumstances;</li><li>• Remedial measures and improvements in various systems, including organising and refining credit business systems and operation procedures, strengthening internal control systems, balancing duties and responsibilities, and commencing IT planning consultation projects to enhance technology management.</li></ul>
There are issues of non-compliance in the granting by the Bank of certain loans (including the granting of an off-site loan of RMB90 million in 2010 which was not reported to the relevant authority; a loan of RMB120 million in 2009 to a customer without the borrower's qualifications; an invalid hypothecated loan of RMB100 million in 2002; and a loan of RMB400 million in 1999 used to repay a previous loan).	<ul style="list-style-type: none"><li>• We have rectified and regulated such issues of non-compliance in extending loans, and required all branches to implement the General Rules for Loans strictly, enhance employee training, improve their credit business systems and operation procedures and strengthen the development of internal control systems.</li></ul>

The Bank has submitted a report to the Audit Office of Heilongjiang Province regarding the problems identified in the audit report. The above audit findings of the Audit Office of Heilongjiang Province have no material adverse impact on our business, financial condition and results of operations. Save as disclosed above, as of the Latest Practicable Date, we were not required to take further measures as stipulated by the Audit Office of Heilongjiang Province.

### *SAFE*

The relevant local branches of the SAFE will conduct off site and onsite inspection for our foreign exchange business, and will issue inspection reports based on the inspections. Results of inspections and recommendations are included in such reports. During the Track Record Period, the relevant local

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## BUSINESS

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branches of the SAFE conducted inspections of our foreign exchange business and issued inspection results, including evaluations of our management of foreign exchange (we were granted an A rating in the evaluation conducted by Heilongjiang branch of the SAFE for three consecutive years from 2010 to 2012). They also provided guidance and made corrective recommendations relating to our foreign exchange business. The key deficiencies identified and major recommendations made by SAFE and our primary remedial measures were as follows:

<u>Key issues and main recommendations</u>	<u>Our primary remedial measures</u>
Optimise the internal control system and update and enhance the accounting and statistical statement system for settlement and sales of foreign exchange business and the operation guidelines of our foreign exchange business.	Update and issue new internal control systems for our foreign exchange systems; formulate operation guidelines; establish inspection mechanisms for our foreign exchange business and subsequent supervision mechanisms; enhance training and examination mechanisms.
Regulate operation of our foreign exchange business and enhance risk management and control of our foreign exchange business.	Rectify any irregularities; refine and regulate the operation procedures of foreign exchange and the management of employees and enhance internal examination; implement dynamic management and control for liquidity of loan-deposit ratio of foreign exchange capital; increase foreign exchange deposit and adjust foreign exchange loan structure; organise continuous training for employees of foreign exchange business; enhance inspection and supervision of branches.
In particular, the deficiencies identified included: <ul style="list-style-type: none"><li>• failure to comply with the requirements of document examination for purchase, payment, receipt and settlement of foreign exchange in trading of goods;</li><li>• failure to meet requirements on data filing for certain foreign exchange business; and</li><li>• failure to comply with the requirements of opening or operating certain foreign exchange accounts in certain instances.</li></ul>	
Improve the collection of foreign exchange data, enhance the accuracy of data collected by the settlement and sales system of foreign exchange and improve the data reporting of international payments.	Enhance training for employees of our foreign exchange business; improve collection, reporting and statistics management of data; adjust unreasonable operation procedures; regulate the statistics and reporting of data; reduce risk in relation to mistakes and omissions from reporting.

As of the Latest Practicable Date, we had not been subject to any penalties for the aforesaid issues or received any notice from the SAFE or its relevant local branches requiring us to take any further remedial measures. According to the inspection results by the relevant local branches of the SAFE, we believe there is no material deficiency in respect of our foreign exchange business and risk management and control which may materially and adversely affect our business, financial condition or results of operations.



## BUSINESS

### *Compliance with Core Indicators*

We are required to comply with the various ratios as provided in the Core Indicators (Provisional) issued by the CBRC. During the Track Record Period, we had the following incidents of non-compliance with these ratios:

Ratio	Details of non-compliance	Our primary remedial measures
Loan exposure to a single customer	As of 31 May 2010, our loan balance with Harbin Qunli New District Real Estate Development Company Limited (哈爾濱市群力新區房地產開發有限責任公司) exceeded 10% of our net capital. See “Assets and Liabilities – Borrower Concentration”.	Since June 2010, the borrower had started to repay the loan and the loan balance was reduced to RMB550.0 million as of 30 June 2010, representing 9.82% of our net capital.
Allowance adequacy ratio for asset impairment and allowance adequacy ratio for loan	Our allowance adequacy ratio for asset impairment and allowance adequacy ratio for loan were both below 100% as of 31 December 2010.	Our Bank increased general provision for loan impairment and strengthened risk management to control the ratio of non-performing loans.
Cost to income ratio	Our cost to income ratio exceeded 35% as of 31 December 2010.	We adopted measures to increase income through enhancement of asset structure and strengthen management on product pricing. At the same time, we actively controlled cost and expenses and thereby reduce the cost to income ratio.
Core liabilities ratio	Our core liabilities ratio was less than 60% as of 31 December 2012.	We conducted liquidity stress test at quarterly intervals, reduce fluctuations of deposit, strengthen liability management and increased proportion of fixed deposits.

In each of the above incidents of non-compliance, we were not penalised or fined and were only verbally requested by the regulatory authority to adopt rectification measures. In response to such requests, we adopted the measures described above and have complied with these ratios in subsequent years.

We do not believe that the relevant PRC regulatory authorities’ findings or non-compliance with the ratios under the Core Indicators (Provisional) described above revealed any material deficiencies in our internal control or risk management systems. To the extent that any of these findings suggests any such deficiencies, we believe we have taken the necessary steps to correct them. We have reported the status of the implementation of our remedial measures to the relevant regulatory authorities following the inspections by such authorities. None of these findings, incidents of non-compliance or administrative penalties has resulted in any material adverse impact on our financial condition or results of operations. As advised by our PRC legal advisor, Jun He Law Offices Beijing, as of the Latest Practicable Date, the relevant PRC regulatory authorities had not imposed any further administrative penalties in relation to these incidents. See “Risk Factors – Risks Relating to Our Business – We are subject to various PRC regulatory guidelines and requirements, and our past non-compliance could have an adverse impact on our reputation, business, financial condition and results of operations”.

**Employee Non-compliance**

We have, from time to time, detected non-compliance incidents committed by our employees, customers and other third parties. The non-compliance incidents committed by our employees mainly relate to non-compliance with our internal rules regarding the credit review and approval process, counter processing procedures and accounting related matters. None of our Directors and senior management has been involved in any such incidents of non-compliance. We believe that such non-compliance, individually or in the aggregate, will not have any material adverse effect on our business, financial condition and results of operations. During the Track Record Period, we did not discover any material employee misconduct involving criminal activities.

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 operations, internal audit, internal controls or risk management.