The following discussion and analysis should be read in conjunction with our consolidated financial statements, together with the accompanying notes, included in "Appendix I – Accountants' Report" to this prospectus. Our consolidated financial statements have been audited and prepared in accordance with IFRS. You should also read the following discussion and analysis in conjunction with the unaudited preliminary financial information of our Bank for the year ended 31 December 2013 and the accompanying notes, as well as the "Management's Discussion and Analysis of Financial Condition and Results of Operations" set forth in Appendix IV to this prospectus. The following discussion and analysis contain forward-looking statements that reflect our current views on future events and our financial performance. We make those statements based on our assumptions in light of our experience and perception of historical trends, current conditions, expected future developments and other factors we believe are appropriate under the circumstances. However, actual outcomes and developments are exposed to a number of risks and uncertainties and may not meet our forecasts or expectations. Please refer to "Risk Factors" and "Forward-looking Statements" for discussions of those risks and uncertainties.

OVERVIEW

We were the second largest commercial bank in Heilongjiang Province and the largest commercial bank in Harbin in terms of total assets and net profit as of 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 possess strong core competitiveness in the microcredit market. As of 31 December 2012 and 30 September 2013, the total balance of our microcredit business 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 as of those dates.

GENERAL FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Economic Condition of the PRC and Heilongjiang Province

We are headquartered in Harbin, Heilongjiang Province, the PRC. Our financial condition and results of operations are affected by the economic conditions in the PRC and the economic measures undertaken by the PRC government to a significant extent, especially the factors relating to the economic development in Heilongjiang Province. The PRC has experienced rapid growth over the past three decades. According to data released by the NBSC, the PRC's nominal GDP increased at a CAGR of 13.4% and fixed asset investments in the PRC increased at a CAGR of 21.3% from 2008 to 2012. According to the PBOC, Renminbi-denominated loans and deposits in the PRC grew at a CAGR of 20.0% and 18.4%, respectively. The PRC's economic growth has resulted in a substantial increase in corporate activities and individual wealth, which has in turn contributed to growth in the corporate and personal banking businesses of PRC commercial banks.

In recent years, the PRC government has implemented a series of macroeconomic and monetary policies, including (i) changing the benchmark interest rates and the PBOC statutory deposit reserve ratio applicable to commercial banks; (ii) imposing lending limits to control the growth of bank borrowings; (iii) imposing restrictions on personal residential mortgage loans and loans to property developers to prevent overheating real estate market; and (iv) promoting the growth of certain industries or controlling overheating and overcapacity in certain other industries by giving industry development guidelines. Many of these policies have had a significant impact on lending activities and the demand for and access to bank financing, which in turn has materially affected our financial condition and results of operations.

Heilongjiang Province is located in northeast China, adjacent to Russia's Far East region, which is a key economic development region in Russia. Benefitting from the PRC government's strategy of revitalising Northeast China and the province's proximity to energy and resources, Heilongjiang Province has experienced economic growth in recent years. From 2008 to 2012, Heilongjiang Province's GDP increased at a CAGR of 13.3% and the fixed asset investments in Heilongjiang Province increased at a CAGR of 27.6%. The CAGR of loan balances of financial institutions in Heilongjiang Province was 21.6% from 2008 to 2012, with the demand for credit facilities remaining strong. Our operating income during the Track Record Period was primarily generated from Heilongjiang Province. For the years ended 31 December 2010, 2011 and 2012 and the nine months ended 30 September 2013, our operating income generated from Heilongjiang region accounted for 85.6%, 78.0%, 65.1% and 64.8%, respectively, of our total operating income. Although the proportion of our operating income generated from Heilongjiang Province to our total operating income decreased during the Track Record Period as we expanded our business to other regions in the PRC, the economic conditions in Heilongjiang Province will continue to significantly affect our financial condition and results of operations.

Interest Rate Environment

Our results of operations largely depend on our net interest income, which has historically been the largest component of our total operating income, representing 91.1%, 89.0%, 86.3% and 83.1% of our total operating income for the years ended 31 December 2010, 2011 and 2012 and the nine months ended 30 September 2013, respectively. Net interest income is affected by interest rates and the balance of our interest-earning assets. Interest rates applicable to us are sensitive to many factors that are beyond our control, such as the regulations in the banking and financial sectors in the PRC, domestic and international economic and political conditions and competition.

As part of the overall reform of the PRC's banking system during the past decade, the PBOC started to gradually adopt a market-based interest rate policy to regulate the market, including increasing benchmark interest rates for the Renminbi-denominated loans of financial institutions nine consecutive times, and increasing benchmark interest rates for the Renminbi-denominated deposits of financial institutions eight consecutive times, from October 2004 to December 2007. In response to the changes in macroeconomic environment in 2008, the benchmark interest rates for Renminbi-denominated loans and deposits of financial institutions were significantly reduced several times in the second half of 2008. In recent years, the PBOC has adjusted the benchmark interest rate several times. From October 2010 to July 2011, the one-year benchmark Renminbi-denominated deposit and lending rates were increased five times and reached 3.50% and 6.56%, respectively. However, they were lowered to 3.00% and 6.00%, respectively, after two decreases by the PBOC in June and July 2012. In addition, the PBOC further relaxed restrictions on the floating ranges of deposit rates and removed the lower limit of the floating range of lending interest rates in July 2013. Under the current PBOC regulations, the highest interest rate commercial banks in China can offer for RMB-denominated deposits is 110% of the relevant PBOC benchmark deposit rate, while lending rates can be determined by the commercial banks themselves. In terms of personal residential mortgage loans, pursuant to a policy promulgated by the PBOC in October 2008, commercial banks are not allowed to extend personal residential mortgage loans with interest rates below 70% of the applicable PBOC benchmark lending rates. With a view to regulating overheating real estate prices and the real estate market, the PRC government issued a series of policies and regulations from December 2009. For example, pursuant to the Notice on Firmly Curbing the Excessive Rise of Housing Prices in Certain Cities promulgated by the State Council on 17 April 2010, the lending rate for a second-home buyer shall not be lower than 110% of the PBOC benchmark lending rate. Adjustments to the PBOC benchmark rates have significantly affected the average interest rates for our loans and deposits, which in turn have impacted our net interest income.

The PBOC may further loosen the interest rate mechanism in the future. We expect that, as the PRC government continues to carry out a market-based interest rate policy, competition among banks will play an increasingly important role in the setting of interest rates. Any future adjustment of benchmark rates by the PBOC in its effort to regulate the overall economy may materially affect our financial condition and results of operations.

Regulatory Environment

Our business and results of operations have been, and we expect them to continue to be, significantly affected by changes in the policies, laws and regulations relating to the PRC banking industry, including the scope of business and activities that we can engage in or for which we can charge fees. We are primarily regulated by the CBRC and the PBOC. However, we are also subject to supervision and regulation by other regulatory authorities such as the SAFE, the MOF, the CSRC and the CIRC. The CBRC is responsible for supervising and regulating banks and the PBOC is responsible for formulating and implementing monetary policies. The guidelines for the banking industry on impairment coverage ratios promulgated by the CBRC also affect the amount of provisions we make on financial assets. The CBRC imposed requirements on banks in relation to enhancement of information disclosure, improvement of corporate governance and assets securitisation. In addition, the CBRC has promulgated guidelines on enhancement of risk management, capital adequacy levels and supervision over internal controls. The PBOC sets statutory deposit reserve ratios, extends loans to commercial banks, accepts discounted bills and conducts open market transactions, all of which affect liquidity and market interest rates. See “Supervision and Regulation”.

Our results of operations are also subject to changes in tax laws and regulations since these changes can affect our deferred tax assets and liabilities and our income tax expenses. In addition, the CBRC, the CSRC and the CIRC also require special licences to be obtained for certain banking services. The CBRC and the CSRC may impose licence requirements in the future on existing or new financial services, which may affect our business and results of operations.

Competitive Landscape in the Banking Industry in the PRC

Under current macroeconomic conditions, the PRC banking industry is becoming increasingly competitive. In particular, new policies introduced by the PRC government in recent years have further intensified the competition relating to certain financial products in the PRC banking industry. See “Industry Overview – Current Competitive Landscape of the PRC Banking Industry and our Advantages”. Competition faced by us in terms of our business areas primarily comes from Large Commercial Banks, Nationwide Joint-stock Commercial Banks and other city commercial banks that have a presence in Heilongjiang Province and other regions where we have business operations. We also compete with foreign-owned banks that operate in Heilongjiang Province and other regions where we have business operations. We compete primarily on the basis of types and prices of products and services, service quality, brand recognition and distribution channels. In addition, we face increasing competition from non-banking financial institutions (such as funds management companies, microcredit companies and insurance companies) in the provision of financial services. As the financial market reform progresses in the PRC, we expect that competition in the PRC banking industry may further intensify, which in turn will affect our results of operations.

SUMMARY OF KEY FINANCIAL AND OPERATING INDICATORS OF OUR BANK

The following table sets forth a summary of key financial and operating indicators for the periods and as of the dates indicated. See "Summary – Summary Financial and Operating Information" for certain key financial and operating indicators as of and for the year ended 31 December 2013.

	For the year ended 31 December			For the nine months ended 30 September
	2010	2011	2012	2013
Profitability indicators				
Return on average total assets[(1)(3)]	1.17%	1.12%	1.20%	1.19%
Return on average equity[(2)(3)]	27.64%	22.57%	20.35%	17.67%
Net interest spread[(3)(4)]	3.38%	3.27%	3.06%	2.49%
Net interest margin[(3)(5)]	3.34%	3.29%	3.09%	2.55%
Net fee and commission income to operating income ratio	3.58%	7.61%	8.80%	14.71%
Cost-to-income ratio[(6)]	39.11%	33.80%	34.51%	34.23%

	As of 31 December			As of 30 September
	2010	2011	2012	2013
Capital adequacy indicators[(7)]				
Core capital adequacy ratio	9.04%	11.37%	11.94%	12.04%
Capital adequacy ratio	11.75%	12.61%	12.97%	13.04%
Assets quality indicators				
Non-performing loans ratio[(8)]	0.79%	0.62%	0.64%	0.86%
Impairment coverage ratio[(9)]	192.60%	347.16%	353.52%	263.01%
Impairment losses on loans[(10)]	1.53%	2.14%	2.25%	2.26%
Other indicators				
Loan-to-deposit ratio	47.86%	46.92%	46.75%	54.94%

Notes:

(1) Represents the net profit for a period as a percentage of the average balance of total assets at the beginning and the end of that period.

(2) Represents the net profit attributable to our equity shareholders for a period as a percentage of the average balance of total equity attributable to equity holders of the parent company at the beginning and at the end of that period.

(3) Calculated with the annualised benchmark.

(4) Calculated as the difference between the average yield on total interest-earning assets and the average cost on total interest-bearing liabilities, calculated based on the daily average of the interest-earning assets and interest-bearing liabilities.

(5) Calculated by dividing net interest income by average interest-earning assets, calculated based on the daily average of the interest-earning assets.

(6) Calculated with the operating cost after the business tax and surcharges and divided by the operating income.

(7) Calculated pursuant to the Capital Adequacy Measures and other relevant regulations in the PRC and in accordance with the PRC GAAP. Core capital adequacy ratio = (core capital – core capital deductions) / (risk-weighted assets + 12.5 x capital charge for market risk); capital adequacy ratio = (capital – capital deductions) / (risk-weighted assets + 12.5 x capital charge for market risk). Since 2013, we have calculated and disclosed the capital adequacy ratio in accordance with the New Capital Adequacy Measures. Core tier 1 capital adequacy rate = (core tier 1 capital – corresponding capital deductions) / risk-weighted assets; tier 1 capital adequacy rate = (tier 1 capital – corresponding capital deductions) / risk-weighted assets; capital adequacy ratio = (total capital – corresponding capital deductions) / risk-weighted assets. According to the New Capital Adequacy Measures, our core tier 1 capital adequacy ratio, tier 1 capital adequacy ratio and capital adequacy ratio were 11.65%, 11.65% and 13.24%, respectively, as of 30 September 2013.

(8) Calculated with the total non-performing loans divided by the total loan to customers.

(9) Calculated with the allowance for impairment loss divided by the total non-performing loans.

(10) Calculated with the allowance for impairment loss on loan divided by the total loan to customers.

Discussion of the Net Interest Spread and Net Interest Margin of Our Bank

As of 31 December, 2010, 2011 and 2012 and 30 September 2013, our net interest spread was 3.38%, 3.27%, 3.06% and 2.49%, respectively, and our net interest margin was 3.34%, 3.29%, 3.09% and 2.55%, respectively.

Our net interest spread decreased during the Track Record Period mainly due to deregulation of interest rates and increasing competition in the PRC banking industry. From 2010 to 2011, the interest rates for deposits and loans of commercial banks were not permitted to exceed the floating range as determined by the PBOC. As a result, commercial banks generally achieved a stable interest spread. With the exception of commercial residential housing loans, the lower limit of the floating range of interest rates for RMB-denominated loans was adjusted to 80% of the benchmark rate from 8 June 2012 and further decreased to 70% of the benchmark rate from 6 July 2012. Banks have been permitted to determine their own interest rate for loans without restrictions since 20 July 2013. In addition, the upper limit of floating rates of interest for deposits was adjusted to 110% of the benchmark rate from June 2012. As interest rate policy has become more market-oriented, the price competition in the banking industry has become increasingly intense and the total returns on loans have decreased while the interest expenses of banks have increased. This has resulted in a decrease in our net interest margin. The significant decrease in net interest spread and net interest margin for the nine months ended 30 September 2013 was due to the asymmetrical reduction of interest rates in 2012. In the second half of 2012, the PBOC reduced the benchmark rate for loans and deposits twice. However, the decrease in the benchmark rate of deposits was less than that of loans.

The decrease in net interest spread and net interest margin also resulted from our assets and liabilities structure. In our composition of assets, loans and advances to customers accounted for the largest proportion. For the years ended 31 December 2010, 2011 and 2012 and the nine months ended 30 September 2013, our average interest margin of loans was 6.37%, 7.63%, 8.00% and 7.48%, respectively. However, as a result of the effects of adjustments and control of the total amount of our loans, we limited additional loans and the proportion of our average balance of loans to our average balance of total interest-earning assets has been decreasing. For the years ended 31 December 2010, 2011 and 2012 and the nine months ended 30 September 2013, the average balance of loans accounted for 55.36%, 42.02%, 37.95% and 37.78%, respectively, of the average balance of total interest-earning assets. By contrast, the proportion of due from banks and other financial institutions with lower average margins has been increasing. In our liabilities structure, as the interest rate policy has become more market-oriented, the wealth-management market in the PRC has grown rapidly and the competition in the deposit business has become increasingly intense. The proportion of average balance of deposits with lower cost to the total interest-bearing liabilities has been decreasing. For the years ended 31 December 2010, 2011 and 2012 and the nine months ended 30 September 2013, the average balance of deposits accounted for 94.24%, 78.76%, 69.33% and 72.71%, respectively, of the total interest-bearing liabilities. By contrast, the proportion of due to banks and other financial institutions with higher cost has been increasing. In addition, in order to improve the maturity profile of deposits and enhance the stability of deposits, we increased the proportion of time deposits (which incur higher costs for our Bank) to total deposits, resulting in a further increase in the interest expenses on deposits.

RESULTS OF OPERATIONS

The following table sets forth, for the periods indicated, our consolidated results of operations. See "Summary – Summary Financial and Operating Information" for our unaudited consolidated results of operations for the year ended 31 December 2013.

	For the year ended 31 December			For the nine months ended 30 September	
	2010	2011	2012	2012	2013
				(unaudited)	
	(in millions of RMB)				
Interest income	4,028.3	8,216.8	12,993.2	9,389.1	10,326.8
Interest expense	(1,072.4)	(3,398.7)	(6,334.8)	(4,631.6)	(5,402.5)
NET INTEREST INCOME	2,955.9	4,818.1	6,658.4	4,757.5	4,924.3
Fee and commission income	170.0	503.2	811.4	564.1	950.3
Fee and commission expense	(53.8)	(91.4)	(132.7)	(93.0)	(79.1)
NET FEE AND COMMISSION INCOME	116.2	411.8	678.7	471.1	871.2
Net trading income	124.6	282.1	356.6	280.5	150.1
Net gain/(loss) on financial investments	0.7	(128.8)	(87.4)	(73.4)	(34.2)
Other operating income, net	48.0	30.8	105.0	43.3	12.2
OPERATING INCOME	3,245.4	5,414.0	7,711.3	5,479.0	5,923.6
Operating expenses	(1,401.5)	(2,082.8)	(3,025.5)	(1,991.4)	(2,388.6)
Impairment losses on:					
Loans and advances to customers	(238.7)	(876.0)	(837.2)	(809.7)	(422.1)
Others	11.7	52.2	1.0	–	–
OPERATING PROFIT	1,616.9	2,507.4	3,849.6	2,677.9	3,112.9
Share of profits of an associate	–	–	9.4	8.0	7.1
PROFIT BEFORE TAX	1,616.9	2,507.4	3,859.0	2,685.9	3,120.0
Income tax expense	(389.7)	(651.0)	(987.5)	(664.8)	(748.7)
PROFIT FOR THE YEAR/PERIOD	1,227.2	1,856.4	2,871.5	2,021.1	2,371.3

Our net profit increased by 17.3% from RMB2,021.1 million for the nine months ended 30 September 2012 to RMB2,371.3 million for the nine months ended 30 September 2013. Our net profit increased by 51.3% from RMB1,227.2 million in 2010 to RMB1,856.4 million in 2011, and further increased by 54.7% to RMB2,871.5 million in 2012. The increase in our net profit was primarily due to an increase in net interest income and net fee and commission income.

Nine Months Ended 30 September 2012 Compared to Nine Months Ended 30 September 2013

Net Interest Income

Net interest income has historically been and remains the largest component of our total operating income, representing 86.8% and 83.1% of our total operating income for the nine months ended 30 September 2012 and 2013, respectively.

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

	For the nine months ended 30 September	
	2012	2013
	(unaudited)	
	(in millions of RMB)	
Interest income	9,389.1	10,326.8
Interest expense	(4,631.6)	(5,402.5)
Net interest income	4,757.5	4,924.3

For the nine months ended 30 September 2013, our net interest income amounted to RMB4,924.3 million, representing an increase of 3.5% compared to RMB4,757.5 million for the nine months ended 30 September 2012.

The following tables set forth, for the periods indicated, the average balance of our interest-earning assets and interest-bearing liabilities, interest income from these assets and liabilities, and the average yield of these interest-earning assets and the average cost of these interest-bearing liabilities.

	For the nine months ended 30 September					
	2012			2013		
	Average balance(6)	Interest income	Average yield(7)	Average balance(6)	Interest income	Average yield(7)
	(unaudited)					
	(in millions of RMB, except percentage)					
Interest-earning Assets						
Loans and advances to customers	77,185.9	4,589.5	7.93%	97,429.3	5,465.5	7.48%
Investments in debt securities(1)	40,196.0	1,916.6	6.36%	34,536.2	1,542.3	5.95%
Cash and balances with central bank	31,315.9	347.5	1.48%	41,052.8	447.5	1.45%
Due from banks and other financial institutions(2)	57,224.0	2,535.5	5.91%	84,840.5	2,871.5	4.51%
Total interest-earning assets	205,921.8	9,389.1	6.08%	257,858.8	10,326.8	5.34%

	For the nine months ended 30 September					
	2012			2013		
	Average balance(6)	Interest expense	Average cost(7)	Average balance(6)	Interest expense	Average cost(7)
	(unaudited)					
	(in millions of RMB, except percentage)					
Interest-bearing Liabilities						
Due to customers	139,629.8	2,085.1	1.99%	183,645.8	3,019.5	2.19%
Due to banks and other financial institutions(3)	60,314.2	2,451.1	5.42%	64,497.6	2,237.7	4.63%
Debt securities issued	2,432.0	87.6	4.80%	3,956.7	130.3	4.39%
Due to central bank	200.6	7.8	5.16%	469.3	15.0	4.25%
Total interest-bearing liabilities	202,576.6	4,631.6	3.05%	252,569.4	5,402.5	2.85%
Net interest income		4,757.5			4,924.3	
Net interest spread(4)			3.03%			2.49%
Net interest margin(5)			3.08%			2.55%

Notes:

(1) Include available-for-sale financial assets, held-to-maturity investments and investments in receivables.

(2) Include due from banks and other financial institutions and financial assets held under reverse repurchase agreements.

(3) Include due to banks and other financial institutions and financial assets sold under reverse repurchase agreements.

(4) Net interest spread represents the difference between the average yield on total interest-earning assets and the average cost on total interest-bearing liabilities, calculated based on the daily average of the interest-earning assets and interest-bearing liabilities.

(5) Net interest margin is calculated by dividing annual net interest income per year by the average interest-earning assets, calculated based on the daily average of the interest-earning assets.

(6) Calculated as the average of our daily balances.

(7) Calculated on an annualised basis.

The following table sets forth, for the periods indicated, the changes in our interest income and interest expense attributable to changes in volumes and interest rates. Changes in volumes are measured by changes in the average balances of our interest-earning assets and interest-bearing liabilities and changes in rates are measured by changes in the average rates of our interest-earning assets and interest-bearing liabilities. Effects of changes caused by both volumes and rates have been allocated to changes in interest rate.

	For the nine months ended 30 September		
	2012 vs. 2013		
	Increase/(decrease) due to		Net increase/
	Volume[1]	Interest rate[2]	(decrease)[3]
	(unaudited) (in millions of RMB)		
Interest-earning Assets			
Loans and advances to customers	1,203.8	(327.8)	876.0
Debt securities investments	(269.9)	(104.4)	(374.3)
Cash and balances with central bank	108.0	(8.0)	100.0
Due from banks and other financial institutions	1,223.6	(887.6)	336.0
Change in interest income	2,368.1	(1,430.4)	937.7
Interest-bearing Liabilities			
Due to customers	657.3	277.1	934.4
Due to banks and other financial institutions	170.0	(383.4)	(213.4)
Debt securities issued	54.9	(12.2)	42.7
Due to central bank	10.4	(3.2)	7.2
Change in interest expense	1,143.0	(372.2)	770.9

Notes:

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

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

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

Interest Income

Our interest income for the nine months ended 30 September 2013 was RMB10,326.8 million, representing an increase of 10.0% compared to RMB9,389.1 million for the nine months ended 30 September 2012. The increase in our interest income was primarily due to an increase of 25.2% in the average balance of interest-earning assets from RMB205,921.8 million for the nine months ended 30 September 2012 to RMB257,858.8 million for the same period in 2013, which in turn was mainly the result of an increase in our loans and advances to customers. This increase was partially offset by a decrease in the average yield of interest-earning assets from 6.08% for the nine months ended 30 September 2012 to 5.34% for the same period in 2013 primarily attributable to decreases in the average yields of our loans and advances to customers, investments in debt securities, cash and balances with central bank and due from banks and other financial institutions.

Interest Income from Loans and Advances to Customers

Interest income from loans and advances to customers has been historically the largest component of our interest income, representing 48.9% and 52.9% of our total interest income for nine months ended 30 September 2012 and 2013, respectively. Our interest income from loans and advances to customers for the nine months ended 30 September 2013 was RMB5,465.5 million, representing an increase of 19.1% from RMB4,589.5 million for the corresponding period in 2012. The increase was primarily due to an increase of 26.2% in the average balance of loans and advances to customers for the nine months ended 30 September 2013 compared to the corresponding period in 2012 as a result of an increase in our corporate loans and personal loans. The effect of the increase in the average balance was partially offset by a decrease in the average yield of loans and advances to customers from 7.93% for the nine months ended 30 September 2012 to 7.48% for the same period in 2013.

The following table sets forth, for the periods indicated, the average balance, interest income and average yield for each component of our loans and advances to customers.

	For the nine months ended 30 September					
	2012			2013		
	Average balance[(1)]	Interest income	Average yield[(2)]	Average balance[(1)]	Interest income	Average yield[(2)]
	(unaudited)					
	(in millions of RMB, except percentages)					
Corporate loans	36,949.6	2,152.2	7.77%	54,424.4	2,925.8	7.17%
Personal loans	30,956.9	2,004.2	8.63%	37,514.1	2,257.2	8.02%
Discounted bills	9,279.4	433.1	6.22%	5,490.8	282.5	6.86%
Total loans and advances to customers	77,185.9	4,589.5	7.93%	97,429.3	5,465.5	7.48%

Notes:

(1) Calculated as the average of our daily balances.

(2) Calculated on an annualised basis.

Interest Income from Corporate Loans

Interest income from corporate loans for the nine months ended 30 September 2013 was RMB2,925.8 million, representing an increase of 35.9% compared to RMB2,152.2 million for the corresponding period in 2012. This increase was primarily due to an increase of 47.3% in the average balance of our corporate loans to RMB54,424.4 million for the nine months ended 30 September 2013 from RMB36,949.6 million for the nine months ended 30 September 2012 as a result of the growth of our corporate loan business, particularly loans to Small Enterprises. The effect of the increase in the average balance of corporate loans was partially offset by a decrease in the average yield of corporate loans from 7.77% for the nine months ended 30 September 2012 to 7.17% for the corresponding period in 2013. The decrease in the average yield of corporate loans was primarily due to a decrease in the benchmark interest rate of RMB-denominated loans in June and July 2012 and elimination by the PBOC of the lower limit of the floating range of lending interest rate in July 2013 as a result of its initiative to relax the restrictions on interest rates in the PRC banking industry. We lowered our interest rates in part due to increasing industry competition resulting from the PBOC's relaxation of restrictions on interest rates.

Interest Income from Personal Loans

Interest income from personal loans for nine months ended 30 September 2013 was RMB2,257.2 million, representing an increase of 12.6% compared to RMB2,004.2 million for the corresponding period in 2012. This increase was primarily due to an increase of 21.2% in the average balance of personal loans from RMB30,956.9 million for the nine months ended 30 September 2012 to RMB37,514.1 million for the same period in 2013. The effect of this increase was partially offset by a decrease in the average yield of personal loans from 8.63% for the nine months ended 30 September 2012 to 8.02% for the corresponding period in 2013. The decrease in the average yield of personal loans was primarily due to a decrease in the benchmark interest rate of RMB-denominated loans in June and July 2012 and elimination by the PBOC of the lower limit of the floating range of lending interest rates in July 2013.

Interest income from discounted bills for the nine months ended 30 September 2013 was RMB282.5 million, representing a decrease of 34.8% compared to RMB433.1 million for the corresponding period in 2012, primarily due to a decrease in the average balance of discounted bills. The decrease was partially offset by an increase in the average yield of discounted bills. The average balance of discounted bills decreased by 40.8% from RMB9,279.4 million for the nine months ended 30 September 2012 to RMB5,490.9 million for the nine months ended 30 September 2013. The average yield of discounted bills increased from 6.22% for the nine months ended 30 September 2012 to 6.86% for the nine months ended 30 September 2013, mainly as a result of tightening market liquidity in 2013.

Interest Income from Debt Securities Investments

Interest income from debt securities investments (which comprise available-for-sale financial assets, held-to-maturity investments and investments in receivables) represented 20.4% and 14.9% of our interest income for the nine months ended 30 September 2012 and 2013, respectively. Interest income from debt securities investments for the nine months ended 30 September 2013 was RMB1,542.3 million, representing a decrease of 19.5% compared to RMB1,916.6 million for the corresponding period in 2012, primarily due to a decrease in the average balance and average yield of the investments generating such interest income. The average balance for the nine months ended 30 September 2013 was RMB34,536.2 million, representing a decrease of 14.1% as compared to RMB40,196.0 million for the corresponding period in 2012. The average yield decreased to 5.95% for the nine months ended 30 September 2013 from 6.36% for the corresponding period in 2012, primarily due to a decrease in the average balance of investments in receivables which had higher yields than other debt securities investments.

Interest Income from Cash and Balances with Central Bank

Interest income from cash and balances with central bank for the nine months ended 30 September 2013 was RMB447.5 million, representing an increase of 28.8% as compared to RMB347.5 million for the corresponding period in 2012, primarily due to an increase in the average balance of the relevant assets. The average balance of cash and balances with central bank for the nine months ended 30 September 2013 was RMB41,052.8 million, representing an increase of 31.1% compared to RMB31,315.9 million for the corresponding period in 2012. The increase was primarily due to an increase in our deposits with the central bank, which increased along with the growth in our deposits from customers.

Interest Income from Due from Banks and Other Financial Institutions

Due from banks and other financial institutions consist of due from banks and other financial institutions, and financial assets held under reverse repurchase agreements. Interest income from due from banks and other financial institutions for the nine months ended 30 September 2013 was RMB2,871.5 million, representing an increase of 13.3% compared to RMB2,535.5 million for corresponding period in 2012. This increase was primarily attributable to an increase in the average balance of the underlying assets. The average balance of the underlying assets for nine months ended 30 September 2013 was RMB84,840.5 million, representing an increase of 48.3% compared to RMB57,224.0 million for the corresponding period in 2012. This was primarily because we increased due from banks and other financial institutions. The average yield decreased from 5.91% for the nine months ended 30 September 2012 to 4.51% for the nine months ended 30 September 2013, mainly attributable to our decision to prioritise liquidity and to reduce the proportion of due from banks and other financial institutions during a tight market when such assets generally have relatively higher yields.

Interest Expense

Our interest expense for the nine months ended 30 September 2013 was RMB5,402.4 million, representing an increase of 16.6% compared to RMB4,631.6 million for the corresponding period in 2012. The increase was primarily due to an increase of 24.7% in the average balance of the interest-bearing liabilities from RMB202,576.6 million for the nine months ended 30 September 2012 to RMB252,569.4 million for the corresponding period in 2013, partially offset by a decrease in the average cost of interest-bearing liabilities from 3.05% to 2.85% during the same period. The decrease in average cost of interest-bearing liabilities was primarily due to a decrease in the average costs of due to and placements from banks and other financial institutions and debt securities in issue, which was partially offset by an increase in average cost of our deposits from customers.

Interest Expense on Due to Customers

Due to customers have historically been one of our primary sources of funds. Interest expense on due to customers represented 45.0% and 55.9% of our total interest expense for the nine months ended 30 September 2012 and 2013, respectively.

Our due to customers are classified into corporate deposits and personal deposits. The following table sets forth, for the periods indicated, the average balance, interest expense and average cost of corporate and personal deposits.

	For the nine months ended 30 September					
	2012			2013		
	Average balance[(1)]	Interest expense	Average cost[(2)]	Average balance[(1)]	Interest expense	Average cost[(2)]
	(unaudited)					
	(in millions of RMB, except percentages)					
Corporate deposits						
Demand	56,318.0	324.6	0.77%	60,256.1	291.7	0.65%
Time	46,345.8	1,117.4	3.21%	71,488.3	1,826.7	3.41%
Subtotal	102,663.8	1,442.0	1.87%	131,744.4	2,118.4	2.14%
Personal deposits						
Demand	16,774.0	56.9	0.45%	22,658.3	66.2	0.39%
Time	20,192.0	586.3	3.87%	29,243.1	834.8	3.81%
Subtotal	36,966.0	643.2	2.32%	51,901.4	901.0	2.31%
Total deposits from customers	139,629.8	2,085.1	1.99%	183,645.8	3,019.4	2.19%

Notes:

(1) Calculated as the average of our daily balances.

(2) Calculated on an annualised basis.

Interest expense on due to customers for the nine months ended 30 September 2013 was RMB3,019.4 million, representing an increase of 44.8% compared to RMB2,085.1 million for the corresponding period in 2012. The increase was primarily due to an increase in the average cost of our due to customers to 2.19% for the nine months ended 30 September 2013 from 1.99% for the corresponding period in 2012, and an increase of 31.5% in the average balance of our due to customers to RMB183,645.8 million for the nine months ended 30 September 2013 from RMB139,629.8 million for the corresponding period in 2012. The increase in average cost was primarily attributable to an increase in the interest rates of our due to customers as the PBOC increased the upper limit of the floating range of Renminbi-denominated deposit interest rates to 110% of the benchmark interest rate in 2012. In addition, we increased the proportion of time deposits with longer terms that carried higher interest rates in order to improve the stability of our deposits portfolio. See "Assets and Liabilities – Liabilities and Sources of Funds – Due to Customers".

Interest Expense on Due to Banks and Other Financial Institutions

Due to banks and other financial institutions consist of due to banks and other financial institutions, and financial assets sold under repurchase agreements. Our interest expense on due to banks and other financial institutions for the nine months ended 30 September 2013 was RMB2,237.7 million, representing a decrease of 8.7% compared to RMB2,451.1 million for the corresponding period in 2012. This decrease was primarily due to a decrease in the average cost of the underlying liabilities, partially offset by an increase in their average balance. For the nine months ended 30 September 2013, the average cost of the relevant liabilities decreased to 4.63% from 5.42% for the corresponding period in 2012, which mainly reflected our strengthened management of amounts from banks according to market conditions by reducing the proportion of amounts from banks when market liquidity was tight and absorbing amounts from banks when market liquidity was loose. The average balance for the nine months ended 30 September 2013 was RMB64,497.6 million, representing an increase of 6.9% as compared to an average balance of RMB60,314.2 million for the corresponding period in 2012. The increase was mainly because we actively absorbed more amounts from banks when liquidity was loose in view of market conditions.

Interest Expense on Debt Securities Issued

Interest expense on debt securities issued increased from RMB87.6 million for the nine months ended 30 September 2012 to RMB130.3 million for the nine months ended 30 September 2013. The increase in interest expenses was mainly due to an issuance of RMB2,500 million aggregate principal amount of financial bonds by us to provide stable mid- and long-term funding to support our business. See "– Indebtedness".

Interest Expense on Due to Central Bank

Our interest expense on due to central bank for the nine months ended 30 September 2013 was RMB15.0 million, representing an increase of 92.3% as compared to RMB7.8 million for the corresponding period in 2012. This was mainly attributable to the changes in the volume and cost of our rediscounted business.

Net Interest Spread and Net Interest Margin

Our annualised net interest spread decreased from 3.03% for the nine months ended 30 September 2012 to 2.49% for the nine months ended 30 September 2013 and our annualised net interest margin decreased from 3.08% for the nine months ended 30 September 2012 to 2.55% for the nine months ended

30 September 2013. For a discussion of the decrease in our net interest spread and net interest margin, see "– Summary of Key Financial and Operating Indicators of our Bank – Discussion of the Net Interest Spread and Net Interest Margin of Our Bank".

Fee and Commission Income

Fee and commission income primarily comprises fee and commission income arising from the provisions of our advisory and consultancy, settlement service and agency, custodian services and bank card related services. Our fee and commission income increased by 68.5% from RMB564.1 million in the nine months ended 30 September 2012 to RMB950.3 million in the nine months ended 30 September 2013.

The following table sets forth, for the periods indicated, the principal components of our net fee and commission income.

	For the nine months ended 30 September	
	2012	2013
	(Unaudited)	
	(in millions of RMB)	
Advisory and consultancy fee	101.1	316.4
Settlement fee	68.3	62.8
Agency and custodian service fee	295.7	438.8
Of which: non-principal protected wealth management agency fee	79.5	204.5
Bank card fee	31.6	95.7
Others	67.4	36.6
Fee and commission income	564.1	950.3
Fee and commission expense	(93.0)	(79.1)
Net fee and commission income	471.1	871.2

Advisory and Consultancy Fee

Advisory and consultancy fee income mainly includes advisory service income and consultancy service income. Our advisory and consultancy fee income increased significantly by 213.0% from RMB101.1 million for the nine months ended 30 September 2012 to RMB316.4 million for the nine months ended 30 September 2013. This increase was primarily due to the expansion of our advisory and consultancy business, resulting in an increase in the number of customers and business volumes.

Settlement Fee

Settlement fee income consists primarily of the fees generated from settlement of bank drafts, commercial bills, bank cashier's orders and cheques, remittances and other settlement businesses. Settlement fee income decreased by 8.1% to RMB62.8 million in the nine months ended 30 September 2013 from RMB68.3 million for the nine months ended 30 September 2012.

Agency and Custodian Fee

Agency and custodian fee income consists primarily of income from trust fund custody business, income from wealth management business as well as fee income from underwriting of bonds and from the sale of insurances and funds for other financial institutions as their agent. Fee income from our agency and custodian services increased by 48.4% from RMB295.7 million for the nine months ended 30 September 2012 to RMB438.8 million for the nine months ended 30 September 2013, mainly as a result of the development of our trust fund custody business and wealth management business.

Bank Card Fee

Bank card fee income consists primarily of various fees associated with our debit and credit cards, and the commission income from merchants. Bank card fee income increased by 202.8% from RMB31.6 million for the nine months ended 30 September 2012 to RMB95.7 million for the nine months ended 30 September 2013. The increase in our bank card fee was mainly attributable to an increase in the issuance and transaction volume of our bank cards in the nine months ended 30 September 2013, which benefited from the development and marketing of our bank card business.

Others

Other fees and commissions consist primarily of fees from foreign exchange services and guarantee services. Other fees and commissions decreased by 45.7% from RMB67.4 million for the nine months ended 30 September 2012 to RMB36.6 million for the nine months ended 30 September 2013, primarily relating to our foreign exchange services.

Fee and Commission Expense

Fee and commission expense consist primarily of the expenses paid to third parties in connection with the provision of our advisory and consultancy, agency and custodian, wealth management and bank card businesses. Our fee and commission expense decreased by 14.9% from RMB93.0 million for the nine months ended 30 September 2012 to RMB79.1 million for the nine months ended 30 September 2013, mainly because we streamlined the process of the relevant businesses to decrease our agency fees and other related expenses.

Net Fee and Commission Income

Net fee and commission income represented 8.6% and 14.7% of our total operating income for the nine months ended 30 September 2012 and 2013, respectively. Our net fee and commission income increased by 84.9% from RMB471.1 million for the nine months ended 30 September 2012 to RMB871.2 million for the nine months ended 30 September 2013. The increase was mainly attributable to the development of our advisory and consultancy business, agency and custodian business, and bank card business.

Net Trading Income

Our net trading income consists primarily of gains and losses from trading of financial assets held for trading, interest income and gains or losses from changes in fair value. Net trading income decreased by 46.5% from RMB280.5 million for the nine months ended 30 September 2012 to RMB150.1 million for the nine months ended 30 September 2013, primarily due to decreases in the fair value of bonds held by us.

Net Gain or Loss on Financial Investments

We had net losses on financial investments of RMB34.2 million for the nine months ended 30 September 2013, representing a 53.4% decrease compared to net losses of RMB73.4 million for the same period in 2012. The decrease in our net loss on financial investment was due to fluctuations of the bond market and a decrease of bond trading volumes.

Other Operating Income, Net

Other net operating income mainly includes government subsidy, rental income, net gains on disposal of property and equipment, net gain on disposal of pledged assets and foreign exchange gains/losses. Our other net operating income decreased by 71.8% from RMB43.3 million for the nine months ended 30 September 2012 to RMB12.2 million for the nine months ended 30 September 2013, primarily because we recorded a foreign exchange gain of RMB10.1 million during the nine months ended 30 September 2012 compared to a foreign exchange loss of RMB3.5 million for the nine months ended 30 September 2013.

Operating Expenses

The following table sets forth, for the periods indicated, the principal components of our operating expenses.

	For the nine months ended 30 September	
	2012	2013
	(unaudited)	
	(in millions of RMB)	
Staff costs	898.4	1,060.3
Business tax and surcharges	256.7	360.9
Depreciation and amortisation	151.3	213.6
Others(1)	685.0	753.8
Total operating expenses	1,991.4	2,388.6

Note:

(1) Consist primarily of auditor's remunerations, operational expenses, leasing fees, operating costs of electronic equipment and security expenses.

Our operating expenses increased by 19.9% from RMB1,991.4 million for the nine months ended 30 September 2012 to RMB2,388.6 million for the nine months ended 30 September 2013. The increase in our operating expenses in the nine months ended 30 September 2013 was mainly due to an increase in our staff costs and business tax and surcharges as a result of the growth of our business. For the nine months ended 30 September 2012 and 2013, the proportion of our operating expenses to total operating income was 36.3% and 40.3%, respectively.

Staff Costs

Staff costs are the largest component of our operating expenses, representing 45.1% and 44.4% of our total operating expenses for the nine months ended 30 September 2012 and 2013, respectively.

The following table sets forth, for the periods indicated, the principal components of our staff costs.

	For the nine months ended 30 September	
	2012	2013
	(unaudited)	
	(in millions of RMB)	
Salaries, bonuses and allowances	728.5	861.7
Other benefits[(1)]	169.9	198.6
Total staff costs	898.4	1060.3

Note:

(1) Consist primarily of social insurance premiums, housing funds, staff benefits, union fee and staff education expenses and early retirement benefits.

Staff costs increased by 18.0% from RMB898.4 million for the nine months ended 30 September 2012 to RMB1,060.3 million for the nine months ended 30 September 2013 primarily due to the expansion of our business network.

Business Tax and Surcharges

Business tax and surcharges increased by 40.6% from RMB256.7 million for the nine months ended 30 September 2012 to RMB360.9 million for the nine months ended 30 September 2013 primarily due to the growth in interest income and fee and commission income.

Depreciation and Amortisation

Depreciation and amortisation, which primarily consist of incremental depreciation of our fixed assets and amortisation of land use rights, software and other intangible assets, increased by 41.2% from RMB151.3 million for the nine months ended 30 September 2012 to RMB213.6 million for the nine months ended 30 September 2013. The increase in depreciation and amortisation was primarily due to an increase in the capital expenditures related to our business premises, which resulted from the expansion of our distribution network.

Other Expenses

The following table sets forth, for the periods indicated, the principal components of our other expenses.

	For the nine months ended 30 September	
	2012	2013
	(unaudited)	
	(in millions of RMB)	
General and administrative expenses	386.6	371.1
Leasing fees	126.8	153.4
Auditor's remunerations	3.1	8.2
Operating costs of electronic equipment	45.6	56.9
Security expenses	25.5	29.3
Taxes	19.1	18.4
Insurance premiums	2.8	1.9
Donations and sponsorship fees	0.2	0.5
Others	75.3	114.1
Total other expenses	685.0	753.8

General and administrative expenses accounted for a significant portion of other expenses. For the nine months ended 30 September 2013, our general and administrative expenses were RMB371.1 million, and were relatively constant compared to general and administrative expenses of RMB386.6 million for the nine months ended 30 September 2012.

Impairment Losses

Impairment losses consist primarily of impairment losses on loans and advances to customers. The following table sets forth, for the periods indicated, the principal components of our impairment losses on assets:

	For the nine months ended 30 September	
	2012	2013
	(unaudited)	
	(in millions of RMB)	
Loans and advances to customers	809.7	422.1
Others[(1)]	–	–
Total impairment losses	809.7	422.1

Note:

(1) Consist primarily of the due from banks and other financial institutions, and the allowance for / (reversal of allowance for) impairment losses on other assets.

Our impairment losses on assets mainly include impairment losses on loans and advances to customers. Our impairment losses on loans and advances to customers decreased by 47.9% from RMB809.7 million for the nine months ended 30 September 2012 to RMB422.1 million for the nine months ended 30 September 2013. Based on the actual amount of loans to customers and requirements of regulatory authorities on dynamic adjustment of provisions for losses on loans and advances to customers, we wrote off non-performing loans of RMB342.7 million in 2012, including RMB174.7 million for the nine months ended 30 September 2012, compared to a write-off of non-performing loans of RMB0.45 million for the nine months ended 30 September 2013. As a result of controlling our lending scale, the total amount of our loans to customers increased for the nine months ended 30 September 2013 by RMB17,746.1 million compared to 31 December 2012, while our total loans to customers increased by RMB23,816.6 million during the same period in 2012, representing a difference of RMB6,070.5 million between the two periods. As a result, the collectively assessed impairment allowances to be made for loans to customers decreased accordingly.

For the nine months ended 30 September 2012 and 2013, other reversals of impairment losses were nil.

Profit Before Tax

As a result of the foregoing, our profit before tax increased by 16.2% from RMB2,685.9 million for the nine months ended 30 September 2012 to RMB3,120.0 million for the nine months ended 30 September 2013.

Income Tax Expense

We were subject to the statutory income tax of 25% during the Track Record Period. For the nine months ended 30 September 2012 and 2013, our profit before tax, and the reconciliation between income tax expenses calculated based on the PRC statutory tax rate and actual income tax expenses were as follows:

	For the nine months ended 30 September	
	2012	2013
	(unaudited)	
	(in millions of RMB)	
Profit before tax	2,685.9	3,120.0
Income tax calculated at the PRC statutory tax rate	671.5	780.0
Non-deductible expenses[(1)]	21.4	8.0
Non-taxable income[(2)]	(26.2)	(37.5)
Settled and recovered amounts for the years	0.1	(0.0)
Share of profit and loss of associates	(2.0)	(1.8)
Total income tax expense	664.8	748.7

Notes:

(1) Represent the non-deductible losses from write-offs.

(2) Consists primarily of income from the PRC treasury bonds, which are exempted from income tax under the PRC tax regulations.

Our income tax expenses increased by 12.6% from RMB664.8 million for the nine months ended 30 September 2012 to RMB748.7 million for the nine months ended 30 September 2013, which was generally in line with the growth of our profit before tax. Our effective tax rates for the nine months ended 30 September 2012 and 2013 were 24.8% and 24.0%, respectively.

Profit for the Period

As a result of the foregoing factors, our net profit increased by 17.3% from RMB2,021.1 million for the nine months ended 30 September 2012 to RMB2,371.3 million for the nine months ended 30 September 2013.

Years Ended 31 December 2010, 2011 and 2012

Net Interest Income

Net interest income represented 91.1%, 89.0% and 86.3% of our total operating income for the years ended 31 December 2010, 2011 and 2012, respectively.

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

	For the year ended 31 December		
	2010	2011	2012
	(in millions of RMB)		
Interest income	4,028.3	8,216.8	12,993.2
Interest expense	(1,072.4)	(3,398.7)	(6,334.8)
Net interest income	2,955.9	4,818.1	6,658.4

For the year ended 31 December 2012, our net interest income amounted to RMB6,658.4 million, representing an increase of 38.2% as compared to net interest income of RMB4,818.1 million for the year ended 31 December 2011.

Net interest income for the year ended 31 December 2011 increased by 63.0% as compared to net interest income of RMB2,955.9 million for the year ended 31 December 2010.

The following tables set forth, for the years indicated, the average balance of our interest-earning assets and interest-bearing liabilities, interest income and expense from these assets and liabilities, and the average yield of these interest-earning assets and the average cost of these interest-earning for liabilities.

	For the year ended 31 December								
	2010			2011			2012		
	Average balance(6)	Interest income	Average yield	Average balance(6)	Interest income	Average yield	Average balance(6)	Interest income	Average yield
	(in millions of RMB, except percentage)								
Interest-earning Assets									
Loans and advances to customers	49,008.5	3,119.8	6.37%	61,502.6	4,691.5	7.63%	81,767.1	6,537.5	8.00%
Debt securities investments(1)	8,512.0	344.8	4.05%	23,578.8	1,202.0	5.10%	41,719.7	2,674.2	6.41%
Cash and balances with central bank	15,120.7	211.8	1.40%	24,367.5	363.0	1.49%	33,070.0	490.2	1.48%
Due from banks and other financial institutions(2)	15,886.2	351.9	2.22%	36,924.2	1,960.3	5.31%	58,894.2	3,291.3	5.59%
Total interest-earning assets	88,527.4	4,028.3	4.55%	146,373.1	8,216.8	5.61%	215,451.0	12,993.2	6.03%

	For the year ended 31 December								
	2010			2011			2012		
	Average balance(6)	Interest expense	Average cost	Average balance(6)	Interest expense	Average cost	Average balance(6)	Interest expense	Average cost
	(in millions of RMB, except percentage)								
Interest-bearing Liabilities									
Due to customers	86,389.0	937.1	1.08%	114,241.9	1,742.8	1.53%	148,032.3	2,967.7	2.00%
Due to banks and other financial institutions(3)	3,726.2	65.6	1.76%	29,658.8	1,593.0	5.37%	62,497.1	3,223.0	5.16%
Debt securities issued	1,013.7	60.0	5.92%	1,011.0	60.0	5.93%	2,571.0	131.2	5.10%
Due to central bank	536.9	9.7	1.81%	142.0	2.9	2.04%	428.1	12.9	3.01%
Total interest-bearing liabilities	91,665.8	1,072.4	1.17%	145,053.7	3,398.7	2.34%	213,528.5	6,334.8	2.97%
Net interest income		2,955.9			4,818.1			6,658.4	
Net interest spread(4)			3.38%			3.27%			3.06%
Net interest margin(5)			3.34%			3.29%			3.09%

Notes:

(1) Include available-for-sale financial assets, held-to-maturity investments and investments in receivables.

(2) Include due from banks and other financial institutions and financial assets held under reverse repurchase agreements.

(3) Include due to banks and other financial institutions and financial assets sold under repurchase agreements.

(4) Net interest spread represents the difference between the average yield on total interest-earning assets and the average cost on total interest-bearing liabilities, calculated based on the daily average of the interest-earning assets and interest-bearing liabilities.

(5) Net interest margin is calculated dividing net interest income by the average interest-earning assets, calculated based on the daily average of the interest-earning assets.

(6) Calculated as the average of our daily balances.

The following table sets forth, for the periods indicated, the allocation of changes in our interest income and interest expense due to changes in volume and interest rate. Changes in volume are measured by changes in the average balances of our interest-earning assets and interest-earning liabilities, and changes in interest rate are measured by changes in the average rates of our interest-earning assets and interest-earning liabilities. Effects of changes caused by both volume and rate have been allocated to changes in interest rate.

	For the year ended 31 December					
	2010 vs. 2011			2011 vs. 2012		
	Increase/ (decrease) due to		Net increase/ (decrease)(3)	Increase/ (decrease) due to		Net increase/ (decrease)(3)
	Volume(1)	Interest rate(2)		Volume(1)	Interest rate(2)	
	(in millions of RMB)					
Interest-earning Assets						
Loans and advances to customers	795.4	776.3	1,571.7	1,545.8	300.2	1,846.0
Debt securities investments	610.3	246.9	857.2	924.8	547.4	1,472.2
Cash and balances with central bank	129.5	21.7	151.2	129.6	(2.4)	127.2
Due from banks and other financial institutions	466.0	1,142.4	1,608.4	1,166.4	164.6	1,331.0
Change in interest income	2,632.2	1,556.3	4,188.5	3,877.8	898.6	4,776.4
Interest-bearing Liabilities						
Due to customers	302.1	503.6	805.7	515.5	709.4	1,224.9
Due to banks and other financial institutions	456.5	1,070.9	1,527.4	1,763.8	(133.8)	1,630.0
Debt securities issued	(0.2)	0.2	0.0	92.6	(21.4)	71.2
Due to central bank	(7.1)	0.3	(6.8)	5.8	4.2	10.0
Change in interest expense	624.6	1,701.7	2,326.3	1,604.4	1,331.7	2,936.1

Notes:

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

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

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

Interest Income

Our interest income for the year ended 31 December 2012 was RMB12,993.2 million, representing an increase of 58.1% compared to RMB8,216.8 million for the year ended 31 December 2011. The increase in our interest increase was primarily due to an increase of 47.2% in the average balance of interest-earning assets from RMB146,373.1 million for the year ended 31 December 2011 to RMB215,451.0 million for the year ended 31 December 2012, and an increase in the average yield of interest-earning assets from 5.61% in 2011 to 6.03% in 2012. These increases were primarily due to increases in the average balances and the average yields of our loans and advances to customers, debt securities investments and due from banks and other financial institutions.

Our interest income increased by 104.0% from RMB4,028.3 million for the year ended 31 December 2010 to RMB8,216.8 million for the year ended 31 December 2011. The increase was primarily due to an increase of 65.3% in the average balance of interest-earning assets from RMB88,527.4 million for the year ended 31 December 2010 to RMB146,373.1 million for the year ended 31 December 2011, and an increase in the average yield of interest-earning assets from 4.55% in 2010 to 5.61% in 2011. These increases were primarily due to increases in the average balance and the average yields of our loans and advances to customers, debt securities investments and due from banks and other financial institutions.

Interest Income from Loans to Customers

Interest income from loans to customers accounted for 77.4%, 57.1% and 50.3% of our total interest income for the years ended 31 December 2010, 2011 and 2012, respectively. The decrease in the proportion of interest income from loans and advances to customers from 2010 to 2012 was primarily due to a larger increase in other interest income (especially the interest income from the due from banks and other financial institutions) relative to the interest income from loans and advances to customers, which resulted from improvement of our income structure and expansion of interest-based business.

The following table sets forth, for the years indicated, the average balance, interest income and average yield for each component of our loans and advances to customers.

	For the year ended 31 December								
	2010			2011			2012		
	Average balance(1)	Interest income	Average yield	Average balance(1)	Interest income	Average yield	Average balance(1)	Interest income	Average yield
	(in millions of RMB, except percentages)								
Corporate loans	19,430.4	1,247.2	6.42%	26,244.8	1,848.7	7.04%	41,246.7	3,086.8	7.48%
Personal loans	21,657.9	1,569.7	7.25%	28,991.4	2,372.8	8.18%	31,650.5	2,830.9	8.94%
Discounted bills	7,920.2	302.9	3.82%	6,266.4	470.0	7.50%	8,869.9	619.8	6.99%
Total loans and advances to customers	49,008.5	3,119.8	6.37%	61,502.6	4,691.5	7.63%	81,767.1	6,537.5	8.00%

Note:

(1) Calculated as the average of our daily balances.

Our interest income from loans and advances to customers for the year ended 31 December 2012 was RMB6,537.5 million, representing an increase of 39.3% compared to RMB4,691.5 million for the year ended 31 December 2011, primarily due to an increase of 32.9% in the average balance of loans to customers from 2011 to 2012 and an increase in average yield of loans and advances to customers from 7.63% in 2011 to 8.00% in 2012. These increases were primarily due to increases in the average balances and average yields of our corporate loans and personal loans.

Our interest income from loans and advances to customers for the year ended 31 December 2011 increased by 50.4% compared to RMB3,119.8 million for the year ended 31 December 2010, primarily due to an increase of 25.5% in the average balance of loans and advances to customers from RMB49,008.5 million for the year ended 31 December 2010 to RMB61,502.6 million, and an increase in average yield of loans and advances to customers from 6.37% in 2010 to 7.63% in 2011. These increases were primarily due to increases in the average balances and average yields of our corporate loans, personal loans and discounted bills.

Interest income from corporate loans

Interest income from corporate loans for the year ended 31 December 2012 was RMB3,086.8 million, representing an increase of 67.0% compared to RMB1,848.7 million for the year ended 31 December 2011, primarily due to an increase of 57.2% in the average balance of our corporate loans to RMB41,246.7 million in 2012 from RMB26,244.8 million in 2011, and an increase in the average yield of corporate loans from 7.04% in 2011 to 7.48% in 2012. The growth in our average balance of corporate loans principally resulted from an increase in our loans to corporate customers. In particular, we increased loans to SMEs, following the national policy on promoting the development of SMEs. The increase in the average yield of corporate loans was primarily due to (i) increases in the average lending rates of certain of our corporate loans we re-priced in 2012 as a result of the increased benchmark lending rate of Renminbi-denominated loans, and (ii) an increase in the scale and proportion of loans with higher average yields, such as loans to Small Enterprises.

Interest income from corporate loans for the year ended 31 December 2011 was RMB1,848.7 million, representing an increase of 48.2% compared to RMB1,247.2 million for the year ended 31 December 2010, primarily due to an increase in the average balance and average yield of corporate loans. The average balance of corporate loans for the year ended 31 December 2011 was RMB26,244.8 million, representing an increase of 35.1% from RMB19,430.4 million for the year ended 31 December 2010. We increased lending to corporate customers, following the national policy on promoting the development of SMEs. The average yield of corporate loans increased from 6.42% in 2010 to 7.04% in 2011, primarily attributable to (i) increases in the PBOC benchmark lending rate in the second half of 2010 and in 2011, (ii) the growth in our bargaining power and overall net interest yield due to our ongoing implementation of our customised pricing strategies in response to the needs of different groups of customers for financial services, and (iii) an increase in the scale and proportion of loans with higher average yields, such as loans to Small Enterprises.

Interest income from personal loans

Interest income from personal loans for the year ended 31 December 2012 was RMB2,830.9 million, representing an increase of 19.3% compared to RMB2,372.8 million for the year ended 31 December 2011, primarily due to an increase in average yield of personal loans from 8.18% in 2011 to 8.94% in 2012, and an increase in the average balance of personal loans. The increase in the average yield from personal loans was primarily due to increases in the average lending rates of certain of our personal loans in 2012 as a result of the increased benchmark lending rate of Renminbi-denominated loans. The average balance of personal loans increased 9.2% to RMB31,650.5 million for the year ended 31 December 2012 from RMB28,991.4 million for the year ended 31 December 2011, which was principally due to the growth of our personal loan business.

Interest income from personal loans for the year ended 31 December 2011 was RMB2,372.8 million, representing an increase of 51.2% as compared to RMB1,569.7 million for the year ended 31 December 2010, primarily due to the increased average balance and average yield of personal loans. The average balance of personal loans increased by 33.9% to RMB28,991.4 million for the year ended 31 December 2011 from RMB21,657.9 million for the year ended 31 December 2010. This increase was primarily because our personal loans benefited from the various policies of the PRC government on supporting and encouraging financial institutions to develop financial services for SMEs, rural financial services and credit services for individuals. In addition, the CBRC lowered the risk weight of personal loans to procure a change in the flow of bank loans. Further, our personal loans, as an important component of our microcredit business, increased substantially under our strategy of focusing on the development of featured microcredit business. The average yield of personal loans increased from 7.25% for the year ended 31 December 2010 to 8.18% for the year ended 31 December 2011. This increase was mainly due to an increase in our interest rates for personal loans and as a result of an increase in the PBOC's benchmark interest rates since the second half of 2012, as well as our customised pricing and marketing strategies.

Interest income from discounted bills

Interest income from discounted bills for the year ended 31 December 2012 was RMB619.8 million, representing an increase of 31.9% compared to RMB470.0 million for the year ended 31 December 2011, primarily due to an increase in the average balance of discounted bills, which was partially offset by a decrease in the average yield of our discounted of bills. The average balance of discounted bills increased by 41.5% to RMB8,869.9 million in 2012 from RMB6,266.4 million in 2011, primarily because we strengthened our asset restructuring to increase the utilisation of capital resources. The average yield of discounted bills decreased to 6.99% in 2012 from 7.50% in 2011, which was principally the result of the easing of tight market liquidity.

Interest income from discounted bills for the year ended 31 December 2011 was RMB470.0 million, representing an increase of 55.2% as compared to RMB302.9 million for the year ended 31 December 2010, primarily due to an increase in the average yield of discounted bills, which was partially offset by a decrease in the average balance of discounted bills. The average yield of discounted bills significantly increased to 7.50% for the year ended 31 December 2011 from 3.82% for the year ended 31 December 2010, primarily due to an increase in the interest rates as a result of the tight market liquidity. The average balance of discounted bills for the year ended 31 December 2011 was RMB6,266.4 million, representing a decrease of 20.9% compared to RMB7,920.2 million for the year ended 31 December 2010, which primarily resulted from adjustments by us of investment portfolios to respond to the policies of the PRC government to control the scale of bank lending in the PRC.

Interest Income from Debt Securities Investments

Interest income from debt securities investments represented 8.6%, 14.6% and 20.6% of our interest income for each of the years ended 31 December 2010, 2011 and 2012, respectively.

Interest income from debt securities investments for the year ended 31 December 2012 was RMB2,674.2 million, representing an increase of 122.5% compared to RMB1,202.0 million for the year ended 31 December 2011, primarily due to an increase in the average balance and average yield of our investments in debt securities. The average balance of our investments in debt securities in 2012 was RMB41,719.7 million, representing an increase of 76.9% compared to RMB23,578.8 million in 2011. This increase was primarily due to an increase in our deposits from customers which in turn increased capital resources for investments as well as the expansion and diversification of our investment portfolios. The average yield of our investments in debt securities increased to 6.41% for the year ended 31 December 2012 from 5.10% for the year ended 31 December 2011, primarily attributable to an increase in our investment portfolios with higher yields.

Interest income from debt securities investments for the year ended 31 December 2011 significantly increased by 248.6% compared to RMB344.8 million for the year ended 31 December 2010, primarily due to the increase in average balance and, to a lesser extent, the increase in average yield. The average balance for the year ended 31 December 2011 was RMB23,578.8 million, representing an increase of 177.0% as compared to RMB8,512.0 million for the year ended 31 December 2010. This was primarily attributable to the expansion and diversification of our investment portfolios. The average yield increased to 5.10% in 2011 from 4.05% in 2010, primarily reflecting the increase in the overall market interest rate due to the tight market liquidity.

Interest Income from Cash and Balances with Central Bank

Interest income from cash and balances with central bank for the year ended 31 December 2012 was RMB490.2 million, representing an increase of 35.0% compared to RMB363.0 million for the year ended 31 December 2011, primarily due to an increase in the average balance of our cash and balances with central bank. The average balance of our cash and balances with central bank for the year ended 31 December 2012 was RMB33,070.0 million, representing an increase of 35.7% compared to RMB24,367.5 million for the year ended 31 December 2011, primarily attributable to the expansion of the scale of our deposits from customers, partially offset by the impact of the decreases in the statutory deposit reserves ratio by the PBOC in 2012.

Interest income from cash and balances with central bank for the year ended 31 December 2011 increased by 71.4% compared to RMB211.8 million for the year ended 31 December 2010, primarily due to an increase in the average balance and average yield of our cash and balances with central bank. The average balance of our cash and balances with central bank increased by 61.2% from RMB15,120.7 million for the year ended 31 December 2010 to RMB24,367.5 million for the year ended 31 December 2011, primarily attributable to an increase in the statutory deposit reserve ratio and deposits from customers. The average yield of our cash and balances with central bank in 2011 was 1.49%, which increased from 1.40% in 2010, primarily due to an increase in the reserve interest rate.

Interest Income from Due from Banks and Other Financial Institutions

Interest income from due from banks and other financial institutions for the year ended 31 December 2012 was RMB3,291.3 million, representing an increase of 67.9% compared to RMB1,960.3 million for the year ended 31 December 2011, primarily due to an increase in the average balance and the average yield of the relevant assets. The average balance for the year ended 31 December 2012 was RMB58,894.2 million, representing an increase of 59.5% compared to RMB36,924.2 million for the year ended 31 December 2011. This increase was primarily because we increased our financial assets held under reverse repurchase agreements. The average yield increased from 5.31% in 2011 to 5.59% in 2012.

Interest income from due from banks and other financial institutions for the year ended 31 December 2011 was RMB1,960.3 million, representing a significant increase of 457.1% compared to RMB351.9 million for the year ended 31 December 2010, primarily due to an increase in the average yield and the average balance of the relevant assets. The average yield increased from 2.22% in 2010 to 5.31% in 2011, primarily due to an increase in the market interest rate as a result of the tight market liquidity. The average balance of due from banks and other financial institutions for the year ended 31 December 2011 was RMB36,924.2 million, representing an increase of 132.4% compared to RMB15,886.2 million for the year ended 31 December 2010. This was primarily because we actively adjusted our operating strategy to increase our due from banks and other financial institutions, especially to increase financial assets held under reverse repurchase agreements, to adapt to the changing market liquidity.

Interest Expense

Our interest expense for the year ended 31 December 2012 was RMB6,334.8 million, representing an increase of 86.4% compared to RMB3,398.7 million for the year ended 31 December 2011, primarily due to an increase of 47.2% in the average interest-bearing liabilities from RMB145,053.7 million in 2011 to RMB213,528.5 million in 2012, and an increase in the average cost of interest-bearing liabilities from 2.34% in 2011 to 2.97% in 2012. The increase in the average cost of interest-bearing liabilities was primarily due to an increase in the average cost of our due to customers, partially offset by a decrease in the average cost of due to banks and other financial institutions and debt securities issued.

Our interest expense increased by 216.9% from RMB1,072.4 million for the year ended 31 December 2010 to RMB3,398.7 million for the year ended 31 December 2011, primarily due to an increase in the average cost of interest-bearing liabilities from 1.17% in 2010 to 2.34% in 2011 and an increase of 58.2% in the average balance of interest-bearing liabilities from RMB91,665.8 million in 2011 to RMB145,053.7 million in 2012. The increase in the average cost of interest-bearing liabilities was primarily due to the increases in the average cost of our due to customers and due to banks and other financial institutions.

Interest Expense on Due to Customers

Interest expense on due to customers represented 87.4%, 51.3% and 46.8% of our total interest expense for each of the years ended 31 December 2010, 2011 and 2012, respectively. The proportion of interest expense on due to customers to our total interest expenses decreased from 2010 to 2012 primarily attributable to an increase in due to banks and other financial institutions as we diversified our funding sources.

The following table sets forth, for the years indicated, the average balance, interest expense and average cost of corporate and personal deposits by product type.

	For the year ended 31 December								
	2010			2011			2012		
	Average balance[1]	Interest expense	Average cost	Average balance[1]	Interest expense	Average cost	Average balance[1]	Interest expense	Average cost
	(in millions of RMB, except percentages)								
Corporate deposits									
Demand	40,253.2	187.0	0.46%	51,892.3	428.8	0.83%	56,914.4	440.1	0.77%
Time	20,390.2	389.7	1.91%	29,372.7	711.7	2.42%	50,191.3	1,634.1	3.26%
Subtotal	60,643.4	576.7	0.95%	81,265.0	1,140.5	1.40%	107,105.7	2,074.2	1.94%
Personal deposits									
Demand	10,446.1	38.0	0.36%	13,607.5	70.8	0.52%	23,490.4	78.7	0.34%
Time	15,299.4	322.4	2.11%	19,369.4	531.5	2.74%	17,436.2	814.8	4.67%
Subtotal	25,745.5	360.4	1.40%	32,976.9	602.3	1.83%	40,926.6	893.5	2.18%
Total due to customers	86,388.9	937.1	1.08%	114,241.9	1,742.8	1.53%	148,032.3	2,967.7	2.00%

Note:

(1) Calculated as the average of our daily balances.

Interest expense on due to customers for the year ended 31 December 2012 was RMB2,967.7 million, representing an increase of 70.3% compared to RMB1,742.8 million for the year ended 31 December 2011, primarily due to an increase in the average cost of our due to customers to 2.00% in 2012 from 1.53% in 2011 and an increase of 29.6% in the average balance of our due to customers to RMB148,032.3 million in 2012 from RMB114,241.9 million in 2011. The increase in the average cost was primarily due to increases in the interest rates of our due to customers as the PBOC increased the upper limit of floating range of Renminbi-denominated deposit interest rate to 110% of the benchmark interest rate in 2012. In addition, we increased the our proportion of time deposits with longer terms that carried higher interest rates to improve the stability of deposit portfolios.

Interest expense on due to customers for the year ended 31 December 2011 increased by 86.0% compared to RMB937.1 million for the year ended 31 December 2010, primarily due to an increase in average cost to 1.53% in 2011 from 1.08% in 2010, and an increase of 32.2% in average balance to RMB114,241.9 million in 2011 from RMB86,388.9 million in 2010. The increase in average cost was primarily due to (i) increases in the PBOC benchmark deposit interest rates in the second half of 2010 and 2011; and (ii) the fact that we increased the proportion of time deposits with longer terms that carried higher interest rates.

Interest Expense on Due to Banks and Other Financial Institutions

Our interest expense on due to banks and other financial institutions for the year ended 31 December 2012 was RMB3,223.0 million, representing an increase of 102.3% compared to RMB1,593.0 million for the year ended 31 December 2011, primarily due to an increase in average balance of the relevant assets, which was partially offset by a decrease in their average cost. The average balance for the year ended 31 December 2012 was RMB62,497.1 million, representing an increase of 110.7% compared to RMB29,658.8 million for the year ended 31 December 2011. This increase was primarily because we increased the scale of such assets in response to tightening market liquidity. The average cost decreased from 5.37% in 2011 to 5.16% in 2012, which was mainly due to the easing of tight market liquidity.

Our interest expense on due to banks and other financial institutions for the year ended 31 December 2011 was RMB1,593.0 million, representing a significant increase compared to RMB65.6 million for the year ended 31 December 2010, primarily due to an increase in the average cost and average balance of the relevant assets. The average cost increased from 1.76% in 2010 to 5.37% in 2011. The increase was primarily attributable to an increase in the average currency market interest rate as a result of tight market liquidity, which was caused by increases in the PBOC benchmark interest rate and adjustment of monetary policies by the PBOC since the second half of 2010. The average balance of the relevant assets in 2011 was RMB 29,658.8 million, representing an increase of 696.0% compared to RMB3,726.2 million in 2010, which was mainly because we actively absorbed interbank funds through the repurchase and resale of bonds, notes and other assets by reverse repurchase agreement to adapt to changing market liquidity and to match assets and liabilities.

Interest Expense on Debt Securities Issued

Our interest expenses on debt securities issued were RMB60.0 million, RMB60.0 million and RMB131.2 million for the years ended 31 December 2010, 2011 and 2012, respectively. In December 2009, we issued RMB1,000 million aggregate principal amount of subordinated bonds, and in May 2012 we issued RMB2,500 million aggregate principal amount of bonds to replenish our capital and support the growth of our business. See "– Indebtedness".

Interest Expense on Due to Central Bank

Our interest expense on due to central bank for the year ended 31 December 2012 was RMB12.9 million, representing an increase of 344.8% compared to RMB2.9 million for the year ended 31 December 2011. Our interest expense on due to central bank in 2011 decreased by 70.1% compared to RMB9.7 million in 2010, which mainly attributable to the changes in the volume and cost of our rediscounted business.

Net Interest Spread and Net Interest Margin

Our net interest spread decreased from 3.38% for the year ended 31 December 2010 to 3.27% for the year ended 31 December 2011 and our net interest margin decreased from 3.34% in 2010 to 3.29% in

2011. Our net interest spread decreased from 3.27% for the year ended 31 December 2011 to 3.06% for the year ended 31 December 2012 and our net interest margin decreased from 3.29% in 2011 to 3.09% in 2012.

For a discussion of the decreases in our net interest spread and net interest margin, see "– Summary of Key Financial and Operating Indicators of our Bank – Discussion of the Net Interest Spread and Net Interest Margin of Our Bank".

Net Fee and Commission Income

Net fee and commission income represented 3.6%, 7.6% and 8.8% of our total operating income for each of the years ended 31 December 2010, 2011 and 2012, respectively. Our net fee and commission income increased by 254.4% from RMB116.2 million for the year ended 31 December 2010 to RMB411.8 million for the year ended 31 December 2011, and further increased by 64.8% to RMB678.7 million for the year ended 31 December 2012. The increase in the period from 2010 to 2012 was principally because we actively responded to the changes in market environment, regulatory requirements and customer needs to promote the overall development of our fee- and commission-based business.

The following table sets forth, for the years indicated, the principal components of our net fee and commission income.

	For the year ended 31 December		
	2010	**2011**	**2012**
		(in millions of RMB)	
Advisory and consultancy fee	12.0	101.0	273.8
Settlement fee	45.9	58.5	95.3
Agency and custodian fee	87.1	308.3	374.9
Of which: non-principal protected wealth management agency fee	18.2	121.8	96.9
Bank card fee	7.2	13.9	47.9
Others	17.8	21.5	19.5
Fee and commission income	170.0	503.2	811.4
Fee and commission expense	(53.8)	(91.4)	(132.7)
Net fee and commission income	116.2	411.8	678.7

Advisory and Consultancy Fee

Our advisory and consultancy fee income increased significantly from RMB12.0 million for the year ended 31 December 2010 to RMB101.0 million for the year ended 31 December 2011, and further increased by 171.1% to RMB273.8 million for the year ended 31 December 2012. These increases were primarily due to the expansion of our advisory and consultancy business, resulting in an increase in our customers and business volume.

Settlement Fee

Settlement fee income increased by 27.5% from RMB45.9 million for the year ended 31 December 2010 to RMB58.5 million for the year ended 31 December 2011, and further increased by 62.9% to RMB95.3 million for the year ended 31 December 2012. These increases were primarily due to our commitment to improving the quality of our customer service and stable expansion of our business scale and customer base, which resulted in growth of the transaction volume of our settlement businesses.

Agency and Custodian Fee

Fee income from our agency and custodian services increased by 254.0% from RMB87.1 million for the year ended 31 December 2010 to RMB308.3 million for the year ended 31 December 2011 and further increased by 21.6% to RMB374.9 million for the year ended 31 December 2012, primarily because we strengthened our marketing and sales capabilities, and actively expanded our trust fund custodian business and wealth management business to promote the growth in agency and custodian fee income.

Bank Card Fee

Bank card fee income increased by 93.1% from RMB7.2 million for the year ended 31 December 2010 to RMB13.9 million for the year ended 31 December 2011, and further increased by 244.6% to RMB47.9 million for the year ended 31 December 2012. The increase in our bank card fee was mainly attributable to an increase in the issuance and transaction volume of our bank cards in the three years ended 31 December 2012, which benefited from the development and marketing of our bank card business.

Others

For each of the years ended 31 December 2010, 2011 and 2012, our other fees and commissions were RMB17.8 million, RMB21.5 million and RMB19.5 million, respectively.

Fee and Commission Expense

Our fee and commission expense increased by 69.9% from RMB53.8 million for the year ended 31 December 2010 to RMB91.4 million for the year ended 31 December 2011, and then further increased by 45.2% to RMB132.7 million for the year ended 31 December 2012, which was mainly due to an increase in volume of our fee- and commission-based business.

Net Trading Income

Our net trading income consists primarily of gains or losses from trading of financial assets held for trading, interest income and gains or losses from changes in fair value. Net trading income increased by 126.4% from RMB124.6 million for the year ended 31 December 2010 to RMB282.1 million for the year ended 31 December 2011, and then further increased by 26.4% to RMB356.6 million for the year ended 31 December 2012, mainly due to an increase in the scale of investment in financial assets held for trading and trading volumes.

Net Gain or Loss on Financial Investments

For the year ended 31 December 2010, we incurred a net gain on financial investments of RMB0.7 million compared to a net loss of RMB128.8 million in the year ended 31 December 2011. The net gain in the year ended 31 December 2010 was the result of dividend from available-for-sale equity investment. The net loss in the year ended 31 December 2011 was attributable to the loss on disposal of available-for-sale financial assets. For the year ended 31 December 2012, our net loss on financial investments reduced by 32.1% to RMB87.4 million mainly due to a net loss of RMB87.9 million on disposal of available-for-sale financial assets. The changes in net loss on disposal of available-for-sale assets mainly resulted from the changes in the conditions of the bond market.

Other Operating Income, Net

Our other net operating income increased by 240.9% from RMB30.8 million for the year ended 31 December 2011 to RMB 105.0 million for the year ended 31 December 2012, primarily due to an increase in the government grants received in the year for the expansion of our business network and the development of rural financial services by our Bank. Other net operating income decreased by 35.8% from RMB48.0 million for the year ended 31 December 2010 to RMB 30.8 million for the year ended 31 December 2011, primarily due to an increase in exchange losses coupled with a decrease in government grants and other income in the year.

Operating Expenses

The following table sets forth, for the years indicated, the principal components of our operating expenses.

	For the year ended 31 December		
	2010	2011	2012
	(in millions of RMB)		
Staff costs	652.9	974.5	1,342.1
Business tax and surcharges	132.3	253.0	364.1
Depreciation and amortisation	101.0	136.2	208.3
Others[(1)]	515.3	719.1	1,111.0
Total operating expenses	1,401.5	2,082.8	3,025.5

Note:

(1) Consist primarily of auditor's remunerations, operational expenses, leasing fees, operating costs of electronic equipment and security expenses.

Our operating expenses increased by 48.6% from RMB1,401.5 million for the year ended 31 December 2010 to RMB2,082.8 million for the year ended 31 December 2011, and further increased by 45.3% to RMB3,025.5 million for the year ended 31 December 2012. In 2010, 2011 and 2012, the proportion of our operating expenses to total operating income was 43.2%, 38.5% and 39.2%, respectively.

Staff Costs

Staff costs are the largest component of our operating expenses, representing 46.6%, 46.8% and 44.4% of our total operating expenses for each of the years ended 31 December 2010, 2011 and 2012, respectively.

The following table sets forth, for the years indicated, the principal components of our staff costs.

	For the year ended 31 December		
	2010	2011	2012
	(in millions of RMB)		
Salaries, bonuses and allowances	539.3	805.6	1,085.1
Other benefits[(1)]	113.6	168.9	257.0
Total staff costs	652.9	974.5	1,342.1

Note:

(1) Consist of social insurance premiums, housing fund, staff benefits, union fee and staff education expenses and early retirement benefits.

Staff costs increased by 49.3% from RMB652.9 million for the year ended 31 December 2010 to RMB974.5 million for the year ended 31 December 2011, and further increased by 37.7% to RMB1,342.1 million for the year ended 31 December 2012. These increases were primarily due to an increase in the number of our employee as a result of our business expansion as well as an increase in our staff salaries and benefits.

Business Tax and Surcharges

Business tax and surcharges increased by 91.2% from RMB132.3 million for the year ended 31 December 2010 to RMB253.0 million for the year ended 31 December 2011, and further increased by 43.9% to RMB364.1 million for the year ended 31 December 2012. The significant increase in business tax and surcharges during the period from 2010 to 2012 was mainly attributable to the growth in interest income from loans, as well as from fee and commission income.

Depreciation and Amortisation

Depreciation and amortisation increased by 34.9% from RMB101.0 million for the year ended 31 December 2010 to RMB136.2 million for the year ended 31 December 2011, and further increased by 52.9% to RMB208.3 million for the year ended 31 December 2012. These increases were primarily due to an increase in the capital expenditures related to our business premises, which resulted from the expansion of our distribution network.

Other Expenses

The following table sets forth, for the years indicated, the principal components of our other expenses.

	For the year ended 31 December		
	2010	2011	2012
	(in millions of RMB)		
General and administrative expenses	274.8	404.2	638.0
Leasing fees	87.1	125.2	172.1
Auditor's remunerations	0.6	1.6	4.5
Operating costs of electronic equipment	38.1	53.7	76.4
Security expenses	22.2	26.3	39.8
Taxes	11.2	18.0	27.2
Insurance premiums	1.8	2.7	5.0
Donations and sponsorship fees	11.2	1.2	1.5
Others	68.3	86.2	146.5
Total other expenses	515.3	719.1	1,111.0

General and administrative expenses accounted for a significant portion of other expenses. Other expenses increased by 39.5% from RMB515.3 million for the year ended 31 December 2010 to RMB719.1 million for the year ended 31 December 2011, and further increased by 54.5% to RMB1,111.0 million for the year ended 31 December 2012. These increases mainly resulted from increases in our general and administrative expenses, which in turn were attributable to the growth of our overall business.

Impairment Losses

Impairment losses on assets for the year ended 31 December 2012 were RMB836.2 million, representing an increase of 1.5% compared to RMB823.8 million for the year ended 31 December 2011.

Impairment losses on assets for the year ended 31 December 2011 represented an increase of 262.9% compared to RMB227.0 million for the year ended 31 December 2010.

Impairment losses on assets mainly represent impairment losses on loans and advances to customers. The following table sets forth, for the years indicated, the principal components of our impairment losses on assets.

	For the year ended 31 December		
	2010	2011	2012
	(in millions of RMB)		
Loans and advances to customers	238.7	876.0	837.2
Others[(1)]	(11.7)	(52.2)	(1.0)
Total impairment losses	227.0	823.8	836.2

Note:

(1) They mainly include the due from banks and other financial institutions, and the allowance for / (reversal of allowance for) impairment losses on other assets.

Impairment losses on loans and advances to customers increased by 267.0% from RMB238.7 million for the year ended 31 December 2010 to RMB876.0 million for the year ended 31 December 2011. The significant increase was principally attributable to an increase in the percentages for allowance in accordance with the Guidance on the Implementation of New Regulatory Standards in the PRC Banking Industry promulgated by the CBRC in 2011. In addition, we made a one time write-off of non-performing loans in 2011 with the view to improving the quality of our loan portfolios. Impairment losses on loans to customers for the year ended 31 December 2012 remained relatively flat compared to 31 December 2011, which amounted to RMB837.2 million.

Reversal of allowance for impairment losses on other items decreased significantly from RMB52.2 million for the year ended 31 December 2011 to RMB1.0 million for the year ended 31 December 2012, which was mainly because we foreclosed on fewer assets, and made a partial provision for impairment loss on other assets in 2012. This amount increased by 346.2% from RMB11.7 million for the year ended 31 December 2010 to RMB52.2 million for the year ended 31 December 2011, primarily because, in 2011, we focused on the one-off foreclosure of assets, and fully reversed the provision for impairment loss on relevant assets made in previous years.

Profit Before Tax

As a result of the foregoing, our profit before tax increased by 55.1% from RMB1,616.9 million for the year ended 31 December 2010 to RMB2,507.4 million for the year ended 31 December 2011, and further increased by 53.9% to RMB3,859.0 million for the year ended 31 December 2012.

Income Tax Expense

We were subject to the statutory income tax rate of 25% in the three years ended 31 December 2012. Our profit before tax and a reconciliation between income tax expense based on the PRC statutory income tax rate and actual income tax expense for the years ended 31 December 2010, 2011 and 2012 are as follows:

	For the year ended 31 December		
	2010	**2011**	**2012**
	(in millions of RMB)		
Profit before tax	1,616.9	2,507.4	3,859.0
Income tax expenses calculated at the PRC statutory tax rate	404.2	626.8	964.8
Non-deductible expenses(1)	30.0	55.7	64.2
Non-taxable income(2)	(44.8)	(30.8)	(39.2)
Settled and recovered amounts for the years	0.3	(0.7)	0.1
Share of profit and loss of associates	–	–	(2.4)
Total income tax expense	389.7	651.0	987.5

Notes:

(1) Represents primarily the non-deductible losses from write-offs.

(2) Consists primarily of interest income from the PRC treasury bonds, which are exempted from income tax under the PRC tax regulations.

Our income tax expenses increased by 67.1% from RMB389.7 million for the year ended 31 December 2010 to RMB651.0 million for the year ended 31 December 2011, and further increased by 51.7% to RMB987.5 million for the year ended 31 December 2012, which was generally in line with the growth of our profit before tax. For the years ended 31 December 2010, 2011 and 2012, our effective income tax rates were 24.1%, 26.0% and 25.6%, respectively.

Net Profit for the Year

As a result of the foregoing, our net profit increased by 51.3% from RMB1,227.2 million for the year ended 31 December 2010 to RMB1,856.4 million for the year ended 31 December 2011, and further increased by 54.7% to RMB2,871.5 million for the year ended 31 December 2012.

Summary of Segment Operating Results

Operating segments are reported in a manner consistent with the internal reporting provided to our presidents and special management committees, which make strategic decisions for our Bank. We report by business segment and geographic segment.

Summary of Business Segment Data

Based on our products and services, our operating segments include corporate banking, personal banking and treasury business. See “Business – Our Principal Business Activities”.

The following table sets forth, for the periods indicated, the total operating income of each of our business segments.

	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 business	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(1)	56.5	1.8	40.6	0.8	88.4	1.2	40.7	0.8	15.7	0.3
Total operating income	3,245.4	100.0	5,414.0	100.0	7,711.3	100.0	5,479.0	100.0	5,923.6	100.0

Note:

(1) Include net trading income, net gain or loss on financial investments and other net operating income.

The tables below set forth, for the periods indicated, the operating results of each of our business segments.

	For the nine months ended 30 September 2013				
	Corporate banking	Personal banking	Treasury	Other businesses(1)	Total
	(in millions of RMB)				
External net interest income / (expense)(2)	902.7	1,412.9	2,608.7	–	4,924.3
Inter-segment interest income / (expense)(3)	939.1	279.5	(1,218.6)	–	–
Net fee and commission income	196.4	69.0	605.8	–	871.2
Other net income(4)	(3.5)	–	115.9	15.7	128.1
Operating income	2,034.7	1,761.4	2,111.8	15.7	5,923.6

	For the nine months ended 30 September 2012				
	(Unaudited)				
	Corporate banking	Personal banking	Treasury	Other businesses(1)	Total
External net interest income / (expense)(2)	817.1	1,599.7	2,340.7	–	4,757.5
Inter-segment interest income / (expense)(3)	838.4	207.6	(1,046.0)	–	–
Net fee and commission income	56.8	1.5	412.8	–	471.1
Other net income(4)	10.1	–	199.6	40.7	250.4
Operating income	1,722.4	1,808.8	1,907.1	40.7	5,479.0

	For the year ended 31 December				
	2012				
	Corporate banking	Personal banking	Treasury	Other businesses[1]	Total
	(in millions of RMB)				
External net interest income / (expense)[2]	1,499.4	1,939.2	3,219.8	–	6,658.4
Inter-segment interest income / (expense)[3]	1,003.5	286.0	(1,289.5)	–	–
Net fee and commission income	65.6	3.5	609.6	–	678.7
Other net income[4]	17.1	–	268.7	88.4	374.2
Operating income	2,585.6	2,228.7	2,808.6	88.4	7,711.3

	For the year ended 31 December				
	2011				
	Corporate banking	Personal banking	Treasury	Other businesses[1]	Total
External net interest income / (expense)[2]	1,127.4	1,761.3	1,929.4	–	4,818.1
Inter-segment interest income / (expense)[3]	843.2	193.5	(1,036.7)	–	–
Net fee and commission income	40.1	(7.2)	378.9	–	411.8
Other net income[4]	(10.5)	–	154.0	40.6	184.1
Operating income	2,000.2	1,947.6	1,425.6	40.6	5,414.0

	For the year ended 31 December				
	2010				
	Corporate banking	Personal banking	Treasury	Other businesses[1]	Total
External net interest income / (expense)[2]	914.6	1,208.2	833.1	–	2,955.9
Inter-segment interest income / (expense)[3]	555.7	106.9	(662.6)	–	–
Net fee and commission income	39.8	(6.1)	82.5	–	116.2
Other net income[4]	(7.6)	–	124.4	56.5	173.3
Operating income	1,502.5	1,309.0	377.4	56.5	3,245.4

Notes:

(1) Include net trading income, net gain or loss on financial investments and other net operating income.

(2) Represents net interest income and expense from third parties.

(3) Represents net interest income and expenses from transfer of capital between segments.

(4) Include net trading income, net gain or loss on financial investments and other net operating income.

For the nine months ended 30 September 2012 and 2013, operating income from our corporate banking business accounted for 31.4% and 34.3%, respectively, of our total operating income; operating income from our personal banking business accounted for 33.0% and 29.7%, respectively, of our total operating income; and operating income from our treasury business accounted for 34.8% and 35.7%, respectively, of our total operating income. For the three years ended 31 December 2012, operating income from our corporate banking business accounted for 46.3%, 36.9% and 33.5%, respectively, of our total operating income; operating income from our personal banking business accounted for 40.3%, 36.0% and 28.9%, respectively, of our total operating income; and operating income from our treasury business accounted for 11.6%, 26.3% and 36.4%, respectively, of our total operating income. The proportion of operating income from our treasury business to total operating income increased during the Track Record Period while the proportion of operating income from our corporate and personal banking businesses to total operating income decreased, mainly because we actively expanded our non-credit business and developed interbank business to diversify sources of funding.

Summary of Segment Information by Geographical Regions

Substantially all of our business has been conducted in the PRC, and we classify our business in the PRC by the following five major geographical regions:

- *Heilongjiang region*: our headquarters, Harbin Branch, Shuangyashan Branch, Jixi Branch, Hegang Branch, Suihua Branch, Daqing Branch, Qitaihe Branch, Mudanjiang Branch, Jiamusi Branch and Qiqihar Branch and Village and Township Banks having their place of business in Heilongjiang Province;
- *Other Northeast region*: Dalian Branch, Shenyang Branch and Village and Township Banks having their place of business in other northeast regions excluding Heilongjiang Province;
- *Southwest region*: Chengdu Branch, Chongqing Branch and Village and Township Banks having their place of business in southwest region, mainly including Sichuan and Chongqing;
- *Northern China*: Tianjin Branch and Village and Township Banks having their place of business in northern China, mainly including Beijing and Hebei; and
- *Other regions*: other Village and Township Banks except those with place of business in the above regions.

The table below sets forth, for the periods indicated, our total operating income based on the geographical region of our head office and branches.

	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)									
Heilongjiang region	2,779.3	85.6	4,224.5	78.0	5,020.0	65.1	3,932.2	71.8	3,840.3	64.8
Other Northeast region	246.8	7.6	424.3	7.8	872.2	11.3	541.2	9.9	656.1	11.1
Southwest region	59.4	1.8	352.1	6.5	1,122.7	14.6	611.7	11.2	897.0	15.1
Northern China	147.7	4.6	370.7	6.9	559.6	7.3	302.4	5.5	376.9	6.4
Other regions	12.2	0.4	42.4	0.8	136.8	1.7	91.5	1.6	153.3	2.6
Total operating income	3,245.4	100.0	5,414.0	100.0	7,711.3	100.0	5,479.0	100.0	5,923.6	100.0

Operating income from the Heilongjiang region is the largest component of our operating income. For the nine months ended 30 September 2012 and 2013, our operating income from the Heilongjiang region accounted for 71.8% and 64.8%, respectively, of our total operating income. Operating income from the Heilongjiang region decreased by 2.3% from RMB3,932.2 million for the nine months ended 30 September 2012 to RMB3,840.3 million for the nine months ended 30 September 2013. Operating income from Other Northeast region increased by 21.2% from RMB541.2 million for the nine months ended 30 September 2012 to RMB656.1 million for the nine months ended 30 September 2013. Operating income from the Southwest region increased by 46.6% from RMB611.7 million for the nine months ended 30 September 2012 to RMB897.0 million for the nine months ended 30 September 2013. Operating income from the Northern China region increased by 24.6% from RMB302.4 million for the nine months ended 30 September 2012 to RMB376.9 million for the nine months ended 30 September 2013. Operating income from other regions increased by 67.5% from RMB91.5 million for the nine months ended 30 September 2012 to RMB153.3 million for the nine months ended 30 September 2013.

For the years ended 31 December 2010, 2011 and 2012, our operating income from the Heilongjiang region accounted for 85.6%, 78.0% and 65.1%, respectively, of our total operating income. From 2010 to 2012, the proportion of our operating income from the Heilongjiang region to our total operating income decreased gradually, which was mainly due to our business development in areas outside the Heilongjiang region, especially in the Southwest region. The increase in revenue from the Southwest region was primarily attributable to the growth of our Chongqing Branch and Chengdu Branch as a result of the development of local economies, in part due to national strategies supporting those economies.

Operating income from the Heilongjiang region increased by 52.0% from RMB2,779.3 million in 2010 to RMB4,224.5 million in 2011, and further increased by 18.8% to RMB5,020.0 million in 2012. Operating income from other Northeast region increased by 71.9% from RMB246.8 million in 2010 to RMB424.3 million in 2011, and further increased by 105.6% to RMB872.2 million in 2012. Operating income from the Southwest region increased by 492.8% from RMB59.4 million in 2010 to RMB352.1 million in 2011, and further increased by 218.9% to RMB1,122.7 million in 2012. Operating income from the Northern China region increased by 151.0% from RMB147.7 million in 2010 to RMB370.7 million in 2011, and further increased by 51.0% to RMB559.6 million in 2012. Operating income from other regions increased by 247.5% from RMB12.2 million in 2010 to RMB42.4 million in 2011, and further increased by 222.6% to RMB136.8 million in 2012.

CASH FLOW

The following table sets forth our cash flows for the periods indicated.

	For the year ended 31 December			For the nine months ended 30 September	
	2010	2011	2012	2012	2013
				(unaudited)	
	(in millions of RMB)				
Net cash flow from (used in) operating activities	17,992.5	39,651.1	22,022.2	7,887.7	(31,440.9)
Net cash flow from (used in) investing activities	(8,982.1)	(19,576.1)	(16,028.5)	(21,698.2)	754.5
Net cash flow from (used in) financing activities	35.8	4,431.3	5,007.2	5,221.9	(284.6)
Net increase/(decrease) in cash and cash equivalents	9,046.2	24,506.3	11,000.9	(8,588.6)	(30,971.0)
Cash and cash equivalents at end of the year/period	28,597.9	53,092.2	64,094.3	44,513.6	33,119.8

Cash Flows From (Used in) Operating Activities

Cash inflows from our operating activities are primarily attributable to deposits from customers, due to and placements from banks and other financial institutions, financial assets sold under reverse repurchase agreements, borrowings from central bank, interest income received and other cash received from operating activities. The net increase in the balance of our deposits from customers and due to and placements from banks and other financial institutions for the three years ended 31 December 2012 and the nine months ended 30 September 2013 was RMB37,395.4 million, RMB48,527.7 million, RMB59,152.4 million and RMB5,172.1 million, respectively. For the nine months ended 30 September 2013, our cash outflows attributable to the net decrease in financial assets sold under repurchase agreements were RMB16,542.9 million. Cash outflows attributable to the net decrease in financial assets sold under repurchase agreements amounted to RMB5,139.9 million for the year ended 31 December 2012. For the years ended 31 December 2010 and 2011, our cash inflows attributable to net increase in amounts under repurchase agreements were RMB2,871.6 million and RMB25,100.8 million, respectively.

Cash outflows from our operating activities are primarily attributable to loans to customers, cash and balances with central banks, due from and placements with banks and other financial institutions, financial assets sold under reverse repurchase agreements, and cash paid for interest, fees and commissions. The net increase in the balance of our loans to customers for the three years ended 31 December 2012 and the nine months ended 30 September 2013 was RMB10,487.4 million, RMB14,459.1 million, RMB18,780.6 million and RMB17,734.1 million, respectively. For a discussion of variations in our loans to customers from 31 December 2010 to 30 September 2013, see "Assets and Liabilities – Assets – Loans and Advances to Customers". The net increase in cash and balances with central bank and due from and placements with banks and other financial institutions for the three years ended 31 December 2012 and the nine months ended 30 September 2013 was RMB13,081.7 million, RMB12,699.8 million, RMB11,313.9 million and RMB7,849.9 million, respectively. The net decrease in financial assets sold under reverse repurchase agreements for the nine months ended 30 September 2013 was RMB4,183.2 million. The net increase in financial assets sold under reverse repurchase agreements for the three years ended 31 December 2012 was RMB13,237.0 million, RMB8,501.7 million, RMB4,418.6 million, respectively.

Cash Flows From (Used in) Investing Activities

Cash inflows from our investing activities are primarily attributable to cash received from disposal and redemption of investments and cash received as returns on investments. Cash received from disposal and redemption of investments for the three years ended 31 December 2012 and the nine months ended 30 September 2013 was RMB1,059,007.0 million, RMB933,756.5 million, RMB1,015,596.1 million and RMB368,994.1 million, respectively. Cash received as returns on investments for the three years ended 31 December 2012 and the nine months ended 30 September 2013 was RMB417.1 million, RMB992.8 million, RMB2,859.5 million and RMB2,151.2 million, respectively.

Cash outflows from our investing activities are primarily attributable to cash paid for investments and cash paid for purchase and construction of property and equipment. Cash paid for investments for the three years ended 31 December 2012 and the nine months ended 30 September 2013 was RMB1,067,595.0 million, RMB951,543.8 million, RMB1,031,685.0 million and RMB369,855.1 million, respectively. Cash paid for purchase and construction of property and equipment for the three years ended 31 December 2012 and the nine months ended 30 September 2013 was RMB822.9 million, RMB1,790.9 million, RMB2,805.6 million and 536.2 million, respectively.

Cash Flows From (Used in) Financing Activities

Cash inflows from our financing activities are attributable to cash proceeds from capital contribution, capital injection from non-controlling equity holders and cash received from issuance of other debt securities. Cash proceeds from capital contribution for the three years ended 31 December 2012 and the nine months ended 30 September 2013 was nil, RMB4,444.4 million, RMB2,940.0 million and nil, respectively. Capital injection from our non-controlling equity holders for the three years ended 31 December 2012 and the nine months ended 30 September 2013 was RMB96.0 million, RMB47.0 million, RMB20.0 million and RMB5.0 million, respectively. In addition, we received cash totalling RMB2,500 million as a result of the issuance of financial bonds in the national interbank bond market in May 2012. Cash outflows from our financing activities are attributable to payment of interest on bonds and issuance expense, and cash paid for the distribution of dividends on ordinary shares.

LIQUIDITY

We fund our loan and investment portfolios principally with our customer deposits, due to and placements from banks and other financial institutions and borrowings from central bank. Although a majority of our deposits from customers are short-term deposits, deposits from customers have been, and we believe will continue to be, a stable source of our funding. The amount due to customers with remaining maturities of less than one year represented 97.9%, 95.9%, 94.7% and 90.3% of our total deposits from customers as of 31 December 2010, 2011 and 2012 and 30 September 2013, respectively.

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

	As of 30 September 2013							
	Overdue	Repayable on demand	Up to three months	Three months up to one year	One year up to five years	Over five years	Indefinite	Total
	(in millions of RMB)							
Assets								
Cash and balances with central bank	–	7,010.7	–	–	–	–	33,719.0	40,729.7
Due from banks and other financial institutions	–	3,313.7	9,784.9	10,081.4	4,550.0	–	–	27,730.0
Financial assets held for trading	–	–	250.0	307.2	5,042.4	1,602.0	–	7,201.6
Financial assets held under reverse repurchase agreements	–	–	17,422.1	5,211.4	5,150.0	–	–	27,783.5
Loans and advances to customers	923.2	–	18,058.5	57,340.5	11,841.1	14,475.1	–	102,638.4
Debt securities investments	–	–	2,185.1	10,998.5	23,797.5	7,619.3	44.6	44,645.0
Investments in associates	–	–	–	–	–	–	993.7	993.7
Other assets (including deferred income tax assets)	–	371.1	28.7	82.8	70.9	182.6	9,202.1	9,938.2
Total assets	923.2	10,695.5	47,729.3	84,021.8	50,451.9	23,879.0	43,959.4	261,660.1

	As of 30 September 2013							
	Overdue	Repayable on demand	Up to three months	Three months up to one year	One year up to five years	Over five years	Indefinite	Total
	(in millions of RMB)							
Liabilities								
Due to central bank	–	10.0	206.2	172.8	10.0	357.0	–	756.0
Due to banks and other financial institutions	–	314.5	11,351.3	16,992.3	6,050.0	2,500.0	–	37,208.1
Financial Assets sold under repurchase agreements	–	–	6,289.8	–	–	–	–	6,289.8
Due to customers	–	91,535.7	35,110.4	45,850.2	18,633.7	–	–	191,130.0
Debt securities issued	–	–	–	–	3,500.0	–	–	3,500.0
Other liabilities	–	1,785.9	1,719.3	225.6	36.8	0.2	–	3,767.8
Total liabilities	–	93,646.1	54,677.0	63,240.9	28,230.5	2,857.2	–	242,651.7
Net liquidity	923.2	(82,950.6)	(6,947.7)	20,780.9	22,221.4	21,021.8	43,959.4	19,008.4

CAPITAL RESOURCES

Shareholders' Equity

Our total shareholders' equity increased by 124.4% from a net equity of RMB5,138.7 million as of 31 December 2010 to a net equity of RMB11,530.4 million as of 31 December 2011, which further increased by 46.9% to RMB16,937.0 million as of 31 December 2012, and further increased by 12.2% to RMB19,008.4 million as of 30 September 2013.

The following table sets forth, for the periods indicated, the components of the changes in our total equity.

	Total equity attributable to equity holders of our Bank
	(in millions of RMB)
As of 1 January 2010	3,841.2
Net profit for the year ended 31 December 2010	1,227.2
Other comprehensive income	(25.7)
Capital injection by owners	96.0
As of 31 December 2010	5,138.7
Net profit for the year ended 31 December 2011	1,856.4
Other comprehensive income	43.9
Capital injection by owners	4,491.4
As of 31 December 2011	11,530.4
Net profit for the year ended 31 December 2012	2,871.5
Other comprehensive income	(32.5)
Capital injection by owners	2,960.0
Dividend declared	(392.4)
As of 31 December 2012	16,937.0
Net profit for the nine months ended 30 September 2013	2,371.3
Other comprehensive income	(133.2)
Capital injection by owners	5.0
Dividend declared	(171.7)
As of 30 September 2013	19,008.4

Capital Adequacy

We are subject to relevant capital adequacy requirements as promulgated by the CBRC, which requires commercial banks in the PRC to maintain a minimum core capital adequacy ratio of 4% and a capital adequacy ratio of 8%. Before 2013, our core capital, supplementary capital and risk-weighted assets were calculated in accordance with the Capital Adequacy Measures and other related regulatory rules in the PRC. Since 2013, we have calculated and disclosed the capital adequacy in accordance with the New Capital Adequacy Measures.

The following table sets forth, as of the dates indicated, certain information relating to our capital adequacy level based on the Capital Adequacy Measures and other related regulatory rules in the PRC.

	As of 31 December			As of 30 September
	2010	2011	2012	2013
	(in millions of RMB, except percentages)			
Core capital adequacy ratio	9.04%	11.37%	11.94%	12.04%
Capital adequacy ratio	11.75%	12.61%	12.97%	13.04%
Basic components of capital				
Core capital:				
Share capital	2,100.3	6,187.8	7,560.2	8,246.9
Portion of capital reserve that may be included	12.1	2,261.7	4,204.7	4,069.7
Surplus reserve and provisions for general risks	969.5	1,289.5	1,820.0	3,140.0
Portion of retained profits that may be included	1,986.2	1,237.3	3,007.4	3,358.5
Non-controlling interests	95.6	144.8	172.3	192.6
Total core capital	5,163.7	11,121.1	16,764.6	19,007.7
Supplementary capital:				
General provisions for loan losses [(1)]	545.7	654.4	897.5	1,042.8
Long-term subordinated bonds	1,000.0	1,000.0	1,000.0	1,000.0
Other supplementary capital	–	10.7	–	–
Total supplementary capital	1,545.7	1,665.1	1,897.5	2,042.8
Total capital base before deductions	6,709.4	12,786.2	18,662.1	21,050.5
Deductions:				
Capital investment in unconsolidated banks	–	(1,000.0)	(1,000.0)	(1,000.0)
Capital investment in Industrial and commercial enterprises	(0.4)	(0.4)	(0.4)	(0.4)
Net capital	6,709.0	11,785.8	17,661.7	20,050.1
Core capital, net	5,163.5	10,620.9	16,264.4	18,507.5
Risk-weighted assets:				
On-balance risk-weighted assets	52,769.2	82,082.0	117,843.3	128,721.2
Off-balance risk weighted assets	4,350.8	11,358.1	18,346.7	20,331.0
Total risk-weighted assets	57,120.0	93,440.1	136,190.0	149,052.2
Market risk-weighted capital	–	–	–	374.0

Note:

(1) Pursuant to the requirements of the Notice of the CBRC Office on Determination of the Calculation Standards of General Provisions for Loan Losses (中國銀監會辦公廳關於明確貸款損失一般準備計算標準的通知), effective from the second quarter of 2010, the general provisions for loan losses shall be included into the supplementary capital to a maximum of 1% of loan balance in the calculation of capital adequacy.

Our capital adequacy ratio has been calculated and disclosed in compliance with the requirements of New Capital Adequacy Measures since 2013. Pursuant to the requirements of the CBRC, the core tier 1 capital adequacy ratio, tier 1 capital adequacy ratio and capital adequacy ratio of commercial banks shall not be less than 5%, 6% and 8%, respectively.

The following table sets forth, as of the dates indicated, certain information relating to our capital adequacy level, calculated base on New Capital Adequacy Measures:

	As of 30 September 2013
	(in millions of RMB, except percentages)
Core Capital	
Portion of paid-in capital that may be included	8,246.9
Portion of capital reserve that may be included	4,069.7
Surplus reserve and general risk reserve	3,140.0
Retained profits	3,358.5
Portion of minority shareholders' capital that may be included	192.6
Deductible Items from core tier 1 capital:	
Fully deductible items	(41.5)
Net core tier 1 capital	18,966.2
Other net tier 1 capital	–
Net tier 1 capital	18,966.2
Net tier 2 capital	2,580.7
Net capital	21,546.9
On-balance sheet risk-weighted assets	128,211.6
Off-balance sheet risk-weighted assets	19,743.7
Total credit risk-weighted assets	147,955.3
Total market risk-weighted assets	4,675.2
Total operation risk-weighted assets	10,129.3
Total risk-weighted assets	162,759.8
Core tier 1 capital adequacy ratio	11.65%
Tier 1 capital adequacy ratio	11.65%
Capital adequacy ratio	13.24%

During the Track Record Period, our core capital adequacy ratio and capital adequacy ratio fulfilled the requirements of the CBRC. For the supervision requirements of the CBRC on capital adequacy, see "Supervision and Regulation – PRC Banking Supervision and Regulation – Supervision Over Capital Adequacy".

INDEBTEDNESS

As of 31 January 2014, being the latest practicable date prior to the printing of this prospectus for the purposes of this indebtedness statement, we had the following indebtedness:

(a) the callable subordinated bonds issued in December 2009 with a total principal amount of RMB1,000 million at a coupon rate of 6.00% due on 9 December 2019;

(b) the financial bonds issued in May 2012 with a total principal amount of RMB2,500 million at a coupon rate of 4.55% due on 16 May 2017;

(c) deposits from customers and other banks and position in the monetary market, as well as the balance of financial assets sold under repurchase agreements arising from our ordinary course of business; and

(d) loan commitments, acceptances, letters of credit and guarantees issued, other operating and leasing commitments and contingencies arising from our ordinary course of business.

Except as disclosed above, we did not have, as of 31 January 2014, any outstanding mortgages, collaterals, debentures, other debt capital (issued or agreed to be issued), bank overdrafts, loans, liabilities under acceptance or other similar indebtedness, hire purchase and finance lease commitments or any guarantees or other material contingent liabilities.

Our Directors have confirmed that there has not been any material change in the indebtedness or contingent liabilities of our Bank during the Track Record Period and up to the Latest Practicable Date.

OFF-BALANCE SHEET COMMITMENTS

Our off-balance sheet commitments consist primarily of acceptances and letters of guarantee. Acceptance comprises undertakings by us to pay bills of exchange issued by our customers. Letters of guarantee are issued by us to guarantee the performance of our customers' commitments to third parties.

The following table sets forth, as of the dates indicated, the contractual amounts of our off-balance sheet commitments.

	As of 31 December			As of 30 September
	2010	2011	2012	2013
	(in millions of RMB)			
Credit commitments:				
Bank bills acceptance	15,247.7	24,713.9	46,845.5	44,190.3
Issued letters of guarantee	151.2	398.2	235.9	1,368.3
Issued sight letters of credit	86.9	224.8	1,267.7	1,986.1
Credit limit of credit card	351.2	597.1	1,040.3	1,293.8
Subtotal	15,837.0	25,934.0	49,389.4	48,838.5
Capital expenditure commitments	493.8	960.6	1,383.7	1,690.1
Operating lease commitments(1)	185.0	359.7	513.2	596.3
Treasury bond redemption commitments(2)	2,124.0	1,872.0	1,852.0	1,645.0
Relief obligation under risk cooperation fund(3)	–	–	180.0	180.0
Total	18,639.8	29,126.3	53,318.3	52,949.9

Notes:

(1) Refers to the future minimum rentals payable under the non-cancellable operating lease contracts.

(2) We were commissioned by the MOF as issuance agency for its treasury bonds. Holders of treasury bonds might at any time request early redemption of the treasury bonds held by them, and we were liable for acceptance and repayment of such treasury bonds for the amounts of their principals and interests payable up to the redemption date. We expect that the amounts of the treasury bonds to be redeemed by us prior to maturity would be insignificant.

(3) We became a member of the Asia Financial Cooperation Association on 31 December 2012. The risk cooperation fund established by the association was divided into equal portions with each portion amounting to RMB100 million at its establishment. We subscribed for two portions with 10% of the consideration made by cash contribution and 90% made by fulfilment of cooperation obligation, pursuant to which we have the obligation to provide assistance to members, to the extent of RMB180 million in the form of due to banks and other financial institutions or otherwise determined by the Asia Financial Cooperation Association.

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

	As of 30 September 2013			
	Up to one year	One year up to five years	Over five years	Total
	(in millions of RMB)			
Credit commitments:				
Bank bills acceptance	44,190.2	0.1	–	44,190.3
Issued letters of guarantee	932.0	436.3	–	1,368.3
Issued sight letters of credit	1,986.1	–	–	1,986.1
Credit limit of credit card	1,293.8	–	–	1,293.8
Subtotal	48,402.1	436.4	–	48,838.5
Capital expenditure commitments	1,690.1	–	–	1,690.1
Operating lease commitments	131.9	322.4	142.0	596.3
Total	50,224.1	758.8	142.0	51,124.9

RELATED PARTY TRANSACTIONS

During the Track Record Period, we entered into transactions with certain related parties of our Bank, such as taking deposits from, extension of credit facilities and provision of other banking services to the relevant related parties. These transactions were conducted on normal commercial terms and in the ordinary course of our business. See "Our Relationships with our Substantial Shareholder and Connected Transactions" and Note 42 to the Accountants' Report attached hereto as Appendix I to this prospectus.

QUANTITATIVE AND QUALITATIVE ANALYSIS OF MARKET RISK

Market risk refers to the risk of loss in our on- and off-balance sheet businesses as result of adverse movements in market prices, namely interest rates, exchange rates, commodity prices and stock prices. Market risk exists in trading and non-trading businesses of our Bank. The market risks faced by our Bank include interest rate risk and exchange rate risk.

Interest Rate Risk

Our major interest rate risk is that of bank accounts and trading accounts.

The interest rate risk of bank accounts refers to the risk of reduction in our net interest income from assets and liabilities or risk of reduction in the long-term market value of assets and liabilities portfolios as result of fluctuations in interest rates. The interest rate risk of bank accounts arises primarily from the differences existing on the maturity dates (for fixed-rate term) or re-pricing dates (for floating-rate term) of our bank assets, liabilities and off-balance sheet businesses. In addition, the market value of assets in our bank accounts is also subject to bank account interest rate risk brought about by adverse fluctuations in interest rates. We use gap analysis, sensitivity analysis and other methods to measure the interest rate risk of bank accounts.

The interest rate risk of trading accounts refers to the risk of loss in the on- and off-balance sheet businesses under trading accounts due to adverse movements in interest rates. The interest rate risk of trading accounts mainly exists in our trading businesses, including bond trading and derivatives trading. For the management of interest rate risk of trading accounts, we define the classification standards for the financial assets under trading accounts, revaluates the market value of assets under trading accounts on a daily basis, sets trading limits, stop-loss limits and risk limits to carry out limit management and monitors such risks by frequency, and adopts duration analysis, sensitivity analysis and other methods to measure the interest rate risk of trading accounts. We adopt the standard methods to measure the interest rate risk capital of trading accounts in strict compliance with relevant regulatory requirements.

Interest Rate Repricing Analysis

The following table sets forth the results of our gap analysis as of 30 September 2013, based on the earlier of (i) the next expected re-pricing dates and (ii) the final maturity dates for our assets and liabilities.

	As of 30 September 2013					
	Up to three months	Three months up to one year	One year up to five years	Over Five years	Non-interest bearing	Total
	(in millions of RMB)					
Assets:						
Cash and balances with central bank	39,660.2	–	–	–	1,069.5	40,729.7
Due from and placements with banks and other financial institutions	8,713.0	14,467.0	4,550.0	–	–	27,730.0
Financial assets held for trading	714.5	817.0	4,329.6	1,340.5	–	7,201.6
Financial assets held under reverse repurchase agreements	17,422.1	5,211.4	5,150.0	–	–	27,783.5
Loans to customers	26,437.8	73,726.1	1,296.9	129.1	1,048.5	102,638.4
Investments in debt securities	13,153.5	7,222.5	10,820.3	13,433.2	15.5	44,645.0
Investments in associates	–	–	–	–	993.7	993.7
Property and equipment	–	–	–	–	6,542.6	6,542.6
Deferred income tax asset	–	–	–	–	370.8	370.8
Other assets	–	–	–	–	3,024.8	3,024.8
Total assets	106,101.1	101,444.0	26,146.8	14,902.8	13,065.4	261,660.1
Liabilities:						
Borrowings from central bank	756.0	–	–	–	–	756.0
Due to and placements from banks and other financial institutions	12,136.9	16,521.2	6,050.0	2,500.0	–	37,208.1
Financial assets sold under repurchase agreements	6,289.8	–	–	–	–	6,289.8
Deposits from customers	124,374.6	46,239.0	19,453.6	–	1,062.8	191,130.0
Income tax payable	–	–	–	–	272.9	272.9
Debt securities in issue	–	–	3,500.0	–	–	3,500.0
Other liabilities	–	–	–	–	3,494.9	3,494.9
Total liabilities	143,557.3	62,760.2	29,003.6	2,500.0	4,830.6	242,651.7
Interest rate sensitivity gap	(37,456.2)	38,683.8	(2,856.8)	12,402.8	N/A	N/A

Sensitivity Analysis

We use sensitivity analysis to measure the potential effect of changes in interest rates on our net interest income and shareholders' equity. The effect on net interest income refers to the effect on net interest income from a change in interest rates, to a certain extent, on the financial assets and liabilities which were held at the end of the period and expected to have their interest rates reset within the next year. Impact on equity refers to that of net fair value changes arising from the revaluation of available-for-sale financial assets bearing the fixed interest rates held at the end of the year on other consolidated revenue as a result of movements in certain interest rates.

The following table sets forth, as of the dates indicated, the results of our interest rate sensitivity analysis based on our assets and liabilities.

	As of 31 December						As of 30 September	
	2010		2011		2012		2013	
	Changes in net interest income	Changes in shareholders' equity	Changes in net interest income	Changes in shareholders' equity	Changes in net interest income	Changes in shareholders' equity	Changes in net interest income	Changes in shareholders' equity
	(in millions of RMB)							
100 basis points increase	(153.1)	(47.2)	(108.8)	(101.1)	(80.6)	(153.9)	(188.5)	(181.7)
100 basis points decrease	153.1	50.0	108.8	107.2	80.6	162.3	188.5	192.7

Based on our calculation on assets and liabilities as of 30 September 2013, if interest rates increase by 100 basis points, our net interest income and shareholders' equity for the year ended 30 September 2013 would decrease by RMB188.5 million and RMB181.7 million, respectively. Based on our calculation on assets and liabilities as of 30 September 2013, if interest rates decrease by 100 basis points, our net interest income and shareholders' equity for the year ended 30 September 2013 would increase by RMB188.5 million and RMB192.7 million, respectively.

The above interest rate sensitivity analysis is used only as an example and is based on a simplified situation. The analysis shows each of the projected yield curve scenarios and the estimated changes in the net interest income and equity under our current interest rate risk conditions. However, it does not take into consideration the risk management activities that may be taken to mitigate the interest rate risk. These estimates assume that the interest rates of all periods fluctuate by the same percentage; therefore, they do not reflect the potential impact on net interest income and interest under the circumstances that certain interest rates are adjusted while others remaining unchanged.

Foreign Exchange Risk

Foreign exchange risk refers to the risk of loss in our on- and off-balance sheet businesses due to the adverse movements in foreign exchange rates. Our foreign exchange risk exists in the trading and non-trading businesses related to foreign currencies, including foreign currency loans, foreign currency deposits, foreign exchange self-operation, foreign exchange settlement and selling conducted on behalf of customers, etc. We set transaction limits, stop-loss limits and exposure limits to manage the foreign exchange risk relating to our foreign exchange transactions. We adopt foreign exchange risk management principles maintaining zero-position of foreign exchange settlement and selling by branches and sub-branches, centralises the management of bank-wide foreign exchange risk at our headquarters, so as to mitigate the foreign exchange risk and improve the management efficiency of foreign exchange risk. We use the standard methods to measure its foreign exchange risk capital in strict compliance with relevant regulatory requirements.

We mainly operate Renminbi business, while part of our transactions involve U.S. dollar and Ruble. Only few transactions involve other currencies. The following table sets forth our financial assets and liabilities by currency as of 30 September 2013.

	As of 30 September 2013				
	RMB	USD (converted into RMB)	Ruble (converted into RMB)	Other currencies (converted into RMB)	Our foreign currencies (converted into RMB)
			Total		
			(in millions of RMB)		
Assets					
Cash and balances with central bank	40,643.2	41.1	21.8	23.6	40,729.7
Due from and placements with banks and other financial institutions	27,113.1	543.6	23.7	49.6	27,730.0
Financial assets held for trading	7,201.6	–	–	–	7,201.6
Financial Assets held reverse repurchase agreements	27,783.5	–	–	–	27,783.5
Loans to customers	101,740.0	898.4	–	–	102,638.4
Investments in debt securities	44,645.0	–	–	–	44,645.0
Investments in associates	993.7	–	–	–	993.7
Property and equipment	6,542.6	–	–	–	6,542.6
Deferred income tax asset	370.8	–	–	–	370.8
Other assets	3,024.8	–	–	–	3,024.8
Total assets	260,058.3	1,483.1	45.5	73.2	261,660.1
Liabilities					
Borrowings from central bank	756.0	–	–	–	756.0
Due to and placements from banks and other financial institutions	37,165.6	42.5	–	–	37,208.1
Financial assets sold under repurchase agreements	6,289.8	–	–	–	6,289.8
Deposits from customers	190,566.0	501.8	1.8	60.4	191,130.0
Income tax payable	272.9	–	–	–	272.9
Debt securities in issue	3,500.0	–	–	–	3,500.0
Other liabilities	3,479.8	11.5	2.2	1.4	3,494.9
Total liabilities	242,030.1	555.8	4.0	61.8	242,651.7
Net position of assets and liabilities	18,028.2	927.3	41.5	11.4	19,008.4
Credit commitments	48,613.3	404.3	–	0.9	49,018.5

Sensitivity analysis

The following table sets forth, as of the dates indicated, the impact of an annual 1% depreciation of the U.S. dollar against RMB on our profit before tax and equity. If the U.S. dollar appreciates against RMB by the same percentage, it would have the opposite impact on our profit before tax and equity by the same amount. The affected amounts disclosed in the following table are on the assumption that our foreign exchange exposures remain unchanged at the end of the year and have not taken into consideration the measures we may take to eliminate the adverse impact of foreign exchange exposures on our profits.

		As of 31 December						As of 30 September	
		2010		2011		2012		2013	
	Changes in exchange rate %	Changes in profit before tax	Changes in shareholders' equity	Changes in profit before tax	Changes in shareholders' equity	Changes in profit before tax	Changes in shareholders' equity	Changes in profit before tax	Changes in shareholders' equity
		(in millions of RMB)							
USD	-1%	(2.6)	–	(2.7)	–	(4.5)	–	(9.3)	–

Financial Derivatives

Our Bank obtained the qualification for derivatives trading in 2012. As of 30 September 2013, the derivatives trading carried out by our Bank mainly includes a small number of interest rate swaps. We use financial derivatives to hedge interest rate risk. We may use more financial derivatives in our business development and operations in the future.

CAPITAL EXPENDITURES

Our capital expenditure for the three years ended 31 December 2012 and the nine months ended 30 September 2013 primarily included purchases of fixed assets pertaining to buildings, leasehold improvements, office equipment and motor vehicles as we expanded our business and increased the number of our branches and staff.

Our capital expenditure was RMB536.2 million for the nine months ended 30 September 2013. In 2012, our capital expenditure was RMB2,805.6 million, representing an increase of 56.7% as compared to RMB1,790.9 million in 2011. Our capital expenditure in 2011 represented an increase of 117.6% as compared to RMB822.9 million in 2010.

CRITICAL ACCOUNTING JUDGEMENTS AND ACCOUNTING ESTIMATES

In the implementation of our accounting policies, our management will make judgements and assumptions on the impact of future uncertainties on our financial statements. At the end of the reporting period, the management made the following key judgements and assumptions on major future uncertainties, which could lead to significant adjustments to the carrying value of assets and liabilities in the next accounting period.

Classification of Held-to-maturity Investments

Held-to-maturity investments are the non-derivative financial assets which we have an explicit intention and ability to hold to maturity, and which have fixed or determinable recoverable amounts and fixed terms. The management needs to make significant judgments to determine the classification of held-to-maturity investments. If we misjudge our intention and ability to hold to maturity, and sells or reclassifies a relatively large amount of held-to-maturity investments before their respective maturity date, all the remaining held-to-maturity investments will be reclassified as available-for-sale financial assets.

Impairment Loss on Loans to Customers, Due from and Placements with Banks and Investments in Receivables

Our Bank regularly makes judgements on whether there is any objective evidence that impairment loss has happened on loans to customers, due from and placements with banks and investments in receivables. If there is any such evidence, we will estimate the amount of such impairment loss. The amount of impairment loss is the difference between the carrying amount and the estimated discounted future cash flows. When estimating the amount of impairment loss, our Bank needs to make significant judgements on whether there is any objective evidence that impairment loss for any of the above items has occurred, and also to make significant estimates on the present value of expected future cash flows.

Income Taxes

We need to make judgements on the future tax treatment of certain transactions to confirm income tax. Under the relevant tax laws and regulations, we make judgements on the income tax implications of transactions and the corresponding provision for income taxes. Deferred income tax assets will be recognised only when there is a probability that the future taxable profits will be available to deduct against temporary differences. We are required to make significant judgements on the tax treatment of certain transactions, and make significant estimates on the likelihood that there will be sufficient future taxable profits to offset deferred income tax assets.

Fair Value of Financial Instruments

If the market for a financial instrument is not active, we determine fair value by using a valuation technique. Valuation techniques include using pricing determined in recent arm's length market transactions between informed parties who have intention to trade referring to the current fair value of another instrument that is substantially the same, or using the discounted cash flow analysis and option pricing models. To the extent practicable, valuation technique makes maximum use of observable market information. However, where market information is not available, our management will make estimates on material unobservable market information used in the valuation techniques.

Early-Retirement Benefit Liabilities

We have recognised benefits paid to early retired employees as liabilities. The amounts of employee benefit expenses and liabilities are determined using various assumptions, and conditions such as discount rates, inflation rates and other factors. Differences between actual result and assumptions are recognised as expenses for the period immediately after the occurrence of such differences. While our management believes that the assumptions are appropriate, differences in actual working experience of employees or changes in assumptions may affect the expenses and balance of liabilities related to our employee retirement benefits.

RECENT ACCOUNTING PRONOUNCEMENTS

We have not applied the following new and revised IFRSs (including IASs) that have been issued but are not yet effective.

Amendments to IAS 32	Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities(1)
Amendments to IFRS 10 and IFRS 12 and IAS 27	Investment Entities(1)
IFRS 9	Financial Instruments(2)
IFRIC Interpretation 21	Levies(1)
Amendments to IAS 39	Novation of Derivatives and Continuation of Hedging Accounting(1)

Notes:

(1) Effective for annual periods beginning on or after 1 January 2014.

(2) Effective for annual periods beginning on or after 1 January 2015.

We do not expect that the application of these IFRSs (including IASs) will have any material effect on our operating results or financial conditions.

RULES 13.13 TO 13.19 OF THE HONG KONG LISTING RULES

As of the Latest Practicable Date, we confirm that there are no circumstances which will trigger disclosure requirements for us under Rule 13.13 to 13.19 of the Hong Kong Listing Rules.

DIVIDEND POLICY

Our Board is responsible for submitting proposals in respect of dividend payments, if any, to the shareholders' general meeting for approval. The determination of whether to pay a dividend and in what amount is based on our results of operations, cash flows, financial condition, capital adequacy ratios, future business prospects, statutory and regulatory restrictions on the payment of dividends by us and other factors that our Board deems relevant. Under the PRC Company Law and our Articles of Association, all of our shareholders holding the same class of shares have equal rights to dividends and other distributions proportionate to their shareholding. Under PRC law, we may only pay dividends out of our distributable profit. Our distributable profits represent the sum of the consolidated net profit attributable to our equity holders and the unconsolidated net profit of our Bank for a period, whichever is lower, plus the distributable profits or net of the accumulated losses, if any, at the beginning of such period, as determined under PRC GAAP or IFRS, whichever is lower, less:

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

According to recent MOF regulations, since 1 July 2012, we in principle are required to maintain a statutory general reserve of no less than 1.5% of the balance of our risk-bearing assets from our net profits after tax. Such statutory general reserve forms part of our reserve. As of 31 December 2012, a general reserve of RMB950.3 million has been appropriated, which is in compliance with the latest requirement of the MOF on percentage of appropriation to general reserve.

According to the latest Articles of Association of our Bank approved by the shareholders' general meeting on 10 May 2013, our Bank shall distribute dividends for any profitable year. Annually, profits to be distributed by our Bank in cash shall not be less than 10% of the distributable profits realised in that year.

Any distributable profit that is not distributed in a given year is retained and available for distribution in subsequent years. However, ordinarily we do not pay any dividends in a year in which we do not have any distributable profit in respect of that year. The payment of any dividend by us must also be approved at a shareholders' general meeting. We are prohibited from making any profit distributions to our shareholders before recovering our accumulated losses and making appropriations to the statutory surplus reserve and the general reserve. If we make any profit distributions in violation of these rules, our shareholders are required to return to us the amounts they received in such profit distributions.

In addition, pursuant to the requirements of the New Capital Adequacy Measures taking effect from 1 January 2013, for the Grade VI commercial banks which fail to meet the minimum capital requirements on capital adequacy ratio, tier 1 capital adequacy ratio or core tier 1 capital adequacy ratio, and for the Grade III commercial banks which meet the above minimum capital requirements but fail to meet other minimum capital requirements, the CBRC has the discretionary right to restrict distribution of dividends and other income from banks. See "Supervision and Regulation – PRC Banking Supervision and Regulation – Supervision Over Capital Adequacy – Latest CBRC Supervisory Standards over Capital Adequacy". As of 30 September 2013, our Bank had a capital adequacy ratio, tier 1 capital adequacy ratio and core tier 1 capital adequacy ratio of 13.24%, 11.65% and 11.65%, respectively, calculated according to the requirements in the New Capital Adequacy Measures.

We paid stock dividends of RMB686.7 million and cash dividends of RMB171.7 million in respect of profits for the year ended 31 December 2012 in 2013. We paid stock dividends RMB392.4 million and cash dividends of RMB392.4 million in respect of profits for the year ended 31 December 2011 in 2012. We paid stock dividends RMB1,890.3 million in respect of profits for the year ended 31 December 2010 in 2011. At the shareholders' general meeting held on 10 May 2013, it was resolved that the accumulated undistributed profits before the Global Offering be shared among existing shareholders and new shareholders.

UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following statement of our unaudited pro forma adjusted consolidated net tangible assets is prepared based on our consolidated net tangible assets as of 30 September 2013, as shown in the Accountants' Report attached in Appendix I to this prospectus, adjusted as described below.

The statement of unaudited pro forma adjusted consolidated net tangible assets has been prepared to show the effect on our unaudited consolidated net tangible assets on 30 September 2013 as if the Global Offering had occurred on 30 September 2013. The unaudited pro forma adjusted consolidated net tangible assets is calculated in accordance with Rule 4.29 of the Hong Kong Listing Rules.

The statement of the unaudited pro forma adjusted consolidated net tangible assets of our Bank has been prepared for illustrative purposes only and, as a result, may not be an accurate reflection of our financial position.

	Net tangible assets attributable to the shareholders of our Bank as of 30 September 2013	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted consolidated net tangible assets attributable to the shareholders of our Bank	Unaudited pro forma adjusted consolidated net tangible assets per share	
	RMB million	RMB million	RMB million	RMB	HK$
	(Note 1)	(Note 2)	(Note 3)	(Note 4)	(Note 5)
Based on the offer price of HK$2.89 per Offer Share	18,778	6,080	24,858	2.26	2.86
Based on the offer price of HK$3.33 per Offer Share	18,778	7,014	25,792	2.35	2.97

Notes:

(1) The consolidated net tangible assets attributable to shareholders of our Bank as of 30 September 2013 is compiled based on the Accountants' Report set out in "Appendix I – Accountants' Report" to this prospectus, which is calculated according to the audited consolidated net assets attributable to shareholders of our Bank at 30 September 2013 of RMB18,816 million with an adjustment for intangible assets of RMB37,493 thousand as of 30 September 2013, respectively.

(2) The estimated net proceeds from the Global Offering are based on the Offer Prices of HK$2.89 per Offer Share and HK$3.33 per Offer Share after deduction of the underwriting fees and other related expenses payable by our Bank, and do not take into account any offer shares which may be issued upon the exercise of the Over-allotment Option.

(3) The unaudited pro forma adjusted consolidated net tangible assets attributable to shareholders of our Bank do not take into account the effect of the profit for the period from and including 1 October 2013 to the date immediately preceding the date of the Global Offering and the distribution of such profit to the shareholders during that period.

(4) The unaudited pro forma adjusted consolidated net tangible assets per share are arrived at adjustments referred to in note (2) above on the basis that 10,995,599,553 shares (comprising 8,246,899,553 shares issued and outstanding on 30 September 2013 and 2,748,700,000 shares to be newly issued pursuant to the Global Offering) are issued and outstanding following the completion of the Global Offering and that the Over-allotment Option is not exercised.

(5) The translation of Renminbi into Hong Kong dollars has been made at the rate of RMB0.79004 to HK$1.00, the medium rate set by SAFE for foreign exchange transactions prevailing on 10 March 2014. No representation is made that the Hong Kong dollar amounts have been, could have been or could be converted to Renminbi, or *vice versa*, at that rate or at any other rates or at all.

NO MATERIAL ADVERSE CHANGE

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

WORKING CAPITAL

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