

OVERVIEW

We are the first and largest national joint stock commercial bank in the PRC primarily founded by non-state-owned enterprises. Since our establishment in 1996, we have grown significantly and, as of September 30, 2009, we ranked fourth among the Other Joint Stock Commercial Banks in terms of total assets according to PBOC statistics. As of September 30, 2009, we had total assets of RMB1,402.9 billion, total loans to customers of RMB893.5 billion and total deposits from customers of RMB1,099.5 billion.

We have expanded our business at a rapid pace. From December 31, 2006 to December 31, 2008, our total assets, total loans to customers and total deposits from customers grew at a CAGR of 20.6%, 18.1%, and 16.1%, respectively. From 2006 to 2008, our net profit grew at a CAGR of 44.9% from RMB3.8 billion to RMB7.9 billion. We had profit before tax of RMB13.5 billion for the nine months ended September 30, 2009 (which includes a non-recurring gain on disposal of Haitong securities of RMB4.9 billion). Although our business has grown rapidly during this period, we have maintained our discipline at risk management, and thereby also maintained high asset quality. As of September 30, 2009, our non-performing loan ratio⁽¹⁾ was 0.82%, compared with the industry's average of 1.66% in China.

In recent years, we have taken a number of measures to rationalize our business mix, strengthen our risk management system and upgrade our information technology system in order to improve our overall competitiveness. Since late 2007, we have carried out a SBU reform to align our internal structure with our key industries, customers and products, which we believe will strengthen our ability to better take advantage of market opportunities, serve customers and manage risk. We believe that we were the first PRC bank to implement wide-ranging SBU reform. We have received a number of honors and awards for our business performance, management capability and corporate governance. For example:

- in 2009, The Chinese Banker («銀行家») magazine named us the “Best Corporate Governance Bank of 2008;”
- in 2008, we were named one of the “Best Risk Management Banks” in the PRC in the annual Best PRC Financial Institutions League Table Awards organized by the Financial News («金融時報»);
- in 2008, a panel led by the Development and Research Center of the State Council and various other organizations ranked us third among its “100 Most Dynamic PRC Enterprises of 2008;”
- in 2008, The Chinese Banker («銀行家») magazine named us the “Best Corporate Governance Bank of 2007” and “Best Management Practices Innovation Bank of 2007;”
- in 2008, we were recognized as having the “Best Customer Service Center in Finance” by the Financial News («金融時報»);
- in 2008, we were named “Best Online Bank” by the China Electronic Commerce Association and the China Payment Systems Research Center and we received the “2008 Award for the PRC Online Bank with the Best Risk Prevention” from the Chinese Finance Certification Agency; and
- in 2007, Forbes Magazine listed us as one of the “Top 50 Largest Listed Enterprises in the Asia Pacific Region.”

We are headquartered in Beijing and had 29 branches and 387 sub-branches throughout the PRC as of September 30, 2009. Through our network, we provide a broad range of corporate and

Note:

(1) Our non-performing loan ratio is identical to our impaired loan ratio as such term is read in this prospectus.

retail banking products and services. We also conduct treasury operations for our own account and on behalf of our customers. For the nine months ended September 30, 2009, our total operating income was RMB31.3 billion, which includes an amount of RMB5.6 billion that was not allocated to our three main lines of business. Such amount mainly related to a RMB4.9 billion gain on disposal of interest in Haitong Securities, see “Financial Information — Results of Operations — Six Months Ended June 30, 2009 Compared to Six Months Ended June 30, 2008 — Net gain/(loss) on Disposal of Available-for-sale Securities”. Excluding such RMB4.9 billion gain, our total operating income for the nine months ended September 30, 2009 would have been RMB26.4 billion and contribution to such total operating income by corporate banking, retail banking and treasury business would have been 70.9%, 13.4% and 13.1%, respectively. We completed the domestic initial public offering and listing on the Shanghai Stock Exchange of our A shares in December 2000.

OUR STRENGTHS

Our principal strengths include:

Since our establishment, we have followed a market-oriented and profit-driven business model with a corporate culture that encourages innovation

Since our establishment in 1996, we have continuously adjusted our operational model and strategies in response to changing market conditions, thereby allowing us to grow our business and enhance shareholders’ return. Since our listing on the Shanghai Stock Exchange in 2000, we took advantage of the rapid overall growth of the PRC banking industry and have quickly expanded our size while maintaining our profitability, achieving a CAGR of 52.5% from 2000 to 2006 in terms of total loans. From 2006 to 2008, in response to intensifying market competition, we proactively adjusted our loan portfolio by offering innovative products and services that generate higher profit. From December 31, 2006 to December 31, 2008, the CAGR for our total loans to customers was 18.1%. Our Pre-provision Operating Profit and our profit before tax increased at even faster rates, with a CAGR of 51.1% and 41.5%, respectively, for the same period. We also expanded our fee and commission-based business to enhance profitability and diversify our revenue sources. Our net fee and commission income accounted for 11.3%, 12.8%, 9.5% and 5.9% of our total operating income for the nine months ended September 30, 2009, and the three years ended December 31, 2008, 2007 and 2006, respectively.

We continue to innovatively adjust our operational model, management practices, product offerings and infrastructure to improve our profitability.

- *Operational model innovation.* We have a proven track record of innovating and adjusting our operational model in response to changing market conditions. In 2002, we implemented a performance-based grading system of sub-branches to better allocate resources and incentivize employees. We started our SBU reform in late 2007 and believe that we were the first PRC commercial bank to implement wide-ranging SBU reform. Such reform transforms our operational structure in accordance with, and allows us to reallocate our resources to, those key industries, products and customers that make up our strategic focus. As a result, we have improved our resource allocation efficiency, our customer service quality and our risk management.
- *Management practices innovation.* We continuously monitor and improve our management practices, particularly with respect to our credit approval, risk management and personnel performance appraisal to effectively manage our business in response to changing market conditions.
- *Product innovation.* Since our establishment, we have been striving to continually innovate our product offerings. We began offering discounted bills with interest payments payable by buyers, rather than sellers, in 2002. In 2009, we launched “Shang Dai Tong” (商貸通), a line of new loan products specifically designed for individual businesses, small

business owners and micro-enterprises. Our provision of innovative new products has become an important driver to our growth and enables us to continuously achieve high customer satisfaction.

- *Infrastructure upgrade.* We have continued to develop and enhance our infrastructure. We believe we were one of the first in the PRC banking sector to adopt a centralized system for our accounting and financial information in 2002. We have also begun to roll out a new core banking system in the fourth quarter of 2009, which seeks to transform our previously accounting-focused core system into a customer-focused core system. We were the first bank in the Asia Pacific region to adopt a SAP core banking system and a SAP financial management solution.

We are a fast growing national joint stock commercial bank in the PRC that has sound corporate governance, well-established compliance practices and transparent disclosure systems

We are the first and the largest national joint stock commercial bank primarily founded by non-state owned enterprises. As one of the first commercial banks listed on the Shanghai Stock Exchange in 2000, we are committed to achieving sound corporate governance and cultivating a corporate culture that encourages compliance practices. We have also sought to improve our financial transparency and strengthen our corporate governance in accordance with the Shanghai Listing Rules. As part of our commitment to improve the transparency of our disclosure to investors, our accounting reports have been prepared based on IFRS and audited by an internationally recognized accounting firm since 1996.

We believe that by leveraging our sound corporate governance, compliance oriented operations and market-oriented and profit-driven business model, we will be able to maintain sustainable growth and achieve higher returns for our shareholders, as demonstrated by our fast growing track record. After only thirteen years of operations, we have successfully grown to become one of the leading Other Joint Stock Commercial Banks in the PRC. As of September 30, 2009, we became the fourth largest Other Joint Stock Commercial Bank in the PRC in terms of total assets according to PBOC statistics.

Our outstanding corporate banking business, coupled with the SBU reform, has further strengthened our competitive position

We believe that we have an outstanding corporate banking franchise with a high quality corporate customer base. Corporate banking represented 75.5% of our total operating income for the year ended December 31, 2008. Excluding the RMB4.9 billion gain on disposal of interest in Haitong Securities, our total operating income for the nine months ended September 30, 2009 would have been RMB26.4 billion and corporate banking would have represented 70.9% of such total operating income. According to the PBOC, as of September 30, 2009, we ranked second and first, respectively, among Other Joint Stock Commercial Banks in the PRC in terms of increase in corporate loans (excluding discounted bills) and corporate deposits since the beginning of the year. We have accumulated a large number of high quality corporate customers, many of whom are leaders in their respective industries.

Aside from our traditional corporate lending businesses, we have a strong presence in trade finance, discounted bills and financial advisory services and our services in these areas are well-recognized in the market. In 2008, we were the leader in international factoring in the PRC, by number of international factoring transactions, according to the International Factors Group, an international association of factoring companies. In 2009, we received the "PRC Region Trade Finance Achievement Award" from the Asian Banker magazine («亞洲銀行家»), becoming the only PRC bank to have received this award. We are also an active participant in the bill discounting market by providing innovative products and services. For example, in 2002, we began offering

discounted bills with interest paid by buyers rather than sellers and, in 2009, we launched the “Kuaiyitie” (快易贴) product, which utilizes our proprietary system that improves the effectiveness of our risk control and the efficiency of our bill discounting operations. We also received the “Best Performance Award for Syndicated Loans” from the Syndicated Loan and Trade Professional Committee of the China Banking Association in 2009, becoming the only Other Joint Stock Commercial Bank to receive this award.

In order to further strengthen our corporate banking business, in late 2007, we established SBUs to transform our operational structure in accordance with, and to reallocate resources to, our key industries, customers and products that make up our strategic focus. We believe that the establishment of the SBUs strengthens our ability to capture market opportunities, better serve customers and manage risks. For the nine months ended September 30, 2009, the total loans and total deposits of our four industry-specific SBUs increased by 40.9% and 48.8%, respectively, as compared to December 31, 2008. Over the same period, the proportion of loans with higher-than-benchmark interest rates for our industry-specific SBUs was higher than that for our Bank as a whole. In 2008 and the nine months ended September 30, 2009, our industry specific SBUs also maintained relatively low levels of non-performing loans. See “— Our Principal Business Activities — Corporate Banking — Strategic Business Units.”

We have a distinct retail banking business model that has contributed to the strong growth of our retail banking business

Our retail banking business has grown rapidly in recent years. From 2006 to 2008, our retail loans and retail deposits have increased at a CAGR of 25.8% and 20.0%, respectively. Our operating income from retail banking business increased at a CAGR of 60.0% from 2006 to 2008. In 2008, we received the “Best Retail (Wealth Management) Bank in China” award from the organizing committee of the China International Finance Forum, the “2008 Retail Financing Service Brand” award from CBN Financial Value Ranking 2008 and the “2008 Best Business Innovation Award (Most Innovative Retail Bank)” from Sina.com.

This strong growth is attributable to our distinct retail banking business model which features the following strengths:

- *Attracting medium- and high-end retail customers.* By focusing on product and service innovation, we continue to attract medium and high-end retail customers whose deposits represent a large proportion of our total retail deposits. As of September 30, 2009, deposits from our customers with daily average financial assets of more than RMB500,000 accounted for 53.8% of our total retail deposits.
- *Penetrating new markets through clear market segmentation.* In addition to offering traditional retail banking products, we began proactively marketing standardized and targeted loan products specifically to individual businesses, small business owners and micro-enterprises, i.e., through our “Shang Dai Tong” (商贷通) brand, in early 2009 to enable us to access a market with high growth potential.
- *Focusing on sales and marketing.* In order to allow our sub-branches to focus on sales and marketing, we reallocated a large portion of our non-customer service work from our sub-branches to the processing centers at the branch and headquarters level by leveraging our account settlement and service platform of our retail banking. In addition, we have also implemented standard operating procedures across our sub-branches to further improve the quality of our customer service and raise customer satisfaction and loyalty.

Since we began issuing credit cards in June 2005, our credit card business has developed rapidly. We believe we were one of the few PRC banks that have announced profitability in the credit card business. We believe we achieved profitability in a relatively shorter period of time than most of our

peers. We have received various awards from international and national credit card organizations, including the “2008 Best Platinum Credit Card” by Master Card Worldwide.

We have built a fast growing fee and commission-based business by leveraging product and service innovation and our high-quality customer base

From 2006 to 2008, our fee and commission income has grown rapidly at a CAGR of 97.1% from leveraging our continuous introduction of innovative products and services. Our “Favorite Wealth Management” (非凡理財) line of products received various international and national awards including the “Chinese Banking Industry Best Individual Financial Product Brand Award” in the 2007 Sohu Business Financial Management Network Award Ceremony (搜狐財經2007金融理財網絡) and the “China Banking Industry Most Influential Wealth Management Innovative Brand” in 2008 awarded by the People’s Daily, the China International Market Association and other relevant organizations. In 2005, we were one of the first financial institutions in the PRC to be permitted by the CBRC to conduct derivative transactions. In 2005, we were one of the first financial institutions permitted by the CBRC and the SAFE to conduct structured RMB financial services including exchange rate-linked and interest rate-linked structured financial services. Leveraging these innovations as well as our high-quality customer base, our net fee and commission income increased from 5.9% to 12.8% of our total operating income from 2006 to 2008. Excluding the RMB4.9 billion gain on disposal of interest in Haitong Securities, our total operating income for the nine months ended September 30, 2009 would have been RMB26.4 billion and net fee and commission income would have accounted for 13.4% of such total operating income.

We have prudent and comprehensive risk management

Our experienced risk management team continuously develops and improves our risk management structure, procedures, tools and technology to monitor, assess and manage credit, market, liquidity and operational risks. Our risk management team has extensive risk management experience. We are one of the first banks in the PRC banking industry to have established a comprehensive integrated risk management system. We continue to improve our risk management in order to improve our asset quality. As of September 30, 2009, December 31, 2008, 2007 and 2006, our impaired loan ratio was 0.82%, 1.20%, 1.22% and 1.25%, respectively, with a coverage ratio of our total allowance for impairment losses to total impaired loans of 185.8%, 150.0%, 113.1% and 108.9%, respectively. In 2008, we were honored as the “Annual Best Risk Management Bank” by the Financial News in conjunction with the Institute of Finance and Banking at the Chinese Academy of Social Sciences.

We have always focused on asset quality in assessing the performance of our business. We have established independent credit assessment, approval and monitoring procedures, and rationalize our loan asset portfolio by establishing procedures to identify and limit our exposure to high credit risk areas. We strive to resolve our impaired loans through internal controls. We currently use advanced market risk and liquidity risk monitoring and analysis tools in order to identify, measure and manage liquidity risk and market risk. Through this process we have sought to cultivate a culture of prudent and comprehensive risk management across our business.

We have an advanced information technology system

We believe we are a leader in adopting and implementing advanced IT systems. We believe that we were the first PRC banks to adopt a combined accounting and business system in 2001. In 2003, we became the first bank in the PRC to use SAP financial management software. Also in 2003, we established eight centralized IT systems to manage our major internal business functions, for which we were recognized as a Computerworld Honors Laureate for our “visionary use of information technology in business” by the Computer World Honors Program in 2004. In 2004, we began to develop our new core banking system, commenced its construction in 2007 and began rolling it out in 2009. We are the first bank in the Asia Pacific region to use a SAP core banking system and a SAP

financial management solution. The new core banking system improves customer service, allows for more comprehensive risk management and increases the efficiency of our business operations.

We have an experienced senior management team and skilled workforce

We have an experienced senior management team, with an average of 20 years of PRC financial industry and managerial experience. Our chairman of the Board, Mr. Dong Wen Biao, has over 28 years of financial industry experience and has been with us since our establishment in 1996. He was named "Chairman of the Board with Most Strategic Vision," by the Board Magazine, and received the "2008 Most Innovative Banker Award," by 21st Century Business Herald, the "Bank Innovative Person of the Year Award" by Sina.com and the "Special Contribution to Construction of the PRC Economy Award" from the China Business Times and the Renmin University of China Chinese Private Enterprise Research Center. Mr. Hong Qi, appointed as our President in March 2009, has more than 24 years of financial industry experience and has been with us since our establishment. He has held key senior positions in various important departments at the Bank. He gained extensive regulatory and managerial experience in the banking industry prior to joining us and was recognized as one of the top ten "Responsible Leaders" at the first Enterprise Social Responsibility annual meeting in 2009.

We rely on advanced human resources management principles, including a competitive incentive scheme and an advanced training system to motivate our workforce and attract and retain qualified personnel. We maintain a highly skilled workforce. For example, as of September 30, 2009, more than 60% of our workforce have bachelor's degrees and more than 11% have masters or higher level degrees. In addition, we have a formalized college recruitment program to attract talented employees and we have established the Minsheng Bank Training Institute to improve the quality of our workforce. In 2005, The Chinese Banker («銀行家») magazine ranked us first in terms of human resource competitiveness in their PRC Commercial Bank Competitiveness Report.

OUR STRATEGIES

Our strategic goal is to become an internationally competitive and the best PRC commercial bank. We aim to become the bank of choice for private-owned enterprises, small and micro-enterprises and high end customers. We aim to become a distinctive bank with strong profitability, and will achieve such strategic goal through further leveraging our advantages including being a non-state-owned enterprise with sound corporate governance, a market-oriented and profit-driven business model, an innovative corporate culture, a highly skilled workforce and an advanced IT system. We also plan to establish a banking-focused integrated financial services platform. Our detailed strategies include:

Maintaining and expanding our existing high quality large corporate customer base by providing innovative products and high quality services and refining our SBU operations

Corporate banking is our core business and we believe it will remain our main source of profit in the future. We intend to develop our fee and commission income through product and service innovation and continue to consolidate our customer base and our presence in key industries through refining our SBU operations. We plan on maintaining and expanding our existing corporate banking business for our large corporate customers by implementing the following customer, product and marketing strategies:

Customer Strategy

- Continuing to refine our SBU operations in order to strengthen specialization and business development for the identified industries and customers;
- Encouraging each SBU and branch to develop its business according to its respective industry or geographic characteristics;

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- Actively seeking to adjust our customer composition by focusing on customers from whom we could generate higher risk-adjusted returns;
- Identifying and focusing on industries with high growth potential;
- Continuing to improve the quality of our customer service, raise customers satisfaction and build customer loyalty;

Product Strategy

- Improving our research and product development capabilities to provide comprehensive financial solutions;
- Focusing on the expansion of transaction financing and cash management product, the expansion of financial consulting services as our primary investment banking product, and the development of our syndicated and other loans;
- Continuing to maintain our strength in trade finance business;

Marketing Strategy

- Building up comprehensive, customer-oriented marketing and increasing overall sales and operational efficiency.
- Encouraging internal cross-selling; and
- Sharing distribution channels and customer resources among SBUs and branches to generate synergies.

Striving to become a leader in the SME financial services business in the PRC by leveraging our diverse customer base and knowledge of the SME financial services sector

As the first and largest national joint stock commercial bank established primarily by non-state-owned enterprises ourselves, we maintain inherent relationships with privately owned SMEs. We believe that the SME financial services sector will be one of our key business drivers and we intend to become a leader in the domestic SME financial services business by:

- Developing our SME loan business and increasing loan yields, by continuing to develop standardized products to better manage risks and increase our risk-adjusted yields;
- Progressively developing our operations in strategic regions such as the Yangtze River Delta, Bohai Rim and Western Taiwan Straits Economic Zone, and other regions;
- Improving service efficiency and developing customized financial services for SMEs; and
- Optimizing our operational and management processes for SME financial services.

Actively expanding our retail banking business and consolidating our strengths in medium and high-end customers and wealth management

We aim to accelerate the development of our retail banking business by providing high-quality products and services including “Shang Dai Tong” (商貸通), private banking, wealth management and credit cards to our medium and high-end customers. We believe that the retail banking business will be one of our key business drivers and we intend to become a leader in the domestic retail banking business by:

- Expanding our medium and high-end customer base by encouraging our internal cross-selling and providing our targeted customers with comprehensive financing services that meet their requirements;

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- Further developing the “Shang Dai Tong” (商貸通) brand for individual businesses, small business owners and micro-enterprises;
- Developing our private banking business by providing customized and integrated financial solutions;
- Expanding our credit card business by focusing on medium and high-end customers; and
- Enhancing the competitiveness of our retail wealth management business.

Maintaining the rapid growth of our fee and commission-based business

We intend to grow our fee and commission-based business through the following:

- promoting cooperation with insurance companies, securities firms, fund management firms and trust companies to grow our custody and agency businesses;
- encouraging product and service innovation to provide more customer-oriented services; and
- encouraging the development of our fee and commission-based business through the optimization of internal policies, such as employee incentive schemes that are more closely linked to performance.

Strategically expanding and improving our branch networks and other distribution channels

We intend to pursue profitable growth by expanding our branch network in economically developed and key strategic regions, which include provincial capital cities and certain tier-two cities of economically developed regions. We intend to selectively expand our branch network to increase our customer base and capture business opportunities. In addition, we plan to allocate additional resources to expand our self-service banking centers and ATMs. By further promoting customer use of our electronic distribution channels, we expect to achieve greater operational efficiency and improve our customer coverage.

Continuing to maintain our competitive strength in information technology

We believe that our advanced IT system will continue to form a solid foundation for sustainable development in an increasingly competitive industry. We will continue to allocate significant resources to roll out our new core banking system. We expect that this new core banking system will greatly enhance our current IT system by consolidating our operations, increasing efficiency and improving system and data reliability. Additionally, we expect the new core banking system to enhance our customer relationships, and provide us with more comprehensive risk management and improved operational management. We also intend to strengthen the application of IT in our business and continually optimize our IT systems to maintain our competitive strength.

Further strengthening our risk management and internal control

Our risk management objectives include pursuing growth while maintaining prudent risk management, establishing and continuing to improve an integrated risk management system that is in compliance with applicable regulatory requirements and protecting the interests of our shareholders, customers and employees. To achieve these objectives, we intend to:

- *Improve our credit risk management.* Along with our existing credit risk management procedures including centralized credit approval and assessment systems, we also plan to refine our internal credit risk rating system and further emphasize on these ratings within the credit management process. We intend to continue to migrate our risk management structure and practices towards international best practices including Basel II. In particular,

we will seek to implement new tools to more accurately measure and assess the credit risk of our customers such as the internal rating approval system under Basel II.

- *Leverage our extensive experience and expertise to improve our ability to manage market risk and liquidity risk.* In addition to the quantitative tools we currently use, we plan to increase the use of advanced market risk and liquidity risk monitoring and analysis tools, including gap analysis, duration analysis, scenario simulation and stress testing, in order to improve our ability to identify, measure and manage market risk and liquidity risk.
- *Reduce operational risk and strengthen internal legal compliance.* Along with the continuous implementation of effective guidelines and systems to manage and mitigate our operational risk, we also intend to establish an operational risk incident assessment database that uses our customized operational risk indicators. We also plan to consolidate our risk classification standards to more effectively monitor and reduce our operational risk. Additionally, we intend to further strengthen the management of our legal compliance and the independent assessment mechanism of our internal audit department.

Continuing to improve our financial and operational efficiency and enhancing our capital management capabilities

We intend to improve our financial efficiency by:

- adjusting our asset composition to achieve higher yields;
- adjusting our liability composition to lower our cost of funds; and
- continuing to apply internal funds transfer pricing to ensure efficient allocation of resources to businesses with higher profit margins.

We intend to improve our operational efficiency by:

- allocating our resources to enhance areas of our distribution network where there is significant business potential;
- increasing the utilization of cost-effective electronic distribution channels, including our telephone banking, internet banking and mobile banking channels; and
- aligning the interests of our personnel with our business performance by establishing incentive schemes that are more closely linked to performance.

We also intend to strengthen our capital management capabilities by:

- adopting broader parameters in defining business performance by focusing on risk-adjusted return on capital;
- managing our balance sheet more prudently by gradually transitioning from regulatory capital measurement to economic capital measurement as we believe by focusing on economic capital management, we could more accurately assess the risk of each individual business; and
- managing and adjusting our capital allocation in a dynamic manner in line with changes in our internal and external business environments.

Further strengthening the competitiveness of our talented workforce

We plan to further strengthen our workforce to meet our strategic goals. We will continue to recruit, train and retain talented employees to expand our quality workforce in line with our strategic business objectives. In order to optimize our workforce composition, we intend to adopt international best practices in human resources management. For example, we intend to establish sophisticated career advancement management systems with a more refined hierarchy of ranks and

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positions and to strengthen our ability to counsel our employees on career development issues. We will continue to rely on an incentive-based compensation structure to better align employees' compensation with their contribution to our business. We will continue to improve our human resources policies to attract, train, incentivize and retain our employees.

Selectively entering into other areas of financial services when appropriate business opportunities arise

In order to supplement our existing banking business, we intend to selectively enter into other areas of financial services as permitted by applicable laws and regulations. Currently, we have established Minsheng Financial Leasing Co., Ltd. and Minsheng Royal Fund Management Co., Ltd. to expand our financial leasing and fund management businesses. When appropriate opportunities arise, we will by collaborating with domestic and international organizations, enter into non-banking financial services businesses that involve greater synergies with commercial banks.

OUR PRINCIPAL BUSINESS ACTIVITIES

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

	For the year ended December 31,						For the six months ended June 30,				For the nine months ended September 30,			
	2006		2007		2008		2008		2009		2008		2009	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(RMB in millions, except percentages)													
Total operating income														
Corporate banking business	12,143	69.6%	18,509	73.3%	26,410	75.5%	12,464	70.6%	11,496	54.2%	19,068	70.0%	18,729	59.8%
Retail banking business	2,415	13.9%	4,024	15.9%	6,183	17.7%	2,927	16.6%	2,142	10.1%	4,449	16.4%	3,532	11.3%
Treasury business	2,725	15.6%	2,351	9.3%	2,195	6.3%	2,021	11.5%	2,277	10.7%	3,430	12.6%	3,464	11.0%
Unallocated ⁽¹⁾	158	0.9%	388	1.5%	185	0.5%	228	1.3%	5,315 ⁽²⁾	25.0%	277	1.0%	5,604 ⁽²⁾	17.9%
Total	17,441	100%	25,272	100%	34,973	100%	17,640	100%	21,230	100%	27,224	100%	31,329	100%

Notes:

- (1) Includes businesses such as financial leasing, investment fund management and income that is not directly attributable to a segment or cannot be allocated on a reasonable basis.
- (2) Amount primarily relates to our disposal of interest in Haitong Securities in the first half of 2009, see "Financial Information — Results of Operations — Six Months Ended June 30, 2009 Compared to Six Months Ended June 30, 2008 — Net gain/(loss) on disposal of available-for-sale securities".

Corporate Banking

Overview

We offer a broad range of products and services, including corporate loans, trade finance, bill discounting, corporate deposits, fee and commission-based services, which comprise settlement, guarantees, custody and corporate annuities, foreign exchange services, entrusted loans and cash management services. As of September 30, 2009, we had over 6,000 corporate borrowers (excluding bill discounting) with total outstanding loans of RMB686.0 billion and over 137,000 corporate deposit customers with total deposits of RMB906.8 billion.

Corporate banking accounted for 75.5%, 73.3% and 69.6% of our total operating income for the three years ended December 31, 2008, 2007 and 2006, respectively. Excluding the RMB4.9 billion gain on disposal of interest in Haitong Securities, our total operating income for the nine months ended September 30, 2009 would have been RMB26.4 billion and corporate banking would have

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represented 70.9% of such total operating income. Our corporate loans accounted for 76.8%, 73.8%, 75.8% and 73.2% of our total loans, and our corporate deposits accounted for 82.5% 82.6%, 84.0% and 83.8% of our total deposits from customers as of September 30, 2009, December 31, 2008, 2007 and 2006, respectively. See “Description of Our Assets and Liabilities.”

Corporate Banking Products and Services

Corporate Loans

Corporate loans have historically comprised the largest portion of our loan portfolio and substantially all of our corporate loans are made to customers in the PRC. Our corporate loans include short-term, medium- and long-term loans. Our corporate loans reached RMB686.0 billion, RMB485.9 billion, RMB420.8 billion and RMB345.5 billion as of September 30, 2009, December 31, 2008, 2007 and 2006, respectively. The CAGR of our corporate loans was 18.6% from December 31, 2006 to December 31, 2008. Our corporate loans consist primarily of RMB-denominated loans, with a small portion of foreign currency-denominated loans. The following sets forth our corporate loans by maturity for the periods indicated.

	As of December 31,						As of June 30,		As of September 30,	
	2006		2007		2008		2009		2009	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)										
Short-term loans	210,908	61.0%	238,016	56.6%	272,301	56.0%	338,404	51.0%	319,867	46.6%
Medium- and long-term loans	<u>134,636</u>	<u>39.0%</u>	<u>182,821</u>	<u>43.4%</u>	<u>213,557</u>	<u>44.0%</u>	<u>324,938</u>	<u>49.0%</u>	<u>366,149</u>	<u>53.4%</u>
Total corporate loans	<u>345,544</u>	<u>100%</u>	<u>420,837</u>	<u>100%</u>	<u>485,858</u>	<u>100%</u>	<u>663,342</u>	<u>100%</u>	<u>686,016</u>	<u>100%</u>

Short-term loans. Under the PBOC guidelines, short-term loans are loans with maturities of one year or less. As of September 30, 2009, our short-term corporate loans totaled RMB319.9 billion, representing 46.6% of our total corporate loans. Our short-term loan products consist primarily of working capital loans. The majority of our short-term loans are secured by either real property or securities, or guaranteed by a third party.

Medium- and long-term loans. Under PBOC guidelines, medium- and long-term loans are loans with maturities that are more than one year. As of September 30, 2009, our medium- and long-term loans totaled RMB366.1 billion, representing 53.4% of our total corporate loans. We offer various types of medium-term and long-term loans for a wide range of business purposes, including infrastructure development, technology development and real estate development. We also act as arranger, manager and/or lender of syndicated loans to our customers to meet their needs for larger loans.

Trade Finance

We offer a comprehensive range of trade finance products and services to our customers that engage in international and domestic trade. We provide our customers with specialized trade finance solutions, including those relating to accounts receivable, import trade chain, letters of guarantee, structured financing and other value-added services. For the nine months ended September 30, 2009 and 2008 and three years ended December 31, 2008, 2007 and 2006, our trade finance transaction volume amounted to USD12.8 billion, USD13.0 billion, USD15.3 billion, USD11.5 billion and USD3.7 billion, respectively.

Our domestic trade finance products and services mainly include accounts receivable financing, factoring, logistics financing and other asset financing, foreign exchange services and settlement. We provide various forms of short-term financing known as “Chang Shang Yin” (廠商銀) in the PRC,

particularly to manufacturers and distributors in the oil and gas, automobile and steel industries. This financing is primarily in the form of bank acceptance bills provided for the purchase of inventory from manufacturers.

We also provide import and export trade finance products and services. Our primary import trade finance products and services include letter of credit issuance, import bill purchasing, indemnities for non-bill of lading delivery, import refinancing and import factoring. Our primary export trade finance products and services include packing loans, export bill purchasing, export bill discounting, export bill financing, export factoring, credit insurance financing, export credit, accounts receivable pooling, purchase order financing and forfeiting. We also offer various guarantee services and import export business related domestic letter of credit financing to our customers. In particular, in 2008, we were the leader in international factoring in the PRC factoring industry, by number of international factoring transactions, according to the International Factors Group, an international association of factoring companies.

To improve our ability to provide specialized trade finance products and further strengthen our trade finance business, in September 2007, we transformed our Trade Finance Department into the Trade Finance SBU. The Trade Finance SBU currently oversees, among others, our trade finance and settlement businesses. See “— Our Principal Business Activities — Corporate Banking — Strategic Business Units — Trade Finance SBU.”

Our trade finance business has received many honors and awards in recent years. Most notably:

- in 2009, we received the “PRC Region Trade Finance Achievement Award” from the Asian Banker magazine (《亞洲銀行家》), becoming the only PRC bank to have received this award; and
- in 2007, we received the “Best Trade Finance Bank Award” in the “2007 Asian Banks Competitive Rankings” organized by the 21st Century Business Herald (《21世紀經濟報道》), the Faculty of Business Administration of Chinese University of Hong Kong and the Graduate School of the PBOC.

Bill Discounting

Bill discounting involves the purchase of bank and commercial acceptance bills at a discount. We provide bill discounting as a form of short-term financing for our corporate customers. We also purchase discounted bills from other financial institutions or transfer discounted bills at a further discount to the PBOC or other financial institutions authorized to conduct bill discount business. By transferring these discounted bills, we can increase our liquidity.

The bank acceptance bills and commercial acceptance bills which we purchase have a remaining maturity of generally not more than six months. When we conduct bill discounting for our corporate customers, we primarily purchase bank acceptance bills and commercial acceptance bills from companies that meet our credit requirements. We also purchase bills from other financial institutions. The interest rate we charge for discounted bills varies according to the banking market’s overall liquidity and the demand for discounted bills. As of September 30, 2009, we had a balance of approximately RMB61.3 billion in discounted bills.

We are also an active participant in the bill discounting market by providing innovative products and services. For example, in 2002 we began offering discounted bills with interest payments payable by buyers as early as 2002. Our online bank electronic bill processing service provides our customers with an efficient platform for managing bank acceptance bills and commercial acceptance bills. In addition, we recently launched the “Kuaiyitie” (快易貼) product. The “Kuaiyitie” (快易貼) product utilizes a system that is able to systematically collate information from enterprise value-added tax invoices. This product eliminates the need for manual collection of hard copy enterprise value-added tax invoices to verify our customers’ trading history, thereby

improving the effectiveness of our risk control and efficiency of our bill discounting operations. We believe that we are the first bank in the PRC to develop this type of product.

Corporate Deposits

Corporate deposits include demand deposits and time deposits, denominated predominantly in Renminbi but also in major foreign currencies. We accept short-term, medium- and long-term deposits from our corporate customers. We also offer certain negotiated deposit products for which we are permitted to negotiate interest rates. The negotiated deposits include deposits by insurance companies and the SSF, and generally bear terms of around five years. Our corporate deposits increased to RMB906.8 billion as of September 30, 2009, from RMB649.5 billion as of December 31, 2008, RMB563.7 billion as of December 31, 2007, and RMB488.6 billion as of December 31, 2006. The CAGR of corporate deposits was 15.3% from December 31, 2006 to December 31, 2008. As of September 30, 2009, we had RMB68.2 billion in RMB-denominated negotiated deposits, representing 6.2% of our total customer deposits.

Fee and Commission-based Corporate Banking

We offer a wide range of fee and commission-based products and services, mainly including settlement services, guarantee services, custody and corporate annuity services, foreign exchange services, consulting and financial advisory services, entrusted loans and cash management services. Our net fee and commission income has grown significantly in recent years.

Settlement Services. We provide settlement services in connection with our domestic and international corporate banking businesses. Our domestic settlement services include settlement through cash, drafts, promissory notes, checks and other negotiable instruments. We also offer entrusted collection, payment, and disbursement services to our corporate customers. Our international settlement services include remittance, collection and the provision of letters of credit. We processed total transaction volumes in our international settlement business of USD16.4 billion, USD35.6 billion, USD44.8 billion, USD57.3 billion and USD46.6 billion for the nine months ended September 30, 2009 and 2008 and the three years ended December 31, 2008, 2007 and 2006 respectively.

Guarantee Services. We provide bank guarantee services to our corporate customers. Such services include, among others, the provision of tender guarantees, performance guarantees, advance payment guarantees, customs guarantees and loan guarantees, and the processing of trade tariff payment guarantees. We also require our customers to provide various forms of security for the provision of such guarantees, as part of our risk management for our guarantee services. As of September 30, 2009, the balance of guaranteed amounts under letters of guarantee totaled RMB49.4 billion. These obligations are reflected as off-balance sheet items. See Note 34 to the Accountant's Report set out in Appendix I.

Custody and Corporate Annuity Services. We act as a custodian bank for fund companies, insurance companies, trust companies, PRC social security fund management institutions, asset-backed security management institutions and QDII. We also work closely with pension fund companies and other corporate annuity management institutions to provide corporate annuity services to our clients.

Our custody services include safekeeping, fund settlement, asset valuation, investment monitoring and certain related value-added services. As of September 30, 2009, the total net asset value of securities investment funds under custody reached RMB20.3 billion and the total net asset value of corporate annuity funds under custody reached RMB1.4 billion.

Foreign Exchange Services. We provide Renminbi and major foreign currency exchange services on a spot and forward basis. We settle our open positions created by such foreign exchange

services in the inter-bank market on a daily basis to minimize our exposure to Renminbi and foreign currency exchange rate fluctuations and risks.

Consulting and Financial Advisory Services. We provide our corporate customers with consulting and financial advisory services. These services include formulating overall financing plans, structuring financing solutions as well as arranging credit provided to our customers. We also provide project management services to our customers to ensure that funds are allocated and used in accordance with their relevant financing plans. In addition, we advise on mergers and acquisitions, capital raising, investments, restructuring, asset management, business integration and private equity financing.

Entrusted Loans. We provide entrusted lending services to our customers who elect to make loans on an entrusted basis through commercial banks. We extend entrusted loans and collect payments on behalf of our customers. Our customers assume the credit risks of these loans, and we charge an agency fee based on the size of the entrusted loan.

Cash Management Services. We provide customized cash management services to our corporate customers to assist them in managing their cash flows, including collection, payment, transfers, investments and financing.

Strategic Business Units

The continuing development of the PRC economy and its transition into a market economy bring different challenges and opportunities to our business development. To better respond to these challenges and opportunities, we established SBUs in eight business areas in late 2007. These include four industry-specific SBUs, namely the Real Estate Finance SBU, the Energy Finance SBU, the Transportation Finance SBU and the Metallurgy Finance SBU, in addition to the SME Finance SBU, the Trade Finance SBU, the Investment Banking SBU and the Financial Market SBU. We have chosen these eight business areas because each of these business areas has distinct characteristics, and we believe that there is significant potential for business development in these areas through the adoption of the SBU business model. The SBU business model allows each of these business areas to be operated relatively independently, and enables us to provide our customers in such business areas with highly tailored and integrated products and services that fully take into account the unique characteristics of these business areas. We believe that we are a pioneer among PRC banks in adopting such a business model.

The SBU framework is designed to enhance our competitiveness and improve the quality of our customer service within each of the eight business areas. We have allocated professional teams with specific industry, products, services and business expertise to the SBUs. These teams are responsible for nationwide business management, sales and marketing and providing customized and integrated financial products and services to clients. They are also responsible for their own and specific risk management, market and industry research, human resource and financial management. We believe that this structural framework could in turn facilitate the effective management of our businesses.

The four industry-specific SBUs and Trade Finance SBU have established specialized sales branches in strategic locations throughout the PRC. Our bank branches provide these SBU branches with on-the-ground services including public relations coordination, personnel management and assistance in building client relationships. The bank branches and the SBU branches can also generate significant business synergies by conducting collaborated marketing and cross-selling.

We believe that we have benefited and will continue to benefit from the SBU organizational structure in the following ways:

- **Ability to specialize in relevant business areas and provide integrated services and products to satisfy customer needs.** The SBUs have dedicated market research analyst teams, sales staff and risk management staff in their respective business areas. These teams

are capable of designing customized and integrated financial products and services for our customers based on due consideration of the relevant market characteristics, customer needs, financial product and service features as well as risk management requirements. For example, based upon our specialized industry knowledge, our Metallurgy Finance SBU has identified that for large customers within the metallurgy industry, the need for financing is largely concentrated at the point of sale. As a result, the Metallurgy Finance SBU focuses its specialized resources on developing targeted services and product offerings such as supply chain financing. This in turn could facilitate the consolidation of a quality customer base.

- **Resource and operational management efficiency and effectiveness.** The SBUs' overall management of particular business areas on a nationwide basis has enabled us to effectively direct our resources towards the regions and clients that make up our strategic focus. For example, the Energy Finance SBU has been strategically located in branch divisions at or near the 13 largest national-level coal mining sites in the PRC, the key sites of the PRC national electricity grid and the main electricity source points of the five largest electricity companies in the PRC. This allows us to provide on-the-ground coverage for our most important customers in the sector. At the same time, the concentration of specialized industry knowledge and expertise within specific business units allows them to devise strategies and actions more efficiently in response to changes in their business environment. Under our SBU organizational structure, supporting functions such as risk management, research, human resources and financial management operate relatively independently within our Bank. As a result, the SBUs perform their duties more efficiently and effectively with sufficient attention to the unique issues arising from specific business areas.
- **Ability to better manage and control risks.** The SBUs perform a wide array of risk management functions under the guidance of a risk officer assigned to each of them, and have established their own multi-layered risk prevention and control systems with respect to target customer determination, customer induction, rating monitoring and control, post-loan disbursement management and risk management decision-making. This setup allows the SBUs to achieve centralized and standardized management of similar risk assets. In addition, because the markets and customer types that the SBUs evaluate, monitor and control are similar, the SBU risk management teams are able to develop a deeper understanding of the overall market situation and of customer operating behaviors than otherwise would be the case. For example, the Real Estate Finance SBU has established regional supervision centers in the areas where most of its lending occurs. As a result of the enhanced ability in market research and analysis attributable to such centers, the Real Estate Finance SBU shifted the focus of business towards the Eastern China and other regions and minimized negative exposure in certain other regions with higher risks. See "Risk Management — Risk Management Structure."

Real Estate Finance SBU

The Real Estate Finance SBU specializes in providing financing to mainstream customers such as developers. It combines its own banking capabilities with other different financing sources such as trust fund companies, real estate investment funds and other commercial banks to provide its customers with a wide range of financial services, including structured finance, project evaluation, mergers and acquisitions advisory services, asset custody and finance planning. As of September 30, 2009, it had established 29 branch divisions in 23 cities throughout China.

As of September 30, 2009, the Real Estate Finance SBU had a total loan balance and deposit balance of RMB73.4 billion and RMB49.6 billion, representing an increase of 32.8% and 154.5% since January 1, 2008, respectively. As of September 30, 2009, the impaired loan ratio of loans granted by the Real Estate Finance SBU was 0.89%.

Energy Finance SBU

The Energy Finance SBU provides comprehensive financial services to mid-to-large size companies in the coal, electricity and petroleum industries. Currently, it mainly provides settlement and financing solutions for coal-powered electricity businesses, and mining rights-backed finance to coal production companies. As of September 30, 2009, it had established 24 branch divisions in 21 cities throughout China.

As of September 30, 2009, the Energy Finance SBU had a total loan balance of and deposit balance of RMB94.9 billion and RMB38.1 billion, representing an increase of 56.8% and 98.9% since January 1, 2008, respectively. The impaired loan ratio of loans granted by the Energy Finance SBU was 0.10%.

Transportation Finance SBU

The Transportation Finance SBU specializes in providing a wide array of customized financial services within industries relating to transportation infrastructure equipment, particularly mid-to-high end customers in the rail, automobile, public road, airline, airport, port and shipping industries. The Transportation Finance SBU offers these customers integrated financial solutions encompassing services and products such as group company loans, bill discounting, trade finance, commercial paper, medium-term notes, entrusted fund management, and consulting and financial advisory services. As of September 30, 2009, it had established 21 branch divisions throughout 19 cities in China.

As of September 30, 2009, the Transportation Finance SBU had a total loan balance of and deposit balance of RMB44.7 billion and RMB46.9 billion, representing an increase of 99.2% and 74.9% since January 1, 2008, respectively. The impaired loan ratio of loans granted by the Transportation Finance SBU as of September 30, 2009 was 0.11%.

Metallurgy Finance SBU

The Metallurgy Finance SBU specializes in providing comprehensive financial services to ferrous and non-ferrous mining enterprises, smelting and metal rolling industrial enterprises and related trade and distribution enterprises. In addition to traditional banking services, the Metallurgy Finance SBU provides its customers with services such as project finance, transaction finance, cash management, financial advisory services and debt issuance services. As of September 30, 2009, it had established 24 branch divisions in 21 cities throughout China.

As of September 30, 2009, the Metallurgy Finance SBU had a total loan balance and deposit balance of RMB33.2 billion and RMB37.3 billion, representing an increase of 89.3% and 85.5%, since January 1, 2008, respectively. As of September 30, 2009, the impaired loan ratio of loans granted by the Metallurgy Finance SBU was 0.5%.

SME Finance SBU

The SME Finance SBU specializes in providing comprehensive financial services to small and medium-sized enterprises that have total assets of RMB200 million or less and apply for a line of credit of RMB50 million and less. The SME Finance SBU provides flexible, customized financing solutions designed especially for SME customers, including liquidity loans, bills, international services and advisory services etc., according to their respective financing needs at different stages of development. As of September 30, 2009, the SME Finance SBU had established 14 branch divisions in 14 cities throughout China.

As of September 30, 2009, the SME Finance SBU had a total loan balance of and deposit balance of RMB28.1 billion and RMB18.9 billion, representing an increase of 326.4% and 117.9%, since January 1, 2008, respectively.

BUSINESS

On June 30, 2009, the CBRC issued an approval permitting us to set up an independent legal entity to specialize in SME finance business. We are currently in the process of establishing such an entity.

Trade Finance SBU

The Trade Finance SBU specializes in providing import and export trade services, as well as domestic and international trade financing, settlement and other related services. The SBU also focuses on shipping finance, financing for outsourced overseas construction and trade finance for commodities. See “— Our Principal Business Activities — Corporate Banking — Corporate Banking Products and Services — Trade Finance,” “— Our Principal Business Activities — Corporate Banking — Corporate Banking Products and Services — Fee and Commission-based Corporate Banking — Settlement Services” and “— Our Principal Business Activities — Corporate Banking — Corporate Banking Products and Services — Fee and Commission-based Corporate Banking — Foreign Exchange Services.” As of September 30, 2009, the Trade Finance SBU had established 21 branch divisions and 13 market divisions, as well as a secondary division, the factoring business division.

For the nine months ended September 30, 2009, the Trade Finance SBU had fee, commission and foreign exchange sale and settlement income of RMB681 million. As of September 30, 2009, the Trade Finance SBU had a total RMB-denominated loan balance of RMB3.3 billion and a total foreign currency-denominated loan balance of USD1.5 billion.

Financial Market SBU and Investment Banking SBU

See “— Our Principal Business Activities — Treasury Operations” and “Risk Management — Credit Risk Management — Credit Risk Management for Corporate Loans — Recovery of Problem Loans.”

Customer Base

We have an extensive customer base in the PRC, particularly in the more economically developed or industrialized cities, such as Beijing, Shanghai, Guangzhou, Shenzhen, Hangzhou, Nanjing, Wuhan and Taiyuan. As of September 30, 2009, we had over 137,000 corporate deposit customers and over 6,000 corporate customers with loans outstanding with us.

Our focus is on developing long-term relationships with, and providing professional and highly tailored and integrated services to, customers which we believe have strong growth potential and with which we believe we can achieve higher risk-adjusted profit. As of September 30, 2009, our major corporate loan customers were mainly in manufacturing, real estate, leasing and commercial services, transportation, storage and post services, and water, environment and public utility management industries, which accounted for approximately 17.3%, 14.8%, 13.6%, 11.7% and 9.3%, respectively, of our total corporate loans at that date. As of September 30, 2009, December 31, 2008, 2007 and 2006, the percentage of interest income attributable to our five largest corporate borrowers and the percentage of interest expense attributable to our five largest corporate depositors were less than 30%, respectively.

The majority of our corporate loan customers are large companies as defined by national standards. However, we have been actively developing our corporate banking business with SMEs, particularly through the establishment of our SME Finance SBU. See “— Our Principal Business Activities — Corporate Banking — Strategic Business Units — SME Finance SBU.”

Marketing

We have established an integrated marketing system. Our headquarters develops overall marketing strategies and industry policies, which are implemented by our account managers at

our SBUs and branches. Our account managers are responsible for developing and maintaining ongoing relationships with specific customers. They also work together with our product managers who specialize in particular products and services to cross-sell our products and expand our customer relationships. As of September 30, 2009, we had 4,824 employees who have marketing functions. We believe our client-focused account manager system has helped us to identify and target prospective clients and improve the quality of our services.

Retail Banking

Overview

The expansion of our retail banking business is a core part of our growth strategy. We offer a wide range of products and services to retail customers, including loans, deposits, debit cards, credit cards, wealth management and other services. As of September 30, 2009, we had over 267,000 retail borrowers (excluding credit card customers) and approximately 17.8 million retail deposit customers. As of September 30, 2009, the total outstanding loans of our retail borrowers was RMB146.2 billion and the deposit balance of our retail deposit customers was RMB192.6 billion. Our retail banking business contributed 17.7%, 15.9% and 13.9% of our total operating income for the three years ended December 31, 2008, 2007 and 2006, respectively. For the nine months ended September 30, 2009, our total operating income of RMB31.3 billion included a RMB4.9 billion gain on disposal of interest in Haitong Securities. Excluding such RMB4.9 billion gain, our total operating income for the nine months ended September 30, 2009 would have been RMB26.4 billion and retail banking would have represented 13.4% of such total operating income. As of September 30, 2009 and December 31, 2008, 2007 and 2006, our retail loans accounted for 16.4%, 16.5%, 17.9% and 14.5%, respectively, of our total loans and our retail deposits accounted for 17.5%, 17.4%, 16.0% and 16.2%, respectively, of our total deposits from customers. See "Description of Our Assets and Liabilities."

Retail Banking Products and Services

Retail Loans

Our retail loans consist primarily of property mortgage loans, individual business loans through our loan product "Shang Dai Tong" (商貸通) and other loans to individuals.

Property mortgage loans. We entered the property mortgage loan business in 1998, and since then, our business has grown substantially, corresponding to the general increase in private home ownership in the PRC. We offer mortgage loans in both the primary and secondary real estate markets. As of September 30, 2009, our total outstanding mortgage loans represented 67.1% of our total retail loans and 11.0% of our total loans. Typically, our mortgage loans have terms of five to 30 years, and we offer both standard fixed and flexible repayment schedules. In addition to traditional mortgage lending services, we have developed various innovative mortgage loan products. For example, we offer an "Open-End Housing Mortgage Loan" service whereby savings, residential mortgage and other loans are combined in a single account and deposit balances above a specified amount can be used to reduce the loan outstanding and therefore increase the credit available to mortgage loan customers. Our "Open-End Housing Mortgage Loan" service was named "The Most Creative Mortgage Product of 2006" by Sina.com.

"Shang Dai Tong" (商貸通) Through our "Shang Dai Tong" (商貸通) brand, we offer individual businesses, small business owners and micro-enterprises a wide array of financial services to support their production or investment operating activities. Such services include RMB-denominated credit extension, settlement, deposit and withdrawal, wealth management, consumer credit, and consulting and financial advisory services. We have an expedited approval procedure for the applicants of "Shang Dai Tong" (商貸通) so that qualified applicants can obtain a loan generally within seven days of their application. Under "Shang Dai Tong" (商貸通), we allow borrowers to

provide many different types of collateral and guarantees to secure their loans. As of September 30, 2009, we had an outstanding balance of RMB32.1 billion of “Shang Dai Tong” (商貸通) loans.

Other loans to individuals. We also provide other retail loan products, including automobile loans and consumer loans. We provide other loans to individuals with terms of five years or less for home renovation, purchase of durable consumer goods, education and other purposes. We require guarantees or collateral to secure most of these loans. Our other loans to individuals represent a relatively small portion of our total retail loans.

Retail Deposits

Our retail deposits include demand deposits and time deposits, denominated in both Renminbi and foreign currency. Substantially all of our retail deposits are denominated in Renminbi. As of September 30, 2009, our time deposits and demand deposits accounted for 77.1% and 22.9%, respectively, of our total retail deposits of RMB192.6 billion, which in aggregate represented 17.5% of our total customer deposits.

Debit Cards

We began offering debit card services in 1998. Currently, our debit card products include UnionPay, international, VIP, as well as special feature and co-branded debit cards. Our UnionPay debit cards may be used in 61 countries through our network and the China UnionPay network. Our international debit cards may be used throughout the VISA International bank card network to conduct operations such as ATM enquiries, withdrawals and point-of-sale spending, and cardholders are also entitled to services such as overseas emergency assistance. Our international VIP debit cards are classed into diamond, gold and silver levels, and we provide VIP services to our different levels of customers. From time to time, we also introduce various types of special feature or co-branded cards together with our alliance partners. For example, as the only bank partner of the 11th National Games of the PRC, we have introduced the “Minsheng National Games Card” (民生全運會卡). Cardholders of this type of debit card are entitled to various promotional benefits provided by other cooperating parties. In 2008, our debit cards were granted the “Product Innovation Award” by China UnionPay. As of September 30, 2009, we had approximately 22 million debit cards.

Credit Cards

We have issued credit cards to customers since June 2005. As of September 30, 2009, we have issued a total of 7.2 million credit cards (including 140,000 platinum and diamond credit cards) with total accumulated credit card spending reaching RMB181.9 billion. As of September 30, 2009, we had 34 credit card marketing centers located in 28 cities throughout the PRC and close to 3,000 account managers dedicated to the marketing and sales of our credit cards.

We offer both dual-currency and single-currency credit cards, although substantially most of our credit cards are dual-currency credit cards, which primarily include China UnionPay, VISA, MasterCard and JCB brands. To further expand our credit card business and improve our competitiveness, we have developed dual-currency credit cards encompassing currencies such as the Renminbi, US dollar, Euro, British pound, Australian dollar, Canadian dollar and Japanese yen.

We offer regular, gold, platinum, diamond and infinite credit cards. Our credit cards target different customer groups and provide different value-added services. The value-added services we provide primarily include airport VIP lounge access, medical appointments, golf course access, roadside rescue, business travel reservations and personal legal assistance. As of September 30, 2009, we had 24 types of co-branded credit cards, primarily including the Air China Companion Card, AUPRES Products Co-branded Card and Pacific Far Eastern Department Store Co-branded Card. In addition, we also issue credit cards with various themes targeted at different categories of customers, such as the Minsheng ID Card which is targeted at young customers and allows

cardholders to personalize the design of their own credit cards, the dual-currency Overseas Student Card which is primarily targeted at our student customers studying abroad and allows cardholders to choose from different currencies, and the Lady Flower Card series which offers cardholders services specially tailored to females.

Income from our credit card business consists primarily of interest income from interest bearing balances, cash advance fees, commissions from merchants and annual fees. For the nine months ended September 30, 2009 and 2008, and year ended December 31, 2008, operating income from our credit card business was approximately RMB1.6 billion, RMB1.1 billion and RMB1.6 billion respectively, and earnings before tax from our credit card business were approximately RMB277 million, RMB88 million and RMB43 million, respectively. As of September 30, 2009, our outstanding credit card advances totaled RMB13.7 billion.

As of December 31, 2008, we have received more than 30 awards from domestic and international credit card organizations, financial industry organizations and the media, among which include the "2007 Credit Card Marketing Excellence Award" by VISA International, the "2008 Best Platinum Credit Card" by MasterCard Worldwide and the "2008 Attractive Design Golden Award" by JCB International. In addition, our Minsheng ID Credit Card and Minsheng Lady Flower Credit Card was awarded the "Most Popular Credit Card Award" in the Wisemoney Financial Management Rankings' ceremony in 2007 and 2008 respectively. The Minsheng Lady Flower Credit Card was named "2008 Women's Most Loved Card" in an event organized by the All-China Women's Federation, Brand China Industry Union and ChinaWomen's News.

Fee and Commission-based Retail Banking Business

We offer a number of fee and commission-based retail banking services, with a strategic focus on wealth management services.

Wealth Management Services. We began our wealth management business under the brand "Favorite Wealth" (非凡财富) in 2008. We offer a number of wealth management services and products, including foreign currency wealth management services and Renminbi wealth management services. We also offer funds and insurance products as sales agent and provide foreign exchange and bullion trading services to individual customers. In 2008, our "Favorite Wealth" (非凡财富) brand was named as one of the "Retail Financial Services Brand of the Year" by CBN in its CBN Financial Value Ranking 2008.

In addition, we offer integrated financial and "VIP" services to our customers whose average quarterly financial asset balances exceed RMB100,000. These financial services include priority banking services provided by our dedicated customer service representatives, discounted bank charges and wealth management services. We offer additional "VIP" services to our customers whose average quarterly financial asset balances exceed RMB1 million, airport VIP lounge access, golf club membership privileges, medical and health services and special non-banking services provided by branches. As of September 30, 2009, approximately 331,500 individuals or 1.9% of our retail deposit customers enjoyed access to our "VIP" services.

We established the Private Banking Department in 2008. This department focuses on promoting our private banking brand image among high net worth individuals and increasing our competitiveness in the private banking business. Through our dedicated one-on-one service model, we provide consulting and financial advisory services as well as wealth management products denominated in Renminbi and foreign currencies. The Private Banking Department also offers high-end value-added services to our high net worth customers, such as private medical services and customized travel and private jet services.

Other Services. We offer a number of other fee and commission-based banking products and services to meet the diverse needs of our retail customers, including remittances, direct payment services and safe deposit boxes.

In addition, we provide customers of other banks access to our ATMs for a fee. We also offer our retail customers bill payment services for water, electricity, telephone, mobile phone and Internet service bills. In 2002, we launched our “real-time account information” service, which, for a fee, provides real time account information to our clients by sending a short message to their mobile telephones whenever there is a change in their account balances.

Customer Base

As of September 30, 2009, we had approximately 17.8 million retail deposit customers. As of the same date, we had over 267,000 retail loan customers, of which approximately 23,600 are “Shang Dai Tong” (商貸通) borrowers. As of September 30, 2009, December 31, 2008, 2007 and 2006 and the percentage of interest income attributable to our five largest retail borrowers and the percentage of interest expense attributable to our five largest retail depositors were less than 30%, respectively. We have built a relatively affluent customer base. As of September 30, 2009, we had approximately 71,800 customers with daily average financial assets of RMB500,000 or more and a total deposit balance of approximately RMB103.7 billion, representing 53.8% of our total retail deposits.

To improve our services to retail customers, we have entered into various alliances with other financial institutions to expand our distribution network. In addition to our membership in China UnionPay, we currently have agreements with the branches of a number of banks in Shanghai, Guangzhou, Chongqing, Xi’an, Jinan, Ningbo, Nanjing and Chengdu to provide counter services for cash withdrawal, deposit and/or account inquiry for our debit card customers at these other bank branches. Moreover, we have upgraded our online banking and customer service centers, added more ATMs and opened more banking outlets, which we believe offer greater convenience to customers.

Marketing

We market our retail products and services through our branch and sub-branch network. Our branches and sub-branches are strategically located in regions where our key target customers are located, such as the Yangtze River Delta, Bohai Rim and the Pearl River Delta. In addition to our branch and sub-branch network, we seek to rely on online banking, telephone banking and mobile phone banking extensively to market our products and services. We also advertise our services through television, print and other media and conduct promotional activities on a national or regional basis. In addition, customer service managers in our Retail Banking Department often work with account managers in our Corporate Banking Department to cross-sell our products.

We have a “Favorite Wealth” (非凡財富) team that mainly services our VIP customers. The team is made up of more than 800 wealth managers, of which 167 have obtained the Certified Financial Planner certification and 455 have obtained the Associate Financial Planner certification.

We have also built a VIP service system, which effectively integrates our customer services, including our “3+N” VIP service (which consists of the three VIP services of VIP airport lounge services, VIP medical services and golf club membership privileges, together with other medical, restaurant, hotel, travel and lifestyle benefits), customer care and customer feedback services, with the simultaneous marketing of other financial services that we offer.

Treasury Operations

Overview

Our treasury operations primarily consist of money market transactions, investment portfolio management, treasury transactions, notes and debt securities underwriting and trading of bullion and other precious metal, conducted on our account and on behalf of our customers. For the year ended December 31, 2008, our treasury operations accounted for approximately 6.3% of our operating income. Excluding the RMB4.9 billion gain on disposal of interest in Haitong Securities,

our total operating income for the nine months ended September 30, 2009 would have been RMB26.4 billion and treasury operations would have represented 13.1% of our total operating income. In September 2007, we transformed our financial markets department into the Financial Market SBU, which is primarily responsible for our treasury operations bank-wide.

Money Market Transactions

We generally conduct money market transactions to manage our liquidity. Our money market transactions primarily consist of: (i) short-term borrowings from and lending to other domestic and foreign banks and non-bank financial institutions ("***inter-bank money market activities***"); (ii) sales of securities under repurchase agreements ("***repurchase transactions***"); and (iii) purchases of securities under resale agreements ("***reverse repurchase transactions***"). Most securities underlying our repurchase and reverse repurchase transactions are PRC government bonds. Most of our reverse repurchase transactions have a maturity ranging from one to 14 days from the original purchase date.

Investment Portfolio Management

We invest in debt securities for our own account, including primarily government and quasi-government bonds, financial institution bonds and corporate bonds which accounted for 75.5%, 12.6% and 11.9%, respectively, of our total debt investment portfolio as of September 30, 2009.

In addition to high quality domestic bonds, we also invest in foreign currency bonds. When making our investment decisions, we generally invest in foreign currency bonds with at least an investment grade, i.e. a "BBB" rating by Standard & Poor's or an equivalent rating by another internationally recognized rating agency. Due to the recent global financial crisis, the ratings of certain of the foreign currency bonds we hold have fallen below investment grade. As of September 30, 2009, the foreign currency bonds held by us with a rating lower than investment grade amounted to approximately US\$35 million, representing 3.9% of the total value of our foreign currency bonds. We have made provisions for the potential losses that we may suffer from these foreign currency bonds and have implemented stricter and more specific limits and guidelines in allocating our foreign currency investments than we had previously employed.

We also hold a limited number of derivative financial instruments, including foreign currency interest rate and currency swaps, currency forwards and credit default swaps. A substantial majority of these derivative instruments was contracted to provide hedges to structured deposit liabilities, which are deposit contracts with embedded derivatives of mainly foreign currency interest rate swaps, bond options and currency options. We also conduct spot and forward foreign exchange trading, and enter into foreign currency swap and option transactions. See "Description of Our Assets and Liabilities — Assets — Investment Portfolio Management."

Treasury Transactions Conducted on Behalf of Customers

Our treasury operations also engage in designing investment products for our corporate and retail customers. For the nine months ended September 30, 2009, we designed and issued 167 products to our clients under the "Favorite Wealth Management" (非凡理財) brand, including investments in agency planning, bonds, notes and foreign currencies in a combined investment portfolio. In 2008, our product series under "Favorite Wealth Management" brand was named as one of the "Best Wealth Management Brands" by 21st Century Business Herald («21世紀經濟報道»). In 2008, "Favorite Wealth Management" was also named as the "Most Influential Brand in Creative Wealth Management in the PRC Banking Industry" in the Ten Most Influential Brands in China Awards («中國十大影響力品牌») organized by, among other, the People's Daily («人民日報») and the China International Market Association.

Having been licensed as a QDII since September 2006, we have also designed investment products comprising, among others, such as fund portfolios and trust product portfolios, for our customers.

Through our treasury operations, we provide currency exchange services between Renminbi and foreign currencies, and trade, on behalf of our customers, spot and forward foreign currency contracts and other financial derivatives. We generally hedge the risks of such transactions by entering into financial derivative instruments on a back-to-back basis in the international market.

Notes and Debt Securities Underwriting

We underwrite notes and debt securities for our clients in the domestic market. As part of our strategic focus, we intend to grow our debt underwriting business. In 2008, the amount of debt finance leasing instruments underwritten by us reached RMB31.4 billion, representing an increase of 66.7% as compared to 2007. The securities we underwrote consisted of 17 commercial paper issues and one subordinated bond issue for a total of 15 companies. In the nine-month period ended September 30, 2009, the amount of debt finance leasing instruments underwritten by us reached RMB11.4 billion. The securities we underwrote consisted of 11 commercial paper issues, four medium-term note issues and one subordinated bond product issue for a total of 14 companies.

We will continue to expand our underwriting business in commercial paper, medium-term notes and other direct financing instruments. We also seek to expand our city commercial bank and insurance company customer base, by underwriting other types of debt securities, such as subordinated bonds and financial institutional debts.

Trading of Bullion and Other Precious Metal

Bullion trading is also one of our key treasury operation activities. According to the Shanghai Gold Exchange, we were the third largest bullion trader at the Shanghai Gold Exchange in terms of transaction volume for 2008. The total volume of our bullion trading on the Shanghai Gold Exchange increased from 27 tons in 2007 to 206 tons in 2008 including trading for our clients and for our own account. For the nine months ended September 30, 2009, the total volume of our bullion trading on the Shanghai Gold Exchange was 83.5 tons and the total volume of our silver trading was 375 tons.

Other Selected Business

Minsheng Financial Leasing Co., Ltd. and Minsheng Royal Fund Management Co., Ltd. are important elements in the Bank's diversification strategy. The objective of the establishment of these companies is to realize cross-marketing of the Bank's businesses and to develop and provide a more profound level of customer service, thereby providing the Bank with the benefits of integrated operations. Specifically, as Minsheng Financial Leasing Co., Ltd. and Minsheng Royal Fund Management Co., Ltd. strive to become leading enterprises within the industry, the Bank also gradually intensifies its efforts in developing its services. We also invest in township banks, namely Pengzhou Minsheng Township Bank Co., Ltd. and Cixi Minsheng Township Bank Co., Ltd., both engaged in commercial banking business. Please see "Corporate History and Organizational Structure" for more information.

Financial Leasing. Our subsidiary, Minsheng Financial Leasing Co., Ltd., was established in April 2008. It primarily offers financial leasing for aircrafts, vessels, commercial properties for financial institutions, as well as large-scale facilities.

The financial leasing industry is relatively new in the PRC, and we believe that it provides significant growth opportunities. We believe that we are currently one of the pioneers in the vessel financial leasing market in China. We also believe that we are one of the first banks in the PRC to

offer operating leases for executive jet planes. Given our unique position in the financial leasing industry, we believe that we are well-placed to continue our expansion in this industry.

For the nine months ended September 30, 2009, and the year ended December 31, 2008, Minsheng Financial Leasing Co., Ltd. realized revenue of RMB476.5 million and RMB264.7 million, respectively and net profit of RMB148.8 million and RMB77.8 million, respectively.

Investment Fund Management. In November 2008, we founded Minsheng Royal Fund Management Co., Ltd., a Sino-foreign joint venture fund management company, together with the Royal Bank of Canada and Three Gorges Financial Company. Minsheng Royal Fund Management Co., Ltd. was established with a registered capital of RMB200 million, and we hold 60% of the total shares of the joint venture. We expect that our investment fund management business operated by this joint venture will benefit from the international experience of Royal Bank of Canada in professional investment.

For the nine months ended September 30, 2009, and in 2008, Minsheng Royal Fund Management Co., Ltd. realized revenue of RMB22.5 million and RMB0.3 million, respectively and net loss of RMB38.6 million and RMB14.5 million, respectively.

Please also see “Corporate History and Organizational Structure” in relation to our township commercial banking business.

PRICING

Loans

The PBOC regulates prices for certain commercial banking products and services such as our RMB-denominated loans. For RMB-denominated corporate loans and retail loans (other than residential mortgage loans and credit card advances), we are not permitted to set the interest rate lower than 90% of the relevant PBOC benchmark rate, but there has been no upper limit since October 29, 2004. Since October 27, 2008, the lowest interest rate we can charge on residential mortgage loans has been changed to 70% of the PBOC benchmark interest rate of the same term. Since December 1, 1997, the PBOC has set the upper limit on interest rate for credit cards at 18.25%. See “Supervision and Regulation — PRC Banking Supervision and Regulation — Pricing of Products and Services — Interest Rates for Loans and Deposits.” Interest rates for foreign currency-denominated loans are generally not subject to PRC regulatory restrictions, and we are permitted to negotiate the interest rates on such loans.

We price our products based on various criteria, such as the borrower’s risk profile, the value of any collateral provided, the intended use of the loan, market conditions and the term of the loan. We also consider, among other things, the cost of providing the loan, our expected rates of return, the associated risks, general market conditions, our market position, as well as the pricing of our competitors. We have also started to use the fund transfer pricing method to calculate the cost of our funds in connection with credit extension. Based on these considerations, we seek to match risks with returns and are generally able to charge higher interest rates to our customers with higher risk profiles. As interest rates on loans are increasingly liberalized, we expect to rely more on our ability to accurately calculate our expected risk-adjusted return on capital and further differentiate our loan prices based on our internal analyses.

Deposits

Under current PRC regulations, interest rates on our RMB-denominated demand and regular time deposits cannot be higher than the relevant PBOC benchmark rate. We generally price our demand and regular time deposits at the relevant PBOC benchmark rate. However, we are permitted to provide negotiated time deposits to insurance companies and the SSF. See “Supervision and Regulation — PRC Banking Supervision and Regulation — Pricing of Products and Services — Interest Rates for Loans and Deposits.” The PBOC has liberalized interest rates charged for lending

and deposits between financial institutions, and we determine such rates based primarily on our assets and liabilities management policies and the market interest rate. In addition, we are permitted to negotiate the interest rate on foreign currency deposits other than those denominated in U.S. dollars, Euros, Japanese Yen and Hong Kong dollars for amounts less than US\$3 million. Interest rates on inter-bank foreign currency deposits and foreign currency deposits by non-PRC residents are generally not subject to PRC regulatory restrictions, and we are permitted to negotiate the interest rates on such deposits.

Fee and Commission-based Business

We generally determine fees and commissions for other products and services based on market conditions, except for Renminbi settlement services which are subject to the PRC government's guideline prices. See "Regulation and Supervision — PRC Banking Supervision and Regulation — Pricing of Products and Services — Pricing for Fee and Commission-based Products and Services."

DISTRIBUTION NETWORK

We deliver our products and services through a variety of distribution channels, including branches, sub-branches, SBUs, self-service banking centers, ATMs, customer service centers and telephone banking, Internet banking and mobile phone banking. As of September 30, 2009, we had 29 branches, 387 sub-branches and a representative office in Hong Kong, 2,695 ATMs and 1,058 CDMs. We also utilize online banking, telephone banking and mobile phone banking to serve our customers.

Branch Network

Most of our branches are organized in a hub and spoke structure, with 29 branches, as of September 30, 2009. As at the same date, we had a total of 387 sub-branches reporting to the branches. Our branches are responsible for operations within a geographical area, such as a province or a major metropolitan area. Each sub-branch covers several geographical sub-areas within a branch's coverage area and functions as a full-service banking outlet for our customers.

As of September 30, 2009, our branches and sub-branches are located in 40 cities throughout strategic locations in China. 148 of our banking outlets were concentrated in four major cities: Beijing, Shanghai, Guangzhou and Shenzhen. We had correspondent banking relationships with over 1,128 banks in over 94 countries and regions as of September 30, 2009. We established a representative office in Hong Kong in early 2004. Our SBUs also have branch divisions throughout the PRC.

Self-Service Banking Centers and ATMs

We believe self-service banking centers and ATMs provide cost-efficient alternatives to branches and sub-branches. As of September 30, 2009, we had 1,600 self-service banking centers and 2,695 ATMs. Our self-service banking centers typically have several ATMs and inquiry machines, and offer withdrawal, account inquiry, bill payment, deposit, passcode changing, foreign currency exchange and/or fund transfer services. Our ATMs and self-service banking centers are situated at various locations, including shopping malls, supermarkets, airports, residential areas, hospitals, schools or on major streets in metropolitan areas, to provide convenient access to our customers and to supplement our branches and sub-branches.

We hold 2.8% of the issued and paid up capital of China UnionPay, which operates the bank card and electronic inter-bank information exchange and transaction network in the PRC. Our membership in China UnionPay significantly broadens our distribution network by allowing our customers to use any ATM within the network in China and overseas.

Customer Service Centers and Telephone Banking

Our individual branches have been providing telephone banking services since 1999. In 2002, we commenced an initiative to integrate our telephone banking services on a nationwide basis by launching a single nationwide customer service number 95568. We have standardized our services, such as financial and other business enquiries on a 24 hours a day, seven days a week basis.

We currently provide nationwide telephone banking service coverage, which includes both automated voice and teller-operated services. These services include business enquiry, account information checking, inter-account transfers, funds transfers, bill payments, wealth management and appointment bookings.

In April 2008, we launched our “e-Line” (e線通) online customer service system, which allows our customers to contact our customer service representatives via internet voice calling, instant messaging, or by a message through the internet. In May 2009, we launched a dedicated corporate customer service telephone line “4006895568,” further upgrading our corporate customer services.

Internet Banking

In 2001, we commenced our internet banking services, which have since then grown rapidly. As of September 30, 2009, we had approximately 2.8 million retail customers and 93,000 corporate banking customers using our internet banking services.

Currently, our corporate internet banking service includes an enquiry version, a standard version and an SME “e-Housekeeper” (e管家) version. These three versions of corporate internet banking service provide approximately 200 functions under ten different service categories, including among others, account enquiry, fund transfer and settlement, integrated wealth management, corporate group services, electronic bills, cash management and internet letter of credit issuance.

Our personal internet banking service includes a mass version and a VIP version, which provide approximately 200 functions under 25 different service categories, including account enquiry, savings, electronic fund transfers, bill payment, funds, government bonds, wealth management, foreign currency exchange transactions, safe deposit boxes and retail loans.

For the nine months ended September 30, 2009 and for the three years ended December 31, 2008, 2007 and 2006, the total transaction volume through our online banking service was RMB870.2 billion, RMB766.6 billion, RMB470.0 billion and RMB130.8 billion, respectively, for our individual customers and RMB2,598.4 billion, RMB3,711.1 billion, RMB1,652.9 billion and RMB702.2 billion, respectively, for our corporate customers.

We seek to continually enhance the security of our internet banking systems. We actively manage the opening of online banking accounts and ensure that our internet operations strictly comply with our security standards. We maintain the use of third-party digital security certificates, actively conduct searches for phishing websites, and have launched an internet banking transactional risk monitoring platform. Further, we continually publicize internet banking security education, and have added tips on internet transactional risks on our website and internet banking interfaces.

From January 2008, we started providing our customers with “U Key” (U寶), a security token that contains authentication digital certificates. Customers are required to enter a security code generated by this device in addition to their user name and password each time they log onto their online banking account, thereby preventing authentication digital certificates from being duplicated, modified or extracted. In 2008, “U Key” (U寶) was named one of the “Financial Institutions Ten Most Creative IT Examples of 2008” and awarded the “Best Security Performance” prize by the Securities Times (《證券時報》).

In the same year, we were named “Best Online Bank” by the China E-Commerce Association and the China Payment System Research and “Most Trusted Online Bank” by Sina.com.

Mobile Phone Banking

In 2004, we launched our mobile phone banking services, offering five main functions — account enquiry, bill payment, other payment, foreign currency exchange and account management, allowing our customers with mobile phones to access personalized financial services whenever and wherever they want.

In 2002, we launched our instant notification short message service, which timely sends our customers information about any movement of their account balances via a short messaging service. As of September 30, 2009, customers using our short messaging service notification service reached approximately 1.3 million customers.

We believe that we are one of the first banks in the PRC to provide customer service through a wide range of communication channels, including telephone, facsimile, short message service, mobile phone and internet. The use of these multiple channels makes it more convenient for our customers to bank with us and further solidifies our reputation for first-class customer service.

INFORMATION TECHNOLOGY

Our information technology (“IT”) systems are integral to many aspects of our business operations, including customer services, transaction processing, risk management and financial management. We believe that the establishment of advanced IT systems that complement our overall business strategies will greatly improve our efficiency, the quality of our customer service, as well as risk and financial management. We have invested and continue to invest heavily in our IT systems. We have recruited global experts such as the Germany-headquartered world specialist provider of business software SAP AG, the France-headquartered global provider of consulting, technology, outsourcing and professional services CapGemini Group and the U.S.-headquartered global management consulting firm Boston Consulting Group, all of which are independent third parties, to work with us to improve our IT systems. We also use a wide variety of well-known brands in our IT systems, including IBM and HP mainframes, Unix operating system, Cisco Systems, Inc. and Huawei network products, SAP and Oracle software and EMC² storage. For the nine months ended September 30, 2009 and the three years ended December 31, 2008, 2007 and 2006, our electronic facilities and IT-related expenses were RMB654 million, RMB735 million, RMB598 million and RMB591 million, respectively.

We have begun to roll out our new core banking system in stages in the fourth quarter of 2009. The system is the result of a special project launched with SAP and other IT suppliers to transform our previously accounting-focused system into a business-focused system, to promote our objective to be a customer-focused and process-oriented bank. Since 2004, we have committed to an investment of approximately RMB1 billion on this project and other relevant supporting systems.

Our new core banking system features:

- a suite of SAP and other IT supplier software which have been adapted to our specific operating needs in the PRC but still enables us to benefit from system technologies used internationally;
- a service-oriented architecture that enhances the ability of our business systems to process data and exchange data with each other;
- individual modular software components that can be upgraded independently, thereby increasing the scalability and flexibility of the system;

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- applications and templates that standardize the elements that constitute our products and services, for example, contract terms, while allowing for the combination of these elements to provide customized product and service solutions for our customers;
- IT functionalities that are closely aligned with our business unit functions;
- streamlined IT system processes for our product and service development, customization and actual provision that increase the efficiency and scale of our business operations; and
- 162 business modules under 11 system categories, including, but not limited to, customer interfaces, distribution channels, payment, general ledger, finance, risk management, back-office operations and security system categories, covering almost all aspects of our Bank's business.

Our new core banking system by SAP is expected to greatly enhance our current IT systems through the use of new technologies which will help consolidate our operations and thereby helping us control costs, increase efficiency and improve system and data reliability. We expect the new system will provide us with various business benefits, including:

Customer Relationship

- Improved customer responsiveness, and a more customer-focused transaction processing environment. Our systems now include a specially designed front office system that enables our sub-branch tellers to transfer business processing functions to our back office, thereby allowing such sub-branch tellers to focus mainly on marketing and providing customer service;
- a cross-bank platform that consolidates customer information from our various business systems, providing us with a more unified and comprehensive view of each customer. The application of specialized analytical tools to such information could enhance the customization of our products, improve customer service and increase the effectiveness of our marketing; and
- greater flexibility to adapt processes and business practices to meet customer expectations.

Financial and Risk Management

- Quicker and more comprehensive identification of risks through risk management tools embedded within our business modules;
- more comprehensive risk information and increased transparency, thereby allowing us to make better risk management decisions; and
- ability to freely combine or pick out different business unit or geographical reports, thereby providing us with a clearer and more detailed understanding of our financial condition.

Operational and Transactional Management

- Faster and more cost-efficient real-time processing of financial transactions;
- improved understanding of the profitability of our business units and products;
- expansion of our ability to conduct multidimensional analyzes of our operations through having a centralized data source;
- enhanced ability to identify, measure, and manage market and default risk across our Bank;
- provision of financial modeling for our transactional business; and

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- improved development and promotion of new products and services using a wide array of distribution channels.

We have adopted a variety of security measures, including, advanced firewall technologies, digital security certificates, intruder detection software and internet security strategies to provide a high level of network security. To enhance the reliability of our operations, we have also established operational disaster recovery centers in Beijing away from our headquarters as well as in Shenzhen to support business continuity in the event of major disruption or failure of our main data centers. The Bank did not suffer any major IT systems failure and related losses during the Track Record Period.

We have an experienced IT team. As of September 30, 2009, we had 407 employees with IT-related positions and responsibilities. Currently, we do not outsource any of our IT development. Instead, we cooperate with external experts to improve our systems, in order to leverage our substantial industry knowledge and ensure best practices can be implemented.

In recognition of our efforts and innovation in our IT systems, we have won a number of awards. In 2008, we received the "2008 Best IT Project Implementation in Information-oriented Systems" award from CIO magazine. In 2008, we received the "Best Informatization Strategy Award" from the CECA National Informatization Evaluation Center ("*NIEC*"). In 2006 and 2007, the NIEC also gave us the "Award for Best IT Governance Among Information-oriented Companies". In 2006, we also received the "Award for Best IT Structure Among Information-oriented Companies". In addition, in 2004, we were recognized as a Computerworld Honors Laureate by the Computerworld Honors Program for our "visionary use of information technology in business". Our case study, detailing our information technology, has been accepted into the Computerworld Honors Program Global Archives which is accessed by researchers, students and scholars in over 100 universities, museums and research institutions around the world.

COMPETITION

We believe that competition in the PRC banking industry is based on the following principal factors:

- the types and sophistication of the products and services offered;
- the size and location of the branches and ATM network, as well as the scope of services offered by the branches and ATM network;
- brand recognition;
- service quality; and
- product pricing.

We compete principally with the Large Commercial Banks and the Other Joint Stock Commercial Banks. We also face increasing competition from other industry participants, including city commercial banks and foreign banks with a presence in the PRC, and in particular from other financial institutions that provide wealth management products and services.

Additionally, we may face competition for funds from other forms of investment alternatives as the PRC capital markets continue to develop. See "Banking Industry in the PRC—Current Competitive Landscape" and "Risk Factors—Risks Relating to the Banking Industry in the PRC—The increasingly competitive nature of the PRC banking industry, as well as competition for funds which may arise from the developing PRC capital market, could materially and adversely affect our business, financial condition, results of operations and prospects."

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EMPLOYEES

As of September 30, 2009, and December 31, 2008, 2007 and 2006 we had 21,020, 19,853, 17,766 and 13,831 regular employees, respectively. The table below includes a breakdown of all our regular employees by function as of September 30, 2009:

	<u>Number of persons</u>	<u>Approximate percentage</u>
Headquarters and Branches		
Corporate banking ⁽¹⁾⁽²⁾	4,824	23.0%
Retail banking ⁽¹⁾⁽²⁾	10,866	51.7%
Treasury operations ⁽¹⁾⁽²⁾	219	1.0%
Finance and accounting	2,017	9.6%
Risk Management internal audit, and legal and compliance	1,492	7.1%
Information technology	407	1.9%
Management ⁽³⁾	281	1.3%
Others ⁽⁴⁾	914	4.4%
Total	<u>21,020</u>	<u>100%</u>

Notes:

- (1) Includes account managers at branches, sub-branches and our headquarters.
- (2) Includes our employees at the SBUs.
- (3) Includes our bank presidents, branch presidents, headquarters general managers, deputy general managers, general manager assistants and other members of our senior management.
- (4) Includes human resource, administrative and support staff, as well as employees with business management, customer service and product development functions.

We believe we have a young work force, with more than 60% having bachelor's degrees and more than 11% having masters or higher level degrees. As of September 30, 2009, the average age of our regular employees was 31.

We believe we are an employer of choice in the PRC banking industry and in 2005, we were ranked by The Chinese Banker («銀行家») magazine as first among commercial banks in the PRC in terms of human resource competitiveness. We have been able to attract and retain high-quality employees and have had a relatively low employee turnover. For the year ended December 31, 2008, our annual turnover rate was 5.0%. We have established effective employee incentive schemes to correlate the remuneration of our employees with their performance, and have established a performance-based incentive system. Performance awards, when granted, may account for up to 70% of the employee's total compensation, depending on the employee's position and assessed performance. We participate in various defined contribution benefit plans organized by the municipal and provincial governments, including retirement, medical, industrial injury and unemployment insurance plans, as well as housing funds. We also provide top-up medical insurance and corporate annuity plans for our formal employees.

We have established a sophisticated training system and encourage our employees to attend various professional training. In addition, we have sought to effectively integrate our employees' training development as part of their personal career advancement. Currently, we have developed close to 300 training courses targeted at different audiences, including overseas training, advanced professional training and general training. We have gradually expanded the scope of our employee training over the years. In 2008, we conducted 29 bank-wide training sessions participated by approximately 18,000 employees and had close to 1,000 training sessions organized by our branches and SBUs.

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

PROPERTIES

Our head office is located at No. 2 Fuxingmennei Avenue, Xicheng District, Beijing, China. As of September 30, 2009, we owned 177 properties and leased 1,025 properties in the PRC. In addition, we owned a property in Japan and leased a property in Hong Kong.

Owned Properties

As of September 30, 2009, we owned and occupied 177 properties in the PRC with an aggregate GFA of approximately 289,022.0 sq.m. Among the 177 properties, 101 owned properties with an aggregate GFA of 253,471.9 sq.m. are commercial properties used as office or business premises, and 76 properties with an aggregate GFA of 35,550.1 sq.m. are residential properties. In addition, we owned a property with a GFA of approximately 1,315.6 sq.m. in Japan.

Among our 177 owned properties, we have not obtained the relevant building ownership certificates and/or land use rights certificates for 28 properties with a GFA of approximately 42,226.1 sq.m., accounting for 14.6% of the aggregate GFA of our owned properties. Of these properties, ten are residential premises and 18 are commercial properties, including office and business premises.

- We have obtained the relevant building ownership certificates and administrative allocated land use rights certificates in respect of two commercial properties and three residential properties with an aggregate GFA of approximately 5,296.7 sq.m. representing 1.8% of the aggregate GFA of the properties that we currently own. We have been advised by Grandall Legal Group (Beijing), our PRC legal advisors, that we can legally occupy, use and lease the above properties, but our rights to mortgage, transfer and dispose of the properties are restricted unless we obtain the granted land use rights certificates by paying the relevant land premiums. We currently have no plans to mortgage, transfer or dispose of these properties and accordingly, we are not required to pay the relevant land premiums. We are unable to ascertain the relevant land premiums until, and if, we apply for rights to mortgage, transfer and dispose of the properties. However, we believe that the payment of any such land premiums, if required, will not have a material effect on our financial condition or results of operation.
- We have obtained the building ownership certificates, but have not obtained the land use rights certificates, in respect of four commercial properties and one residential property with an aggregate GFA of approximately 6,372.99 sq.m., representing 2.2% of the aggregate GFA of properties that we currently own. We have been advised by our PRC legal advisors, that (i) we can legally occupy, use and lease the above properties, but our rights to mortgage, transfer and dispose of the properties are restricted unless we obtain the granted land use rights certificates; and (ii) there are no material legal impediments for us to obtain the relevant land use rights certificates. We currently have no plans to mortgage, transfer or dispose of these properties and accordingly, we are not required to pay the relevant land premiums. We are unable to ascertain the relevant land premiums until, and if, we apply for rights to mortgage, transfer and dispose of the properties. However, we believe that the payment of any such land premiums, if required, will not have a material effect on our financial condition or results of operation. We are also in the process of applying for the relevant land use certificates.
- We have not obtained the building ownership certificates and land use rights certificates in respect of 12 commercial properties and six residential properties with an estimated aggregate GFA of 30,556.42 sq.m. representing 10.6% of the aggregate GFA of properties

that we currently own. Of these properties, (i) we purchased four properties with an aggregate GFA of approximately 4,081.52 sq.m. in recent months and are in the process of obtaining the relevant title certificates; (ii) we have not obtained the relevant title certificates for two properties with an aggregate GFA of approximately 3,000.02 sq.m. due to problems with the developers, which we have now settled; (iii) we purchased one property, a portion of a building, with a GFA of approximately 13,240.35 sq.m. from a state-owned enterprise and expect to be able to obtain the relevant title certificate for such property after the seller obtains the title certificates in respect of the whole building; and (iv) we are currently in the process of obtaining the relevant title certificates for the remaining six commercial properties and five residential properties, which represent only 3.5% of the aggregate GFA our owned properties. We have been advised by our PRC legal advisors, that there are no material legal impediments for us to obtain the relevant title certificates. While we are using our best endeavours to obtain the relevant title certificates for all the commercial properties, we are unable to ascertain when the relevant authorities will grant us the relevant title certificates.

We believe that the above 28 defective owned properties are not crucial to, and will not have a material impact on, our Group's operations because: (i) we have obtained the relevant valid building ownership certificates and/or land use rights certificates for majority of our owned properties, accounting for 85.4% of the aggregate GFA of our owned properties; (ii) for ten of the defective owned properties, we have been advised by our PRC legal advisors that we can legally occupy, use and lease the properties and therefore there is no impact on our operations; (iii) for the remaining 18 properties, six are residential properties, 12 are commercial properties for which we are currently in the process of obtaining the relevant title certificates; and (iv) if necessary, we would be able to replace these properties with comparable alternative buildings without any material adverse effect to our Group's operations.

Properties under Construction

As of September 30, 2009, we held two properties under construction in the PRC, for which we have obtained the relevant construction-related permits as required by PRC laws for the two properties.

Property Contracted to be Acquired

We have entered into agreements with some real estate developers or sellers to purchase a parcel of land with a site area of 5,058.4 sq.m. and seven properties with an estimated aggregate GFA of 155,927.78 sq.m. As of September 30, 2009, the properties above are vacant or under construction and the ownership to such properties has not been transferred to us, so Jones Lang LaSalle Sallmanns Limited has attributed no commercial value to these properties.

Leased Properties

As of September 30, 2009, we leased 1,025 properties with an aggregate lettable area of 634,158.51 sq.m. in the PRC. Of these leased properties, an aggregate lettable area of approximately 627,442.09 sq.m. is mainly used as office or business premises of the branches and/or self-service banking centers and the remaining 6,716.42 sq.m. are for residential use. In addition, we also leased a property in Hong Kong with a lettable area of 294 sq.m. for office purposes.

Of those 1,025 leased properties, we have not been provided by the relevant landlords with any relevant valid property title in respect of 370 properties, representing an aggregate lettable area of approximately 100,854.29 sq.m. Of these properties, eight are residential properties and 362 are commercial properties, including business and office premises and self-service banking premises. As advised by our PRC legal advisors, Grandall Legal Group (Beijing), the validity of the lease

agreements of the properties will not be affected by the fact that valid title documents of the properties have not been obtained.

In addition, as of September 30, 2009, the relevant lease agreements in respect of 994 properties with a lettable area of 606,032.2 sq.m., had not been registered with local authorities. As advised by our PRC legal advisors, the lack of registration of the lease agreements will not affect the validity of such lease agreements. However, relevant PRC authorities are entitled to order us to post register the leasing agreement and may impose penalties (the amount of penalties has not been specified by relevant laws and regulations) on us for such lack of registration.

We believe that the leased properties for which we have not been provided with any relevant valid property title documents and those with unregistered lease agreements are not crucial to, and will not have a material impact, on our Group's operations because (i) we have been advised by our PRC legal advisors that the validity of the lease agreements will not be affected by the fact that valid title documents of the properties have not been obtained or by the fact that the lease agreements have not been registered; and (ii) each of the leased commercial premises is part of our larger network of self-service banking centers and ATMs, branches and offices and we believe that we can relocate to alternative and comparable premises in the nearby vicinity of the relevant property to ensure that our larger network of branches and offices is maintained and our commercial operations will not be affected. We anticipate that there will not be significant practical difficulties in relocating to such premises, especially for the premises occupied as our self-service banking premises. Accordingly, any disruption to the use of these premises is likely to be transient and have minimal impact on our operations and profitability.

TRADEMARKS

We conduct our business under "China Minsheng Bank" and "民生銀行." Our bank logo, "S" has been registered in the PRC with the Trademark Office under the SAIC, and we have also registered the trademarks "中國民生銀行" in ten other countries and regions. We are the registered owner of the domain name of our website www.cmbc.com.cn. See "Appendix X — Statutory and General Information — Further Information about Our Business — Our Intellectual Property Rights."

LEGAL PROCEEDINGS AND COMPLIANCE

Claims and Legal Proceedings

We are subject to certain claims and are a party to a number of legal proceedings arising from the ordinary course of our business. Most of these claims and legal proceedings involve enforcement claims initiated by us to recover repayment of our loans. The claims and legal proceedings against us mainly include actions relating to customer disputes. As of September 30, 2009, we were involved in 67 and 34 outstanding lawsuits as plaintiff and defendant, respectively, with total potential amount of claims of approximately RMB746 million and RMB116 million, respectively. We have been advised by our PRC legal counsel, Grandall Legal Group (Beijing), that none of the legal proceedings to which we are a party, individually or in the aggregate, will have a material effect on our financial condition or results of operations. As of September 30, 2009, we made a provision of RMB5.9 million for our outstanding lawsuits as a defendant. In making such provision, we assessed each of the claims, based on the likelihood of success of each claim as advised by our legal advisors handling such claims.

Allegations from certain promoters in relation to previous share transfers

We note from certain recent press articles that certain promoters of our Bank (the "Complainants") have alleged that the Bank unlawfully transferred the Complainants' promoter shares in our Bank.

The relevant share transfers were made for the settlement of our claims against the respective Complainants for due and unpaid loan repayments. The relevant share transfers, as well as the qualification of the transferees of such promoter shares, were approved by relevant authorities.

The Complainants brought several lawsuits in relation to their respective allegation in different PRC courts, and the decisions by the courts on the lawsuits support our position. One of the Complainants applied to the PBOC, the SAIC and the State Council for administrative reconsideration for the validity of a share transfer that had been approved by the PBOC. The PBOC confirmed that the share transfer is valid. Neither the SAIC nor the State Council concludes that such share transfer is invalid.

Our Directors confirm that all the above share transfers are legal and valid. Grandall Legal Group (Beijing), our PRC legal adviser, has confirmed such view.

Regulatory Proceedings

We are subject to inspections, examinations, inquiries and audits by PRC regulatory authorities, such as the CBRC, the PBOC, the CSRC, the MOF, the SAIC, the SAFE, the CIRC and tax authorities and their respective local offices. As of the Latest Practicable Date, we were not subject to the audit of the National Audit Office of the PRC.

Administrative Penalties

We have been subject to fines and other penalties as a result of our failure to comply with certain laws and regulations discovered by regulatory inspections and examinations. From January 1, 2006 to September 30, 2009, we were subject to 55 fines, totaling approximately RMB5.8 million. These mainly included fines imposed by the PBOC in relation to non-compliance with respect to reporting requirements for suspicious large RMB amount transactions and anti-money laundering procedures; fines imposed by the CBRC in relation to loans to related parties; fines imposed by the SAFE in relation to non-compliance with relevant regulations when conducting settlement or foreign exchange business and with reporting requirements; fines imposed by tax authorities in relation to late payments; and fines imposed by the MOF in relation to tax and accounting-related review. None of these administrative penalties has resulted in any material adverse effect on our financial condition and results of operations. We have paid all the fines in full and have taken steps to address the issues described above, including increasing awareness of our reformed procedures among our employees by providing more training and emphasizing the importance of legal compliance; improving our measures for managing related party transactions; and reforming our systems to prevent recurrence of non-compliance.

Findings from the CBRC

The CBRC conducts formal and/or informal off-site and/or on-site examinations of our Bank's operations at our headquarters, branches and/or sub-branches on an ad hoc basis throughout each year. The CBRC then issues its findings and recommendation in the following year. For the three years ended December 31, 2008, 2007 and 2006, the CBRC identified certain incidents of non-compliance and weaknesses in our, among other things, business operations, internal audit, internal control and risk management, including weakness relating to our management of related party transactions, concentration of our non-performing loans in the real estate industry, failure to comply with all necessary regulations when issuing and renewing certain loans and the transfer of credit assets. Following these examinations, the CBRC issued certain recommendations requiring us to take measures to prevent and remedy the incidents of non-compliance and improve our internal controls and risk management systems.

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The following table sets forth all the key recommendations and the corresponding measures we have taken to address those recommendations.

Recommendations	Measures taken by us
<ul style="list-style-type: none"> • that we improve our management of related party transactions and eliminate non-compliant related party loans 	<ul style="list-style-type: none"> • improved our measures for managing related party transactions; established a related party information system; and widened the scope for checks on related party transactions to eliminate non-compliant related party loans;
<ul style="list-style-type: none"> • that we strengthen our management and control of credit risks and compliance with loan issuance and renewal regulations 	<ul style="list-style-type: none"> • continued to improve our credit risk management systems; further clarified the responsibilities of the general management of our lending business, customer due diligence checks, and credit review and approval; and strengthened our overall credit management, including standardizing our credit granting procedures, improving the quality of the management of our credit checks, credit rating and credit review, enhancing the effectiveness of our risk alerts and strictly enforcing the terms on which credit was granted enhanced the effectiveness of our post-loan disbursement management;
<ul style="list-style-type: none"> • that we strengthen our management of our credit asset transfer business and establish standardised operating procedures for such business 	<ul style="list-style-type: none"> • clarified the responsibilities of various departments for management of credit asset transfer business; established and implemented management systems for credit asset transfer business; recovered certain transferred assets; and implemented targeted audit checks on credit asset transfer business
<ul style="list-style-type: none"> • that we strengthen the development and management of wealth management products and improve our management of the legal and reputational risks associated with our sale of wealth management products 	<ul style="list-style-type: none"> • strengthened our management, research and market analysis abilities, including establishing a specialist team to evaluate, our wealth management product design; established financial engineering laboratories to enhance our pricing and valuation capabilities; and enhanced our management of wealth management product sales

As of the Latest Practicable Date, we have not received any further comment from the CBRC requiring us to adopt further rectification measures and there have been no subsequent inspections and examinations by the CBRC.

Findings from the CSRC

The Beijing branch office of the CSRC (the "**Beijing CSRC**") conducted an examination of our Shanghai Zhongshang Plaza investment project on February 13, 2007. The Beijing CSRC identified certain deficiencies in terms of the approval and disclosure procedures involved in this project. Following the examination, the Beijing CSRC issued certain recommendations, which are set forth in the following table, along with the corresponding measures we have taken to address those recommendations.

<u>Recommendations</u>	<u>Measures taken by us</u>
<ul style="list-style-type: none"> • that we improve our relevant approval and disclosure procedures 	<ul style="list-style-type: none"> • amended our Articles of Association, our procedural rules for Board meetings and our "Information Disclosure Management Systems" and "Material Information Internal Reporting Systems" in accordance with the newly published rules of the CSRC
<ul style="list-style-type: none"> • that our Directors, Supervisors and senior management re-report all their related party relationships in the last five years and disclose such information in our annual report in 2006 	<ul style="list-style-type: none"> • submitted report on all related party relationships of the Directors, Supervisors and senior management in the last five years and disclosed such information in accordance with the CSRC requirements
<ul style="list-style-type: none"> • that our Supervisory Board organize a team to conduct a full audit of the Zhongshan Plaza project and submit the results of the audit to the Beijing CSRC 	<ul style="list-style-type: none"> • engaged PricewaterhouseCoopers to conduct certain agreed-upon procedures regarding the project and submitted the results to the Beijing CSRC
<ul style="list-style-type: none"> • that we strengthen our capital management and increase our capital adequacy ratio 	<ul style="list-style-type: none"> • strengthened our capital risk management; established a special team to prepare for the implementation of Basel II; conducted a private placement of our A Shares in 2007 and issued hybrid bonds in 2006 and 2009; and launched the Global Offering to raise funds to strengthen our capital base

As of the Latest Practicable Date, we have not received any further comment from the Beijing CSRC requiring us to adopt further rectification measures and there have been no subsequent inspections and examinations by the Beijing CSRC.

Findings from the SAFE

The SAFE conducted on-site examinations at certain of our branches between January and October 2006. The SAFE identified certain incidents of non-compliance with respect to our foreign exchange business, with an aggregate transaction amount of approximately US\$12 million. Following the examinations, the SAFE issued certain recommendations requiring us to take measures to prevent the incidents of non-compliance and to improve the management of our foreign exchange business.

The following table sets forth the SAFE's recommendations and the corresponding measures we have taken to address those recommendations.

Recommendations	Measures taken by us
<ul style="list-style-type: none"> • that we supervise our branches to ensure that the non-compliance incidents are rectified • that we increase our training in respect of foreign exchange management policies, laws and regulations 	<ul style="list-style-type: none"> • convened a meeting of our sub-branches' foreign exchange personnel to conduct a factual analysis of the incidents identified in the examination; carried out comprehensive reform of our foreign exchange policies; and established clear requirements for our settlement, sale and payment review processes, key review areas, record-keeping and account management • organized training for all document processing personnel of the relevant branches, focusing on the relevant rules and operational procedures regarding foreign exchange settlement, sale and payment management and training for all staff at the relevant branches on the relevant foreign exchange policies;

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Recommendations

- that we strengthen operational risk control and prevent recurrence of non-compliance with foreign exchange rules

Measures taken by us

- reformed our systems in view of the findings by the SAFE and established standardized operational procedures, including establishing foreign exchange policy positions at each branch to monitor policy changes and conduct timely training of foreign exchange policies and guidelines; incorporated foreign exchange business operational error as one of the indicators reviewed by our accounts personnel, thereby emphasizing their accountability for execution of foreign exchange policies and improving compliance; emphasized communication between the sub-branches and operational lawyers to ensure any problems arising out of daily operations can be reported and handled on a timely basis; established weekly meetings to raise any foreign exchange issues and improvement suggestions; and carrying out bank-wide publicity of the relevant incidents to strengthen our bank-wide operational risk control and prevent recurrence of non-compliance with foreign exchange rules

We have taken the steps suggested by the SAFE and believe that we now comply with the relevant rules and regulations. As of the Latest Practicable Date, we have not received any further comment from the SAFE requiring us to adopt further rectification measures and there have been no subsequent inspections and examinations by the SAFE.

Findings from the CIRC

The Guangdong branch office of the CIRC (the "**Guangdong CIRC**") conducted on-site examination at our Guangdong branch in mid-2009. The Guangzhou CIRC identified that certain terms of insurance products published by our Guangzhou branch in an advertisement in the Guangzhou Daily «廣州日報» newspaper on June 18, 2009 was confusing in its comparison of insurance products with bank time deposit products. Following the examination, the Guangdong CIRC issued certain recommendations to our Guangzhou branch on July 16, 2009, requiring us to improve our internal controls and compliance with relevant laws, regulations and guideline documents, take measures to minimize the negative impact of the advertisement and increase training of our sales agents on laws and regulations, professional ethics and business knowledge to prevent such incidents from recurring.

Following the examination, our Guangzhou branch convened a meeting to request that all relevant departments and sub-branches strictly comply with the relevant regulations of the CIRC and the CBRC as well as our "Notice Regarding Strengthening Management of our Insurance Business Sales and Further Clarification on Related Work Requirements" «關於加強保險業務銷售管理和進一步明確相關工作要求的通知».

In respect of the advertisement, we also published an urgent statement in the Guangzhou Daily newspaper on June 25, 2009 to clarify the terms of the relevant insurance products. On July 28, 2009, our Guangdong branch submitted a report on remedial measures in response to the

recommendations to the Guangdong CIRC on July 28, 2009 and commenced implementing the remedial measures. These include: (i) improving external publicity management operating procedures; (ii) ensuring that all enquiries on the relevant insurance products are directed to our wealth managers who are qualified insurance agents to explain in full detail the terms of such products; (iii) disciplining the relevant employees responsible for the advertisement and conducting corresponding talks with our employees to prevent such incidents from recurring; and (iv) conducting strict review of publicity materials to ensure compliance with the relevant laws and regulations.

As of the Latest Practicable Date, we have not received any further comment from the CIRC requiring us to adopt further rectification measures and there have been no subsequent inspections and examinations by the CIRC.

Save as disclosed above, we have not received any recommendation from any other regulators in the PRC in respect of our main operating business. We do not believe that the relevant PRC regulatory authorities' findings described above revealed any material deficiencies in our internal controls and risk management systems. To the extent that any of the findings did suggest any such deficiencies, we believe we have taken the necessary steps to correct them. Furthermore, we have reported the status of our implementation of these remedial measures to the relevant regulatory authorities following the inspections by such authorities. None of these findings and administrative penalties has resulted in any material adverse effect on our financial condition or results of operations. We have been advised by Grandall Legal Group (Beijing) that, as of the date of this prospectus, nothing has come to their attention that would indicate that the relevant PRC regulatory authorities will impose any further administrative penalties in relation to these incidents. See "Risk Factors — Risks Relating to Our Business — We are subject to PRC regulatory requirements, and our failure to fully comply with such requirements could materially and adversely affect our business, financial condition, results of operations and our reputation."

Compliance

We have not fully followed the following regulatory guidelines or provisional rules of the relevant PRC authorities.

On June 27, 2006, the CBRC issued the Guidelines on Internal Audit for Banking Financial Institutions (銀行業金融機構內部審計指引), which became effective on July 1, 2006. Pursuant to the guidelines, banks are required to have an internal audit department with employees with certain qualifications, whose number shall in principle represent 1% of the bank's total number of employees. As advised by our PRC legal advisors, Grandall Legal Group (Beijing), such guideline does not specify any penalties or disciplinary measures for non-compliance with the 1% requirement or any expected timeframe for compliance, and the 1% requirement is not mandatory. As of September 30, 2009, we had 115 internal audit employees, representing 0.5% of our total number of employees. Although the 1% requirement set forth in the guidelines was not met, we believe that the combined use of measures such as establishing IT business processes controls and on-site and off-site audits by the current number of our internal audit employees has fulfilled our risk management demand. We currently do not intend to recruit more audit staff but may recruit more internal audit employees in accordance with the need of our business expansion. We have been advised by our PRC legal advisors that such non-compliance would not constitute any material impediment to our Global Offering.

Pursuant to the Corporate Governance Guideline (股份制商業銀行公司治理指引) issued by the CBRC on June 4, 2002, senior management should comprise at least one-quarter but not more than one-third of the board of a joint stock commercial bank. Such requirement is not mandatory and the guideline does not specify any penalties or disciplinary measures for non-compliance. Our Articles of Association provide that at least two Directors should be our senior management members. We currently have 18 Directors, two of which are also our senior management members pursuant to our

Articles of Association. Our Articles of Association and the appointment of our Directors and senior management were approved by the CBRC. We believe that the composition of our Board meets our current corporate governance needs and will increase the number of directors who are senior management only if mandatorily required by the CBRC.

In addition, as of September 30, 2009, we did not comply with certain requirements of the PRC banking regulators, including the requirements regarding the RMB loan-to-deposit ratio and the core liabilities ratio. According to the Core Indicators (Provisional), the CBRC may issue risk alerts to banks based on their analysis of data submitted by the commercial banks.

With regards to the RMB loan-to-deposit ratio, we received a notice issued by the CBRC — “CBRC Notice Regarding the Current Adjustment of Certain Credit Regulatory and Supervisory Policies to Promote Stable Development of the Economy” 《中國銀監會關於當前調整部分信貸監管政策促進經濟穩健發展的通知》 on January 10 (the “**CBRC Notice**”), 2009. The notice permits certain banks which meet capital adequacy requirements and have good coverage ratios to appropriately exceed the RMB loan-to-deposit ratio in 2009. Since March 2009, our RMB loan-to-deposit ratio has exceeded the 75% RMB loan-to-deposit ratio requirement under the Commercial Banking Law. We report our RMB loan-to-deposit ratios to the CBRC on a monthly basis and as of the Latest Practicable Date, we have not been notified by the CBRC that the CBRC Notice is not applicable to us, nor have we been notified of any potential penalties or subject to any actual penalties for exceeding the 75% requirement. We intend to adjust our ratio in accordance with the then effective requirements of the CBRC applicable to us or as specifically required by the CBRC after 2009 by slowing down the growth of our loans. Our PRC legal advisors, Grandall Legal Group (Beijing) are of the opinion that our non-compliance with the 75% RMB loan-to-deposit requirement will not constitute any material legal impediment to our listing on the Hong Kong Stock Exchange.

With regards to the core liabilities ratio, as disclosed in the section “Supervision and Regulation — PRC Banking Supervision and Regulation — Other Operational and Risk Management Ratios”, the Core Indicators (Provisional) promulgated by the CBRC is being implemented on a trial basis. We currently do not comply with the core liabilities ratio as to do so would require us to increase our core liabilities, mainly time deposits with maturities of three months or longer, or issue debt securities. The increase in time deposits is mainly dependent on our customers’ decisions and the issue of debt securities requires CBRC’s approval. As of the Latest Practicable Date, though our PRC legal advisors, Grandall Legal Group (Beijing) have confirmed that the core liabilities ratio requirement is not currently mandatory, we do not know when the requirement will officially and mandatorily be implemented and we have not been notified of any potential penalties or been subject to any actual penalties for non-compliance. See “Supervision and Regulation — PRC Banking Supervision and Regulation — Other Operational and Risk Management Ratios.”

Our Directors have confirmed that none of the above non-compliance has any material adverse effect on our business and financial condition. Save as disclosed in the section headed “Supervision and Regulation — PRC Banking Supervision and Regulation — Other Operational and Risk Management Ratios” and “Supervision and Regulation — PRC Banking Supervision and Regulation — Corporate Governance — Internal Controls” in this prospectus, and according to the legal opinion issued by our PRC legal advisors, Grandall Legal Group (Beijing), as of the Latest Practicable Date, we have complied with the relevant PRC regulatory requirements in all material respects and obtained all permits and licenses necessary for our operations. We have adopted, among others, the following measures to enhance our on-going compliance with the relevant regulatory requirements:

- We have established legal affairs and compliance departments at our headquarters and at 21 branches. Other branches have also established departments with risk management functions which are responsible for carrying out legal affairs and compliance duties. One of

the responsibilities of the departments is to monitor any change in the relevant laws, regulations and policies applicable to us. The Legal Affairs and Compliance Department at our headquarters is responsible for the preparation of our internal rules and regulations in accordance with the latest requirements of the applicable laws, regulations and policies. Our departments with legal affairs and compliance functions are also responsible for monitoring the implementation of such internal rules and regulations from time to time. As of September, 2009, we had approximately 110 employees who specialize in legal affairs and compliance work.

- We have maintained the effectiveness of our compliance internal controls and risk management system by establishing comprehensive policies, mechanisms and procedures, as well as independent internal audit departments. See “Risk Management — Overview.” In particular, our departments with legal affairs and compliance functions at our headquarters and branches are responsible for addressing compliance issues discovered by our internal audit department, the CBRC and other PRC regulators.
- We periodically conduct compliance training on a bank-wide basis to strengthen our employees’ awareness on compliance issues. We also treat compliance results as one of the performance criteria in evaluating our employees.

SPECIAL INCIDENTS

We and other commercial banks in the PRC have been, from time to time, subject to fraud and other misconduct committed by the employees, customers and other third parties. For example, in January 2006, the former deputy manager of the corporate banking department of the Jing Shi Lu sub-branch of our Jinan Branch was detained by the police for allegedly misappropriating customers’ deposits and committing fraud and forgery in inducing a corporate customer to transfer funds to accounts designated by such deputy manager. In connection with such misconduct, the corporate customer and five individual customers brought claims against us, which involved approximately RMB57 million. In December 2006, we reached a settlement with the plaintiffs and paid them approximately RMB10 million in aggregate for the settlement. We also dismissed the former deputy manager as a result of this incident. We dealt strictly with the perpetrators to the extent of our authority and adopted tailored corrective measures as necessary to address any operational or internal control-related weaknesses evidenced by these cases.

We have also taken a series of measures to enhance our internal controls to avoid future occurrences of similar incidents. For example, we have implemented a policy requiring report of suspicious activities of employees. The policy requires our employees to report certain suspicious activities of other employees to the relevant staff of our discipline monitoring department and other relevant departments. We will conduct further investigation with respect to the relevant employee(s) and the suspicious activities and provide guidance to the relevant employee(s). We may assign the relevant employee(s) to other position(s) according to the investigation results. We currently have separate departments responsible for the investigation, approval, monitoring and collection of loans and have strengthened our account management and internal audit system to prevent the misappropriation of client account details. We also currently have separate officers responsible for handling account statements and signature cards of our customers, to which we restrict access by our account managers. We have also imposed stricter procedures in approving fund transfers. See “Risk Management — Credit Risk Management.”

We believe that the financial losses and other negative factors resulting from these irregular incidents have not resulted in, either individually or in aggregate, any material adverse effect on our business, financial condition and results of operations. None of our Directors, Supervisors or members of our senior management was involved in these incidents. We have continued to strengthen our internal controls and risk management system to prevent such kinds of incidents from recurring in the future. See, however, “Risk Factors — Risks Relating to Our Business — We may

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not be able to detect and prevent fraud or other misconduct committed by our employees or third parties.”

In addition, we have established procedures in place for the monitoring and handling of negative reports in the media regarding our employees or incidents of non-compliance with any regulations. This includes a news affairs monitoring and assessment team that collects news at least twice a day from various media sources to ensure timely responses to material negative reports when they are published. We take negative reports seriously and have personnel assigned to identify material negative reports daily. We then analyze the relevant facts to verify the accuracy of such reports and to determine an appropriate response if necessary. Where the report is found to be incorrect and material, we will promptly contact the publisher of such report to point out the inaccuracy of the report and to request that the publisher rectify such report to minimize any further negative impact. See, however, “Risk Factors — Risks Relating to Our Business — Our business, financial condition, results of operations and prospects and the value of your investment may be materially and adversely affected as a result of negative media coverage relating to us, our personnel or the PRC banking industry.”