OVERVIEW

We are subject to a number of risks, principally credit risk, market risk, liquidity risk and operational risk. Our objectives in risk management include the following:

- pursue growth while maintaining prudent risk management;
- establish and continue to improve an integrated risk management system that is in compliance with applicable regulatory requirements; and
- protect the long term interest of our shareholders, customers and employees.

We plan to continue to enhance our risk management organizational structure, improve our risk management policies mechanism and procedures and implement advanced risk measurement and management tools in order to effectively manage risk. To achieve our objective, we have undertaken, or have plans to undertake, various initiatives, including the following:

- Optimizing our risk management organizational structure and clarifying the allocation of risk management responsibilities of our respective levels and internal subdivisions, including:
  — clearly defining the allocation of responsibilities between the Board and the senior management so that the Risk Management Committee and the other relevant committees of the Board, the Risk Management Commission and the Assets and Liabilities Management Commission of the senior management and other relevant departments can perform their respective risk management responsibilities;

  — establishing a multi-layered risk management system consisting of "three lines of defense," which includes our operating units (including our business management departments, SBUs and branches), risk management function departments and independent internal audit departments. See "— Risk Management Structure — Multi-layered Risk Management System"; and

  — clearly defining the vertical reporting procedures of each specialized management commission and department and implementing a vertical and independent oversight.
- Establishing customer-focused risk management policies, mechanisms and procedures, including:
  — having the Risk Management Commission formulate credit policy guidelines for our Bank, the SBUs and the branches on an annual basis and provide guidance on credit granting direction for the year, thereby reducing the possibility of involvement with high risk industries or customers;

  — dividing responsibility for the loan origination, credit approval and post loan disbursement processes among different departments to increase the specialization of these functions, as well as to maintain internal checks and balances;

  — establishing clear credit approval limits of the various levels within our organization according to the risk management capabilities of the various levels within our organization;

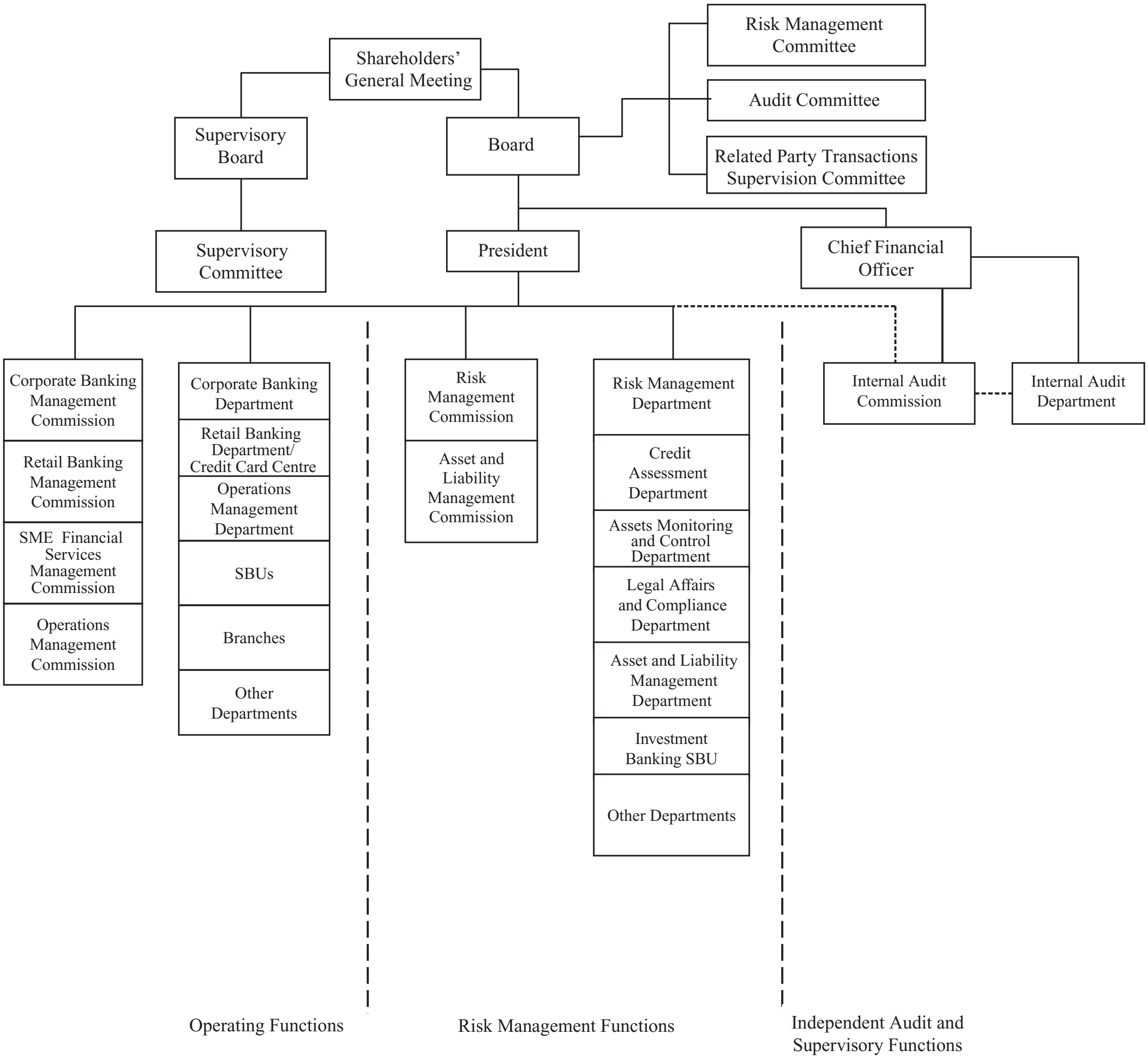
  — aligning our risk management innovation with our product innovation, such that our risk management teams participate in, and provide suggestions during, the early development process for products and services, and simultaneously design complementary risk management procedures and requirements, which will be applied to these new products and services; and

  — continuously improving our risk management processes and credit risk assessment methods;

- Utilizing advanced information technology systems and sophisticated risk management tools, including:
  - — reducing operational risks, monitor credit risks, market risks and liquidity risks in real time and enhance our ability to develop products and services with lower risks utilizing the operating and financial data collected and analyzed by the new core system;
  - — expanding our use of Fund Transfer Pricing (or FTP) through which we can conduct in-depth analysis of our operating and financial data and adjust the internal pricing of various products to better control and manage market risk and liquidity risk;
  - — conducting more comprehensive analysis with respect to interest rate sensitivity and liquidity shortfalls by using our asset and liability management system. The system enables us to forecast the impact of cashflow fluctuation and interest rate variation and adopt more market risk management strategy accordingly; and
  - — developing risk management models with respect to the extension of credit to SMEs and micro-enterprises;
- Promoting a corporate culture that emphasizes prudent risk management, including:
  - — emphasizing our principles of professionalism and specialization, and encouraging each employee to produce high-quality work, thereby reducing operational risk;
  - — conducting bank-wide risk management training for all employees to strengthen our employees' risk management awareness and capabilities in performing their daily work, as well as enabling them to more easily identify and manage the risks that we face; and
  - — including stringent risk management capability as an important performance criterion in our evaluation of our operating units, thereby instilling responsibility for risk management from the basic operational levels of the Bank upwards.

RISK MANAGEMENT STRUCTURE

The following chart sets forth our multi-layered risk management structure.



Note:
The Internal Audit Department reports to the Internal Audit Commission only on major internal audit matters for the commission. Likewise the Internal Audit Commission reports to the President only on such matters.

Board and its Committees

The Board has ultimate responsibility for our risk management, including formulating our risk management strategies and policies and establishing our overall risk tolerance levels. The Risk Management Committee, the Audit Committee and the Related Party Transactions Supervision Committee assist the Board in performing its risk management functions.

Risk Management Committee of the Board

The Risk Management Committee of the Board is responsible for advising on our overall risk management, monitoring risk controls as well as for evaluating our overall risk exposure. It is also responsible for risk management research and planning. The Risk Management Committee has five members: Mr. Wang Yugui and Mr. Wang Hang, our non-executive directors, Mr. Wang Lianzhang, our independent non-executive director, Mr. Wang Songqi, our independent non-executive director and Mr. Liang Yutang, our executive director. Mr. Wang Songqi currently serves as the Chairman of the Risk Management Committee. The Risk Management Committee convenes regularly each year, and more frequently if necessary to discuss significant issues relating to risk management.

Audit Committee and Related Party Transactions Supervision Committee

We have established an Audit Committee and a Related Party Transactions Supervision Committee, both of which report to the Board. See "Directors, Supervisors, Senior Management and Staff — Board Committees" for a detailed description of the responsibilities of these committees.

Supervisory Board and Supervisory Committee

The primary responsibilities of the Supervisory Board are monitoring the actions taken by the Directors and senior management in the performance of their respective duties for legal and regulatory compliance, examining our financial and accounting affairs and supervising our operational decisions, risk management and internal controls. The Supervisory Board meets at least once every six months. The Supervisory Committee is controlled by the Supervisory Board and routinely assists the Supervisory Board in discharging its duties. The Supervisory Committee consists of seven members: Mr. Qiao Zhimin, Mr. Xing Jijun, Mr. Lu Zhongnan, Ms. Xu Rui, Mr. Wang Liang, Mr. Chen Jinzhong and Ms. Wang Lei, with Mr. Qiao Zhimin as the Convener of the Committee. See "Directors, Supervisors, Senior Management Staff — Supervisors" for a detailed description of the responsibilities of the Supervisory Board.

Multi-layered Risk Management System

We have established a multi-layered risk management system composed of "three lines of defense," which includes our operating units (including our business management departments, SBUs and branches), risk management function departments and independent internal audit departments.

The operating units (including our business management departments, the SBUs and the branches) serve as the first line of defense for risk management. At their respective levels, they undertake risk management in the course of their operations in accordance with our risk management policies and requirements.

Each of our SBUs has established its own risk management division to focus on specific risks relating to its business. These risk management divisions report to the relevant risk management departments at our headquarters. Our Risk Management Commission assigns a chief risk management officer to each of the SBUs to manage the risk with the risk management divisions of the SBUs. The chief risk management officer reports to the head of the SBU as well as separately to the Risk Management Commission.

We believe that the establishment of the SBUs and their respective risk management division has enhanced our bank-wide risk management function. The risk management division of a SBU has the expertise to assess the risks associated with the relevant industry, client type or product, thereby improving the quality and accuracy of the risk evaluation. One important criterion of the internal appraisal of a particular SBU's performance is the effectiveness of its risk management function. As a result, the staff of each of the SBUs have a strong incentive to implement and operate a robust risk management function. In addition, the SBUs' risk management divisions cooperate closely with their respective chief risk management officers to ensure effective risk management.

The risk management departments within the branches are responsible for assessing the implementation of the risk management policies and providing suggestions for improvement. It reports to both the headquarters and the branch monthly or when serious problems arise. The key responsibilities of these departments include risk management responsibilities such as preliminary credit reviews and approvals for low-risk loans, loan disbursement examination, post-loan management, and legal affairs and compliance.

The risk management department at our headquarters serve as the second line of defense. They are responsible for determining risk management policies, mechanisms and procedures, and supervision and enforcement. In addition, they are responsible for developing our risk management systems.

The Internal Audit Commission and the internal audit department(s) serves as the third line of defense, the Internal Audit Commission and the internal audit department(s) conduct independent audit and monitoring and provides follow-up risk management assessment feedback evaluations.

Commissions at the Senior Management Level

Risk Management Commission

The Risk Management Commission is responsible for detailed matters of our overall risk management and internal control, including formulating our bank-wide risk management strategies and policy guidelines. The Risk Management Commission reports to the President and the Risk Management Committee of the Board. The risk management strategies and policy guidelines formulated by the Risk Management Commission are reviewed by the President and submitted to the Risk Management Committee of the Board for its approval. The Risk Management Committee of the Board may then submit the risk management strategies and policy guidelines to the Board in situations where the Risk Management Committee believes it is appropriate to do so. The Risk Management Commission supervises the implementation of our risk management strategies and policy guidelines by the branches, the SBUs and operating departments, analyzes our risk exposure and oversees our risk management functions.

The Risk Management Commission is chaired by one of our vice-presidents who is responsible for risk management work. The other members of the Commission consist of the heads of each of the following departments: the Risk Management Department, the Credit Assessment Department, the Assets Monitoring and Control Department, the Legal Affairs and Compliance Department, the Asset and Liability Management Department, the Finance and Accounting Department, the Internal Audit Department, the Corporate Banking Department, the Retail Banking Department, the Operations Management Department and the Development and Planning Department. The Risk Management Commission meets at least once every quarter to review and discuss the previous quarter's risk reports, before reporting risk management issues to the Risk Management Committee. The Risk Management Commission also holds ad hoc meetings as necessary.

Asset and Liability Management Commission

The Asset and Liability Management Commission is responsible for managing the scale and composition of our assets and liabilities, our capital and capital adequacy ratio, interest rate risk, exchange rate risk and liquidity risk in accordance with regulatory requirements and our internal requirements. The Asset and Liability Management Commission is responsible for monitoring our on- and off-balance sheet assets and liabilities in order to ensure that we maintain adequate levels of liquidity. It is also responsible for pricing our assets and liabilities and adjusting our internal transfer pricing to achieve an appropriate balance between our assets and liabilities.

The Asset and Liability Management Commission is chaired by one of our vice-presidents and comprises nine members, including various experts such as risk management experts, and capital and pricing experts. The Asset and Liability Management Commission generally meets once every month.

Headquarters' Risk Management Related Departments

Various departments implement risk management functions under the supervision of our senior management and its commissions.

Risk Management Department

The Risk Management Department is responsible for coordinating the Bank's overall risk management work. It undertakes the secretarial duties of the Bank's Risk Management Commission and it is also responsible for risk management planning, policy setting, research and analysis, risk measurement technical support, risk management process quality control evaluation, risk-related office management and results evaluation.

Credit Assessment Department

The Credit Assessment Department is responsible for review and approval of our corporate credit business. It is also responsible for formulating and implementing credit policies, procedures and assessment standards, as well as product risk management for our businesses bank-wide.

Assets Monitoring and Control Department

The Assets Monitoring and Control Department formulates and implements our credit assets risk monitoring and control system and its operating process within our organization. In doing so, the Assets Monitoring and Control Department monitors, analyzes, evaluates and reports on the operational and risk situation of our accumulated credit assets bank-wide.

Legal Affairs and Compliance Department

The Legal Affairs and Compliance Department is responsible for guiding, monitoring, investigating, analyzing and evaluating our legal and compliance risks, as well as reviewing legal compliance risks of major systems and products. It is also responsible for education and training on our legal compliance culture. The Legal Affairs and Compliance Department draws up, and organizes the implementation of, the Bank's legal compliance risk management (including anti-money laundering) control policies, in accordance with the requirements of law, regulations and regulatory policies as well as the business development needs of our Bank.

Asset and Liability Management Department

The Asset and Liability Management Department is responsible for managing the scale and structure of our assets and liabilities, monitoring relevant liquidity and market risk indicators and implementing strategies to reduce our liquidity and market risks.

Other Departments

In addition to the departments listed above, other departments such as the Investment Banking SBU, Information Management Center and Technology Development Department assume risk management roles within their respective areas.

CREDIT RISK MANAGEMENT

Our credit risk arises principally from our activities relating to our loan and investment portfolios, and it is realized when a customer or counterparty is unable or unwilling to meet a commitment that it has entered into with us. With respect to corporate lending, separate departments in our credit risk management system are independently responsible for pre-approval investigation, credit approval, loan disbursement examination, post-loan management, legal affairs and compliance, and recovery of impaired or non-performing loans. We have also developed separate credit risk management procedures with respect to retail lending. See "— Credit Risk Management for Non-Credit Card Retail Loans" and "— Credit Risk Management for Credit Cards."

Credit Risk Management for Corporate Loans

Credit Policy Guidelines

At the beginning of each year, the Risk Management Commission promulgates credit policy guidelines setting out credit principles for different industries, regions, types of loans and types of customers. Such annual guidelines are set in accordance with the external operating environment as well as our internal operation goals. Each SBU and branch may establish its own credit policies to incorporate its development needs as well as regional and/or industry economic conditions, as long as such policies are consistent with the Risk Management Commission's credit policy guidelines. Each quarter, we consider recommendations from the SBUs and the branches, and adjust our credit policy guidelines based on an assessment of quarterly credit policy performance as well as any changes in our operating environment.

Pre-Approval Investigation

All applications for corporate loans are subject to credit investigation before approval. All applicants for corporate loans must receive initial endorsement by a customer manager before it may submit an application to our Bank. Applicants for corporate loans are generally required to submit financial statements audited by designated auditors as well as other materials including authorization documentation, board resolutions and, if applicable, collateral appraisal reports.

Each pre-approval investigation is ordinarily conducted by one customer manager and one risk manager, both of whom are trained and certified by our headquarters. The customer manager is responsible for undertaking a factual investigation of the applicant. The risk manager is responsible for verifying the results of the investigation performed by the customer manager as well as for undertaking an initial risk assessment. We conduct site checks as well and review publicly available information with respect to the applicant. We also use the Enterprises' Credit Information Database of the PBOC to perform background checks on the credit history and the indebtedness level of our corporate clients.

The investigation process includes an analysis of the purpose and structure of the loan, the applicant's sources of income, financial condition, cash flow, credit history and repayment ability, as well as the identity, credit history and collateral coverage of any guarantor. The credit investigation also involves a qualitative analysis of the applicant's industry risks and market position, together with other relevant factors. If a borrower wishes to renew, or amend the terms of, an existing loan, we apply the same standards as we would in granting a new loan.

After the pre-approval investigation process has been completed, the customer manager prepares a credit investigation report and conducts a preliminary assessment of the customer's credit rating, while the risk manager prepares a risk evaluation report. These two reports are submitted to the regional credit approval centers.

Customer Ratings

In 1999, we began to use the manual scorecard method to determine the credit risk ratings of our corporate customers. Initially we employed a four-level rating system, but in 2002, we adjusted this to a six-grade rating system.

In April 2005, we established an 11-level credit rating system for our corporate customers. Under such system, we classify our customers into 11 credit levels ranging from A1 to D, based on the overall score results of various quantitative and qualitative factors. The quantitative factors primarily include the customer's financial situation, profitability, repayment ability and liquidity, while the qualitative factors primarily include the sector in which the customer operates, the quality of its management, its market position and the geographic areas in which the customer is located and operates. Non-defaulting customers are classed into the ten levels of A1, A2, A3, A4, B1, B2, B3, C1, C2, and C3, of which A1 represents the best credit rating and C3 represents the worst credit rating. The levels A1 to A4 represent excellent to fair ratings, B1 to B3 represent above average to below average ratings, C1-C3 represent poor to extremely poor ratings and D represents a defaulted rating.

The following table sets forth our 11-level credit rating system and the corresponding credit scores and descriptions of the risk related financial condition of the customer represented by such ratings.

Credit Rating	Credit Score	Definition	Description
A1	91-100	Excellent	Excellent creditworthiness and extremely low credit risk. The borrower has excellent operating condition, strong profitability, is highly competitive or holds a monopolistic position in its market and it has broad development prospects. The borrower has an excellent credit record, with the probability of it defaulting being extremely low. The borrower also has very strong repayment ability. The impact of any uncertainties on the borrower's operations and development is likely to be extremely small. The borrower is highly valuable to the Bank's business development.
A2	86-90	Very good	Very high creditworthiness and very low credit risk. The borrower has very good operating condition, high profitability, its various business and financial indicators are advanced and it has relatively fairly broad development prospects. The borrower has very strong repayment ability and has no historical record of default. The probability of it defaulting is very low. The impact of any uncertainties on the borrower's operations and development is likely to be very small.
A3	81-85	Good	High creditworthiness and low credit risk. The borrower has good operating condition, fair profitability, its various business and financial indicators are good and it has good development prospects. The borrower has strong repayment ability and has no historical record of default. The probability of it defaulting is low. The impact of any uncertainties on the borrower's operations and development is likely to be fairly small.

Credit Rating	Credit Score	Definition	Description
A4	71-80	Fair	Fairly high creditworthiness and fairly low credit risk. The borrower has fair operating condition, stable economic results, and its various business and financial indicators are at fair levels. The borrower has fairly strong repayment ability and has no historical record of default or has record of default but no loss arose from such default. The probability of it defaulting is fairly low. There will be certain impact of any uncertainties on the borrower's operations and development but without any large risks.
B1	61-70	Above average	Generally good creditworthiness. The borrower has stable operating condition, and its various business and financial indicators are at above average levels. The borrower has acceptable repayment ability and can provide sufficient protection for its debt obligations. The borrower has record of default but the loss from such default was small. The probability of it defaulting is fairly low. The borrower's operations and development will be easily impacted by any uncertainties.
B2	51-60	Average	Average creditworthiness. The borrower has average operating and financial condition. The borrower has fairly weak repayment ability and can provide some protection for its debt obligations. The borrower has record of default but the loss from such default was fairly small. There is certain risk of default. The impact of any uncertainties on the borrower's operations and development is likely to be fairly large.
B3	41-50	Below average	Fairly low creditworthiness. The borrower has fairly poor operating condition. The borrower has the ability to repay capital and interest but such ability is unstable. The borrower has a record of more frequent default and the risk of default is fairly large. The impact of any uncertainties on the borrower's operations and development may cause its financial condition to gradually worsen.
C1	21-40	Poor	Poor creditworthiness. The borrower has poor operating condition and weak financial condition. The borrower has insufficient repayment ability and has a record of more frequent default and the probability of default is fairly high. The impact of any uncertainties on the borrower's operations and development may cause its credit risk, but there are more factors that may improve the borrower's business and prospects.
C2	11-20	Very poor	Very poor creditworthiness. The borrower has very poor operating condition and very weak financial condition, and is essentially in a loss-incurring state. The borrower lacks repayment ability. However, there are still factors that may improve the borrower's business and prospects.

Credit Rating	Credit Score	Definition	Description
C3	0-10	Extremely poor	No creditworthiness. The borrower has extremely weak financial condition, with basically no ability to pay capital or interest. The borrower has sustained serious losses and is close to insolvency. There are very few factors that may improve the borrower's business and prospects.
D	N/A	In default	In default according to the Bank definitions.

We require all corporate customers who have credit balances with us to be rated regularly. In principle, credit rating results are valid for one year. We preliminary rate new customers before they can apply for credit. Where there is a major change in the customer's financial condition, business operations or compliance with its contractual obligations, we will require the customer to be rated again.

Rating results take into account, and are adjusted for, differences between industries and geographical regions. We use other rating methods to conduct credit risk analysis for government departments, business development organizations and customers who do not meet the criteria for being rated under the above-mentioned rating system (i.e. they have been established for less than three years).

The customer managers are responsible for processing customer rating applications and conducting preliminary ratings. The Credit Assessment Department then examines and verifies such preliminary rating and finally determines the rating result. We continue to reinforce credit rating training for our staff and supervision of credit ratings, to ensure that the credit rating system is used consistently.

Generally, we only grant credit loans to customers with category A ratings and require guarantees for loans for customers with other ratings. We implement differentiated marketing and pricing for our corporate customers and conduct portfolio risk management based on their credit ratings. We believe that the use of credit ratings helps to increase the efficiency of our credit approval process, enable effective risk measurement and enhance the efficiency of our capital allocation.

Our customer rating system operates through the use of a credit management information system rating model. We are committed to continuing to improve our internal rating system and process and are currently planning to launch a new internal rating model that fulfills the requirements of the Basel II Accord. Such model could increase the accuracy and validity of ratings, and further improve our risk measurement and capital allocation.

In addition, the customer's credit rating is one of the factors we will consider when classifying a loan according to the five-category loan classification in accordance with the CBRC's guidelines, even though the five-category loan classification system is a regulatory requirement and is different from our internal customers' credit rating system, and the two systems cannot be reconciled to each other. For further information on the five-category loan classification system, see "— Post-Disbursement Management — Post-Disbursement Monitoring."

Collateral Appraisal

The majority of our loans are secured by guarantees, collateral or pledges. See "Description of Our Assets and Liabilities — Assets — Loans to Customers — Distribution of Loans by Collateral." For corporate credit applications that involve collateral, we generally require collateral appraisal reports from certified third-party valuers to ascertain the value of the collateral. Collateralized loans are generally subject to loan-to-value ratio limits based on the type of collateral. The maximum loan-to-value ratios of our principal types of collateral for corporate loans are as follows:

Principal types of collateral	General maximum loan-to-value ratio
City land use rights	60%
City real estate	70%
Property under construction	60%
Corporate production facilities and equipment	40%
Motor vehicles and ships	50%
Certificates of deposit	90%
Government bonds	90%
Bank acceptance bills	based on discount rate

Credit Approval Procedures

We have established a multi-tiered corporate loan approval system under which loan approval authorization limits are centralized at the headquarters level and various credit approval limits are granted to authorized staff at different levels. Loan applications are processed by the relevant regional credit approval center or the risk management division of the SBUs, depending on the product type, the region of the originating branch and the industry categories of such loan applications.

Credit Approval Process

Our branches may only approve corporate loan applications for certain low-risk loans such as those fully backed by evidence of actual deposits, sovereign bonds or foreign exchange deposits. Other corporate loan applications submitted to our branches are forwarded to our regional credit approval centers.

At the regional credit approval centers, we apply different approval procedures for different types of loan applications:

- Loan applications are initially reviewed by the assistant assessors at the regional credit approval centers. The assistant assessors conduct analysis of the applications in specific areas, such as the applicant's financial information, industry condition and prevailing government policies.
- After the initial review, loan applications are submitted to the chief credit reviewer at the regional credit approval centers, who may approve loan applications within his or her authorized credit approval limits. Such approvals become effective if the credit review supervisor from the Credit Assessment Department does not raise any objections within a day.
- Where the credit review supervisor raises any objection, the loan application is forwarded to the regional credit review commission for deliberation on whether the chief credit reviewer should approve the loan application.
- Loan applications which exceed the authorized credit approval limits of the chief credit reviewer are transferred direct to the credit assessment officer at the regional credit approval centers. If the loan application is within his or her authorized credit approval limits, under our dual signing responsibility system, the credit assessment officer has the power to reject an application outright. Approval is only possible if both the credit assessment officer and the credit assessment assistant agree.
- Where the credit assessment officer wishes to approve the loan application, but the credit assessment assistant disagrees, the loan application is submitted to the regional credit review commission for deliberation on whether the credit assessment officer should

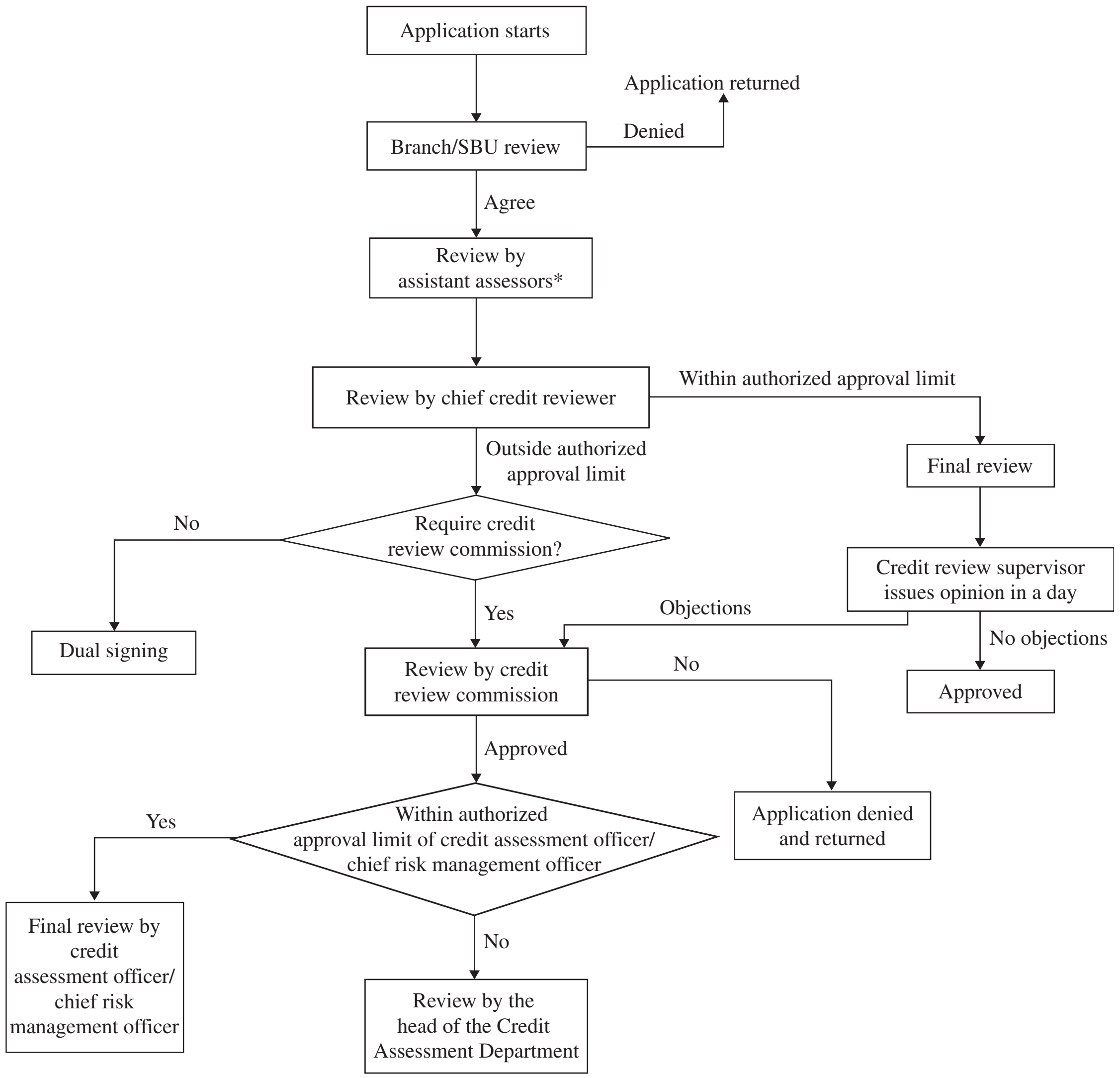
approve the loan application. The regional credit review commission is usually made up of five to seven members. The consent of at least 80% of the members of the regional credit review commission is required for such review commission to direct that the credit assessment officer should approve the loan application which was deliberated on.

- In addition, where the loan application exceeds the authorized credit approval limits of the credit assessment officer, involves high-risk loans, including restructured loans and extended term loans or is considered by the credit assessment officer necessary to be reviewed by the regional credit review commission, it is submitted to the regional commission to decide whether the loan application is appropriate for submission to the head of our Credit Assessment Department with final approval authority at the headquarters. The head of the Credit Assessment Department may approve or reject such loan application. Though the credit assessment officers do not have the authority to approve any above-mentioned loan application, they may nonetheless veto any loan application being considered by the regional committee.
- Loan applications rejected by the regional credit review commission or the head of our Credit Assessment Department are returned to the branches as appropriate. The branches may appeal to the credit review commission of the Credit Assessment Department at the headquarters whose decision will be final.

The credit approval process for our SBU risk management divisions is substantially the same as for our branches, except that there is no initial review by assistant assessors in the SBU risk management divisions.

The following chart summarizes the approval procedures for corporate loan applications:

Credit approval process by branches/SBUs



* Not applicable to SBUs

Credit Approval Supervision

We have established a supervisory function at our headquarters to supervise the credit assessment work of the regional approval centers and the SBUs. Such supervision is conducted by credit review supervisors and covers:

- the time taken to complete credit assessments;
- the compliance of the credit assessment process with bank regulations;
- the compliance with relevant credit policies including PRC government industrial policies, supervisory and regulatory body policies and our internal credit policies;
- the extent to which risks are discovered;

- whether credit plans have been designed reasonably, including terms such as the credit amount, term and price, as well as the guarantee and payment methods; and

- whether reasons given for rejections are ample and reasonable.

Special Procedures for Group Borrowers

We have established policies and procedures for approving the granting of credit to group entities. Group entities such as those under common control are considered to be group borrowers and are treated as a single entity for the purposes of reviewing of loan applications. Such applications are reviewed by the same reviewing body, regardless of where the loan application is originated. We also adopt an overall credit limit for customers within the same group.

Our "China Minsheng Bank Provisional Measures of the Management of Group Customers" «中國民生銀行集團客戶管理暫行辦法» (the ***Group Customers Measures***) contains guidelines to help us comply with the CBRC's requirements on the risk management of granting credit to group borrowers. Our Corporate Banking Department, risk management departments, branches and SBUs identify our group customers and report the results to our headquarters Corporate Banking Department. The Corporate Banking Department confirms the status of these customers and then distributes the list of the group customers to the relevant departments, branches and SBUs. With regards to credit exposures to our group customers, our Credit Assessment Department is responsible for ratifying the credit limits to group customers. Such limits are normally reviewed (and may be adjusted) annually but are also adjusted as necessary, particularly if any changes occur which create a major risk to the relevant group customer's operations or financial condition, such as credit deterioration or a change of PRC government policy on the group customer's industry. All such information will also be centrally processed within our credit risk management system. We also require our relevant departments, branches and SBUs to report to our Corporate Banking Department any information discovered in their daily operations that may affect the group customer status of the relevant customer.

We believe that these additional cautionary measures enable us to better manage the credit risks associated with affiliated borrowers and also simplify the process for our group clients. However, we cannot ensure that these additional measures will be adequate to control risk in all cases because the effectiveness of our risk management system is affected by the quality and scope of information available on borrower affiliations available in the PRC. See "Risk Factors — Risks Relating to Our Loan Portfolio — A large portion of our loan portfolio is made to corporate customers, customers in certain industries and regions and certain single borrowers, and any economic downturn impacting such industries, regions or customers could materially and adversely affect our business" and "Risk Factors — Risks Relating to the Banking Industry in the PRC — The effectiveness of our risk management system is affected by the quality and scope of information available in the PRC."

Processing Loan Documents and Funds Disbursement

We have established procedures for processing loan documents, including guidelines for preparing, executing, categorizing and filing such documents. Once a loan application is approved, the disbursement of funds is made by separate fund disbursement centers at the branches. The disbursement centers examine the documents to ensure that such documents have been validly authorized and properly executed, and that all conditions are satisfied before disbursing the funds. The disbursement centers are also responsible for categorizing, storing and managing the loan documents and for entering the relevant information into our credit management information system.

Post-Disbursement Management

Post-Disbursement Monitoring

Our monitoring process for loans to corporate customers includes verifying the borrower's ongoing compliance with the terms of the loan agreement, monitoring the use of funds, revaluating collateral, maintaining regular contact with the borrower, analyzing the borrower's financial status through periodic review of its financial statements, conducting site inspections and meetings with the borrower's management, and analyzing the condition of guarantors, if applicable, through review of their financial statements.

Typically, we check the flow of funds within seven days after drawdown, or depending on the borrower's circumstances or the type of loan, we will conduct monitoring of the use of funds after the loan has been made. We also perform quarterly credit reviews of each borrower. We generally conduct return inspections to each large borrower every quarter, and depending on the size of the borrower, the managing directors of our branches may also participate in such inspections to meet with the borrower's management. In addition, we review the financial information of our borrowers each quarter, and check the status of their borrowings and guarantees with other banks or financial institutions and their records of repayment of principal and interest through the Enterprises' Credit Information Database of the PBOC.

If potential problems are detected, we conduct a more detailed review of the credit quality of the borrower, considering factors such as the borrower's financial position, ability to repay outstanding loans in the short and long term, the value of any collateral and the ability of any guarantor to repay the loan.

Loan Classification

In accordance with the CBRC guidance on the classification of loans we divided our loans into five levels. Beginning in 2009, we further divided our loans into ten categories which fit into the five levels. We report such classification data monthly to the CBRC, as required by the CBRC. See "Supervision and Regulation." See "Description of Our Assets and Liabilities — Assets — Asset Quality of Our Loan Portfolio — Loan Classification Criteria."

Our customer managers at branches and SBUs classify outstanding loans based primarily on the borrower's repayment ability, giving consideration to other factors such as guarantees, collateral and the length of any overdue period. At the same time, the credit rating of our customers is also one of the determining factors in our classification. The SBUs and branches examine and verify these classifications and report to the Assets Monitoring and Control Department at our headquarters. The Assets Monitoring and Control Department may, based on its knowledge and information obtained from loan monitoring and other channels, request branches to adjust the classification.

We conduct loan classifications every quarter or on an as needed basis. If a Customer experiences substantial changes in his operations or financial condition, the relevant client manager may report such changes to higher risk management departments, and information regarding these changes is accumulated to be assessed on a monthly basis.

Risk Alerts and Ongoing Monitoring

We have employed an eight-stage risk alert system to monitor our loans. The eight stages are: (i) collecting risk information, (ii) identifying risks, (iii), investigating and evaluating the risk(s), if any, (iv) issuing an alert if necessary, (v) formulating countermeasures as necessary, (vi) implementing any countermeasures decided, (vii) follow-up monitoring and (viii) removing the alert.

We collect the risk information primarily from our post-approval checks, our internal and external audit departments, the public media, regulatory bodies and other financial institutions in the market. Based on the severity of the risks we identify in relation to our loan customers, we classify our risk alert customers as red, yellow or blue. In principle, we would propose to withdraw from any business relationship with red alert customers. For yellow alert customers, we actively source information regarding their assets and the relevant departments re-design a credit plan for them. As for blue alert customers, we increase the frequency of post-loan disbursement checks and closely monitor the enterprise's risk signals and trends, thereby increasing the probability of repayment and the fulfillment of the customer's legal obligations.

Collateral Management

We implement centralized management of collateral, including:

- management of collateral documentation, including transferring, safekeeping and returning collateral rights documentation;
- collateral verification, including verifying the existence of the collateral, matching such collateral against the collateral described in the documentation, checking whether collateral registration or other required procedures have been conducted, checking whether the collateral has been ensured and whether insurance is renewed on a timely basis;
- collateral valuation and monitoring according to relevant laws and regulations to objectively reflect the value of the collateral; and
- internal re-evaluations of collateral periodically for impairment testing purposes.

Recovery of Problem Loans

The Assets Monitoring and Control Department is responsible for organizing, supervising, reviewing and evaluating problem loans across our Bank and makes the final determination as to whether any loan has become a problem loan. We have established a system to identify and actively manage problem loans, including non-performing loans. We consider problem loans to be: (i) loans that are overdue for an accumulated period of three months or more; (ii) loans that are identified as impaired loans under IFRS; (iii) loans that are classified as substandard, doubtful or loss; (iv) loans that involve fraud or litigation; (v) loans that become associated with risks which may potentially cause them to be classified as non-performing; (vi) loans requiring restructuring; and (vii) other loans with higher potential risks.

We have established a non-performing assets' steering team at our headquarters to lead the handling of major problem and non-performing asset write-offs and remissions. The headquarters non-performing assets' steering team is led by a managing vice president.

The Investment Banking SBU concentrates on the management, recovery and collection of large-value corporate problem loans. Problem loans not transferred to the Investment Banking SBU are handled at the branch or the SBU where the loan was originated.

Measures we take to resolve problem loans include: (i) notifying the borrower of a requirement for payment; (ii) meeting with the borrower to investigate the borrower's business operations and to determine whether payment is foreseeable; (iii) commencing legal action against the borrower or guarantor; (iv) disposing of collateral by auction or sale conducted in an agreed manner; and/or (v) working with the borrower to restructure the terms of the loan.

Notice of Demand and Meeting with the Borrower. We notify problem loan borrowers and guarantors of payment defaults by telephone, in writing or in person. We may also meet with borrowers and guarantors to determine whether payments are foreseeable.

Legal Proceedings. If we are not able to recover a problem loan within a reasonable time after a notice of demand has been given, depending on the specific circumstances of the borrower, we will choose to initiate legal proceedings to enforce our rights in respect of the collateral or guarantee securing the loan (if any), to chase for repayment of the loan. Legal action with respect to an unsecured loan could involve applying to a court for preservation measures regarding the borrower's or the guarantor's assets, including seizing, attaching or freezing part or all of the borrower's or the guarantor's assets up to an amount equal to the outstanding principal amount and accrued, unpaid interest on the loan and all costs and expenses incurred in connection with the debt collection. In a legal action with respect to a guaranteed loan, we generally sue both the borrower and the guarantor. We may also apply to a court for the preservation of the assets of the borrower and guarantor during the legal proceedings. If the borrower and/or the guarantor fail to comply with any court judgment in our favor, we may apply to the court for mandatory enforcement of such judgment. During legal proceedings, we may, through the court's mediation, reach an agreement with the borrower and/or the guarantor regarding repayment terms. If the borrower or the person or entity providing security fails to perform its obligations under the mediation agreement, we may apply to the court for mandatory enforcement of such mediation agreement.

Collateral Disposal. Loan collateral may include real estate, land use rights or equipment while loan pledges may include deposits, financial instruments (including discounted bills) and rights to future cash flows. For problem loans, we may agree with the person providing the collateral or pledge to sell or auction off the collateral or pledged asset, and to apply the proceeds from the sale or auction to repay the loan. If we cannot reach an agreement with the person providing the collateral or pledge, we may sue the borrower and/or the person providing the collateral or pledge in respect of the default amounts, and may also apply to the court for seizure or attachment of the collateral or pledged asset. Once we receive a favorable judgment, we may apply to the court for mandatory enforcement, and will be entitled to payment from the proceeds of a court-mandated auction or sale of the collateral or pledged asset in priority.

Restructuring. In a small number of cases where a borrower faces financial difficulties, we may restructure our loans. We restructure our loans only if we believe that such restructuring will increase the likelihood of repayment. The restructuring may include a change in the type of credit facility and/or an extension of principal payment terms, a change of guarantors and the taking of additional collateral. All loan restructurings must be approved by our headquarters and are subject to the regular credit approval procedure.

The restructured loan may not be upgraded into a higher loan classification category until after an observation period of six months. If the principal and interest on the restructured loans are repaid throughout the observation period and the borrower enterprise's production and operations appear to be improving, we will review the loan's classification when the observation period ends and may upgrade the loan if appropriate. If the borrower subsequently becomes delinquent in paying the principal or interest on the restructured loan, we will downgrade the loan. Interest continues to accrue on our restructured loans during the observation period as on other loans.

Write-offs. We write off a loan as a loss once we have exhausted all potential means of recovery and the loan meets the relevant regulations for write-offs established by the MOF. All loan write-offs must first be reviewed by the Internal Audit Department, and then approved by our senior management or the Board.

Credit Risk Management for Non-Credit Card Retail Loans

Approval Procedures for Non-Credit Card Retail Loans

The Risk Management Department and the Retail Banking Department jointly prepare and adjust credit policy guidelines for non-credit card retail loans on an annual basis. They also establish the relevant authorization limits for different types of non-credit card retail loans. For example, the guidelines impose certain limits on mortgage loans for commercial or investment purposes.

Management of the credit approvals for our non-credit card retail loans is generally handled by the risk management center within the Retail Banking Department at our headquarters and the individual loan management departments at our branches. We also have a Retail Banking Department credit review commission and retail credit review commission at our branches. The Retail Banking Department credit review commission has at least six members, including the Retail Banking Risk Management Officer and five professionals. The qualifications required of the Retail Banking Department credit review commission members are screened and cleared by the Retail Banking Department at our headquarters. The Retail Banking Department credit review commission is under the supervision and follows the working procedures of the Risk Management Department and the Credit Assessment Department at our headquarters.

Generally, retail loans originating from the branch level are subject to initial reviews by reviewers within the individual loan management departments. The chief reviewer may approve a loan after a classification review and an approval process involving the head of the individual loan management department. Loan applications exceeding their authorized approval limits are passed on to the branch retail credit review commission for review and approval according to its authorized approval limits. We have different approval limits for different branches based on the relevant branch's situation, risk exposure and special characteristics of the loan products provided by the branch.

Loan applications exceeding the branch retail credit review commission's authorized approval limits are passed on to the Retail Banking Departmental risk management center for review and approval by the Retail Banking Department credit reviewers and the Retail Banking Chief Credit Risk Management Officer according to their authorized approval limits. Loan applications exceeding the Retail Banking Department credit reviewers and the Retail Banking Chief Risk Management Officer's authorized approval limits are passed on to the Credit Assessment Department for review and approval. Approval by 80% of the members of any retail credit review commission is required for approval of retail loan applications referred to such commission.

We assess non-credit card retail loans using standards that differ from those used for corporate loans. In assessing non-credit card retail loans, we consider the borrower's income and net worth, the borrower's financial status, the purpose of the loan, the quality and value of the collateral, the source of repayment and other qualitative factors. To prevent fraud, we conduct pre-approval investigation of non-credit card retail loans to obtain the names and national identity card numbers of potential borrowers before loan applications are forwarded to the individual loan management department for approval.

Post-Disbursement Loan Monitoring and Management

The monitoring of non-credit card retail loans is performed by our Retail Banking Risk Management Center and the individual loan management departments at our branches. Five days before payment on a loan to an individual is due, our computer system checks whether the borrower's account has sufficient funds to make the upcoming payment. If there are insufficient funds, the system automatically generates a message to customer service center staff at the customer service center that will send a payment reminder to the borrower by a short message to the customer's mobile phone or via other communication methods. If a loan is overdue for less than 30 days, staff at the local customer service center will contact the borrower to request payment. For non-credit card retail loans that are overdue for more than 30 days but less than 90 days, the customer managers will be responsible for chasing payment of such loans. Personnel of the retail banking departments at the branch level take over the responsibility for the management of non-credit card retail loans that have been overdue for more than 90 days.

Credit Risk Management for Credit Cards

Our Credit Card Center in Beijing has the authority to approve credit card applications. Credit reviewers in the Credit Card Center have different authorized approval limits according to their seniority.

Applicants for our credit cards are required to complete applications containing basic information about the applicant. In evaluating credit card applications, the Credit Card Center primarily considers such factors as an applicant's monthly income, stability of income, profession and credit information obtained from the credit information database of the PBOC or China UnionPay, if available. We provide credit lines of varying amounts, depending on the assets, cash flow, income and creditworthiness of the applicant.

Customers who fail to make minimum payments on a timely basis are sent a default notice. The collection department at our Credit Card Center generally attempts to collect balances by contacting the borrower via phone call, short message service and letters. For credit card advances that are overdue for more than 60 days or otherwise implying a high risk, we suspend the credit card and use a series of methods to pursue payment of the outstanding balance, including instituting legal proceedings.

Credit Risk Management for Treasury Operations

Our treasury operations are exposed to credit risk through our investment activities and inter-bank lending activities. We generally establish a maximum credit line for each customer in our treasury business in accordance with our credit approval procedures.

MARKET RISK MANAGEMENT

Market risks arise from movements in market variables such as interest rates, exchange rates, stock prices and commodity prices and other market changes that affect market risk-sensitive instruments. We are exposed to market risks through our on-balance sheet assets and liabilities as well as our off-balance sheet commitments and guarantees. The principal types of market risks affecting our business are interest rate risk and exchange rate risk.

Historically, our exposure to significant market risks was limited because interest rates and exchange rates were supervised and regulated by the PBOC. As the PBOC gradually liberalized its interest rate and exchange rate regimes, and as the financial services sector in the PRC became more market-oriented, we have increasingly become subject to market risks.

The Risk Management Department is responsible for the overall management of market risks, including, but not limited to:

- setting market risk capital adequacy ratios, overall market risk limits, stop-loss limits and other risk-limiting indicators, subject to the approval of the Board;
- assessing the market risk of the whole bank and producing market risk management reports, adjusting market risk exposure and risk-limiting indicators;
- establishing a basic system, including determining policies, risk assessment and measurement models, as well as methods of dealing with and hedging risks related to the market;
- setting risk limits for products, regions and industries that affect our various businesses and determining the control and authorization of risk exposure;
- developing and continually improving methods to predict and prevent market risk emergencies.

Interest Rate Risk

Interest rate risk is the exposure of a bank's financial condition to adverse fluctuations in interest rates. The primary interest rate risk for us is mismatches of duration or repricing periods of our assets and liabilities. Mismatches may cause net interest income or the market value of our assets to be adversely affected by changes in the prevailing level of interest rates.

We manage our interest rate risk exposure by adjusting the various components of our assets and liabilities. Since July 2005, we have begun to use the asset liability management system to conduct gap analysis, duration analysis, scenario analysis and stress testing to monitor our interest rate risk on our assets and liabilities portfolio. We also began to use earnings-at-risk, or EaR, to monitor our interest rate risk of a portion of our business since January 2006. EaR refers to the maximum income loss within a set period based on a set confidence level due to fluctuations in the market environment. It is generally used to measure interest rate risk on assets and liabilities.

Exchange Rate Risk

Exchange rate risk primarily results from mismatching of the currency denomination of our assets and liabilities and mismatching of our currency position resulting from foreign currency transactions both for our own account and on behalf of our customers. We are exposed to exchange rate risk because we hold loans, deposits and securities that are denominated in currencies other than Renminbi.

We manage our currency exposures primarily by attempting to match our assets and liabilities in each foreign currency. In addition, we mitigate exchange rate risk by establishing exposure limits and stop-loss limits.

Market Risk Management in Our Investment and Trading Portfolio

The Financial Market SBU manages the investment and trading portfolio both for our own account and on behalf of our customers under the market risk management framework established by the Asset and Liability Management Commission. We conduct duration analysis and analysis of present value of a base point of our investment and trading portfolio. We establish exposure limits and stop-loss limits to manage our market risks associated with our investment and trading portfolio. We also plan to upgrade our computer systems to enable us to improve our convexity analysis, scenario analysis and stress testing and to further strengthen the market risk management of our investment and trading portfolio.

In addition, we monitor and conduct analysis of market risks associated with our derivative instruments, and set requirements regarding the types of derivative contracts we can enter into by considering factors such as counterparty risk, exposure size and exercise price. In accordance with the guidelines, the counterparties to these derivative contracts are primarily international banks with a rating of "A" or higher by Standard & Poor's or an equivalent rating by another internationally recognized rating agency. If the counterparty rating is downgraded, we will take measures to reduce exposure to such counterparty. For credit default swaps, our general policy is to enter into transactions where the underlying security is rated "BBB" or higher by Standard & Poor's or has an equivalent rating by another internationally recognized rating agency.

LIQUIDITY RISK MANAGEMENT

Liquidity risk refers to the risk of being unable to finance funds or liquidate a position at a reasonable cost and in a timely manner to fund our debt obligations. We are exposed to liquidity risks primarily arising from funding our lending, trading and investment activities and from the risks associated with managing our current assets. Our objective in liquidity risk management is to comply with relevant supervisory and regulatory requirements and to ensure that we are able to meet all our payment obligations and fund all of our investment operations and lending opportunities on a timely and cost-effective basis under all circumstances.

The Asset and Liability Management Commission is responsible for establishing policies and strategies relating to our overall management of liquidity risk. The Asset and Liability Management Department is responsible for implementing these policies and strategies and to monitor and assess our liquidity risk.

We manage our liquidity needs by monitoring the maturity profile of our assets and liabilities while actively monitoring various liquidity indicators, including liquidity ratios, ratios for surplus deposit reserves, RMB loan-to-deposit ratios and inter-bank lending and borrowing ratios. Through our internal fund management system, we allocate funds within the entire bank and monitor the flow of funds to our branches so that they are able to satisfy their liquidity requirements. We cooperate with key members of the market so that there are adequate credit limits and types of collateral, ensuring an availability of financing channels to meet sudden financing needs.

See "Financial Information — Liquidity" for a detailed description of the maturity profile of our assets and liabilities.

OPERATIONAL RISK MANAGEMENT

Operational risk is the risk of loss resulting from system failure, human error or non-adherence to internal systems and procedures, or from fraud or inadequate internal controls and procedures. Controlling operational risk is important to avoiding both financial and reputational loss. The operational risks that we are primarily subject to include, among others, internal fraud, external fraud, business disruption or system failure, unreliability of operational processes, human error and other failures related to transaction execution and data input in our business.

We have established operational risk management policies and procedures, and we conduct regular as well as unscheduled inspections to monitor the implementation of these policies and procedures. Measures we have implemented include:

- centralizing control of risks relating to settlement;
- establishing a customer transaction risk monitoring system to identify and address risks;
- providing customers with greater online banking security;
- strengthening collaboration with the public security departments and the CFCA; and
- continuing to educate all of employees regarding risk awareness and operational risk management.

Our employee manual and various internal policies and rules also contain requirements designed to avoid financial loss and maintain our reputation. Our various departments are responsible for ensuring compliance with our operational risk procedures in their respective areas. The Internal Auditing Department also conducts on-site inspections at branches, issues periodic reports regarding our branches and reviews our branches' compliance with operational procedures.

See "Business — Legal Proceedings and Compliance — Regulatory Proceedings — Findings from the CBRC" for a description of certain weaknesses identified by the CBRC in our internal controls during its inspection and review of our business.

We have undertaken various measures to strengthen our operational risk management. For example, we have taken steps to strengthen our internal audit function, including centralizing our internal auditing system and increasing the size of our internal auditing team. See "— Internal Audit."

Other initiatives that we have adopted to manage our operational risk include the following:

- we have implemented a series of measures to further centralize the management of our operational risk — for example, the Operations Management Center in our headquarters has established three regional centers that are responsible for processing a substantial amount of business that was originally handled by our branches;
- we have adopted a series of operational risk indicators and utilized our information systems, including databases, data monitoring and reporting functions within our accounting and business technology system, to support our operational risk monitoring and management activities;
- we have established a remote backup facility for our operational data, significantly reducing the operational risks associated with any failure of our information technology systems;
- we have enhanced our information technology system to monitor and control access to and use of operational data by our employees; and
- we have conducted regular and ad hoc training sessions for management personnel in respect of operational risk management and we have compiled training handbooks for use in our various bank-wide internal training programs.

Legal Compliance Risk Management

Legal compliance risk is the risk of legal or regulatory sanctions, financial loss or reputational damage resulting from failure to comply with applicable laws, regulations, rules or other regulatory requirements. Our legal compliance risk management system includes using standardized contracts; publishing a bank-wide product compliance operational manual; and conducting Bank-wide compliance training to promote a culture of compliance, including conducting specific training for new staff and units, skills training for professional teams and general bank-wide training.

Anti-Money Laundering

We have launched anti-money laundering operations in accordance with the Anti-Money Laundering Law of the PRC and other relevant anti-money laundering regulations promulgated by the PBOC. We have set up specific AML leadership teams at both our headquarters level and branch level. The AML leadership team at the headquarters is chaired by one of our vice-presidents. The AML leadership team members at our headquarters include the leaders of the following departments: the Legal Affairs and Compliance Department, the Operations Management Department, the Corporate Banking Department, the Retail Banking Department, the Trade Finance SBU, the Credit Card Center, the E-banking Department, the Technology Development Department, the Information Management Center and the Internal Audit Department. In accordance with rules established by PRC AML law and regulations, we fulfill our obligation to discern our customers' identities and transmit on a daily basis to the China Anti-Money Laundering Monitoring and Analysis Center any high-value transaction and a suspicious transaction report. In the event that we discover that a transaction or a customer is connected with any money laundering, terrorist activities or other illegal criminal activities, we will also make a simultaneous report to the local branch offices of the PBOC and cooperate with the PBOC's anti-money laundering administrative reporting operations.

INTERNAL AUDIT

The Internal Audit Commission is responsible for the implementation of the internal audit policies, rules and operational plans approved by the Board or the Audit Committee of the Board. The Internal Audit Commission reports to the Audit Committee of the Board periodically and can directly report to the President, the Chairman or the Board in the event it discovers any material issues or risk matters.

The Internal Audit Department is responsible for performing independent audits of the reasonableness, completeness and effectiveness of our operational management and risk controls. In the course of its audits, the Internal Audit Department is authorized to perform comprehensive audits as well as audits of any specific line of business on an on-site or off-site basis. The Internal Audit Department also undertakes follow-up tracking audits of previously identified problems to ensure that such problems are effectively corrected. The Internal Audit Department reports regularly to our Chief Financial Officer, who is in charge of the internal audit function of our Bank.

Our internal audit function is independent of our operational structure and reports to our headquarters directly. To date, we have established four regional internal audit centers for Northern China, Central China, Southern China and Eastern China and have appointed a regional chief internal audit officer for each of the internal audit centers. The regional chief internal audit officers are responsible for the internal audit of the branches and sub-branches in their respective regions. Following establishment of our SBUs, we have also appointed a specific internal audit officer to each SBU. Both the regional chief internal audit officers and the specific internal audit officers assigned to the SBUs are required to report to the Head of the Internal Audit Department periodically. As of September 30, 2009, we employed a total of 115 internal audit staff.