中国光大银行
CHINA EVERBRIGHT BANK

CHINA EVERBRIGHT BANK COMPANY LIMITED

GLOBAL OFFERING

(A joint stock company incorporated in the People's Republic of China with limited liability)

Stock Code : 6818

Joint Global Coordinators

CICC 中金香港证券 | UBS | Morgan Stanley | 光大證券 EBS INTERNATIONAL

Joint Sponsors

CICC 中金香港证券 | UBS | Morgan Stanley | 光大證券 EBS INTERNATIONAL | BNP PARIBAS CORPORATE & INVESTMENT BANKING | BOC INTERNATIONAL

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農銀國際 ABC INTERNATIONAL | Daiwa Capital Markets | 海通國際 HAITONG | 安信國際 ESSENCE INTERNATIONAL

IMPORTANT: If you are in doubt about any of the contents of this prospectus, you should obtain independent professional advice.

Bank 中国光大银行 CHINA EVERBRIGHT BANK

China Everbright Bank Company Limited
中國光大銀行股份有限公司

(A joint stock company incorporated in the People's Republic of China with limited liability)

GLOBAL OFFERING

Number of Offer Shares in the Global Offering	:	5,080,000,000 H Shares (subject to the Offer Size Adjustment Option and the Over-allotment Option)
Number of Offer Shares in the International Offering	:	4,826,000,000 H Shares (subject to adjustment and the Offer Size Adjustment Option and the Over-allotment Option)
Number of Hong Kong Offer Shares	:	254,000,000 H Shares (subject to adjustment and the Offer Size Adjustment Option)
Maximum Offer Price	:	HK$4.27 per H Share, plus 1% brokerage, SFC transaction levy of 0.003% and Hong Kong Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)
Nominal Value	:	RMB1.00 per H Share
Stock Code	:	6818

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Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in "Appendix VIII – Documents Delivered to the Registrar of Companies and Available for Inspection," has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Hong Kong Companies Ordinance. The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any other document referred to above.

We are incorporated, and substantially all of our businesses are located, in the PRC. Potential investors should be aware of the differences in the legal, economic and financial systems between the mainland of the PRC and Hong Kong and that there are different risk factors relating to investment in PRC-incorporated businesses. Potential investors should also be aware that the regulatory framework in the PRC is different from the regulatory framework in Hong Kong and should take into consideration the different market nature of our Shares. Such differences and risk factors are set out in the sections headed "Risk Factors," "Appendix V – Summary of Principal Legal and Regulatory Matters" and "Appendix VI – Summary of Articles of Association."

The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement are subject to termination by the Joint Global Coordinators (on behalf of the Underwriters) if certain grounds arise prior to 8:00 a.m. on the Listing Date. See "Underwriting – Grounds for Termination of the Hong Kong Underwriting Agreement."

The Offer Price is expected to be fixed by agreement between the Joint Global Coordinators (on behalf of the Underwriters) and us on the Price Determination Date. The Price Determination Date is expected to be on or around December 13, 2013 and, in any event, not later than December 19, 2013. The Offer Price will be no more than HK$4.27 per Offer Share and is currently expected to be no less than HK$3.83 per Offer Share unless otherwise announced. If, for whatever reason, the Offer Price is not agreed by December 19, 2013 between the Underwriters and us, the Global Offering (including the Hong Kong Public Offering) will not proceed and will lapse.

The Joint Global Coordinators (on behalf of the Underwriters) may, with our consent, reduce the number of Offer Shares being offered under the Global Offering and/or the indicative offer price range stated in this prospectus (which is HK$3.83 to HK$4.27 per H Share) at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, notices of the reduction in the number of Offer Shares and/or the indicated offer price range will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on the websites of the Hong Kong Stock Exchange at **www.hkexnews.hk** and our Company at **www.cebbank.com**. Further details are set forth in the sections entitled "Structure of the Global Offering" and "How to Apply for Hong Kong Offer Shares."

December 10, 2013

Application lists open[2]	11:45 a.m. on Friday, December 13, 2013
Latest time to lodge **WHITE** and **YELLOW** Application Forms	12:00 noon on Friday, December 13, 2013
Latest time to give **electronic application instructions** to HKSCC[3]	12:00 noon on Friday, December 13, 2013
Latest time to complete electronic applications under **White Form eIPO** service through the designated website **www.eipo.com.hk**[4]	11:30 a.m. on Friday, December 13, 2013
Latest time to complete payment of **White Form eIPO** applications by effecting internet banking transfer(s) or PPS payment transfer(s)	12:00 noon on Friday, December 13, 2013
Application lists close	12:00 noon on Friday, December 13, 2013
Expected Price Determination Date[5]	Friday, December 13, 2013
Announcement of the Offer Price	After 4:30 p.m. on Friday, December 13, 2013

(1) Announcement of:

- the level of applications in the Hong Kong Public Offering;
- the level of indications of interest in the International Offering; and
- the basis of allotment of the Hong Kong Offer Shares

will be published on the website of the Hong Kong Stock Exchange at **www.hkexnews.hk** and the Company's website at **www.cebbank.com** on or before	Thursday, December 19, 2013
(2) Announcement of results of allocations in the Hong Kong Public Offering (including successful applicants' identification document numbers, where appropriate) will be available through a variety of channels (see "How to Apply for Hong Kong Offer Shares – How to Find Out if Your Application is Successful") from	Thursday, December 19, 2013
Results of allocations in the Hong Kong Public Offering will be available at **www.iporesults.com.hk** with a "search by ID" function	Thursday, December 19, 2013
H Share certificates in respect of wholly or partially successful applications to be dispatched on or before[6]	Thursday, December 19, 2013
White Form e-Refund payment instructions/refund checks in respect of wholly successful (if applicable) or wholly or partially unsuccessful applications to be dispatched on or before[6][7][8]	Thursday, December 19, 2013
Dealings in H Shares on the Hong Kong Stock Exchange expected to commence on	Friday, December 20, 2013

Notes:

(1) All times refer to Hong Kong local time, except otherwise stated. Details of the structure of the Global Offering, including conditions of the Hong Kong Public Offering, are set forth in "Structure of the Global Offering" in this prospectus.

(2) If there is a tropical cyclone warning signal number 8 or above or a "black" rainstorm warning in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, December 13, 2013, the application lists will not open on that day. See "How to apply for Hong Kong Offer Shares – 10. Effect of Bad Weather on the Opening of Application Lists" in this prospectus.

(3) Applicants who apply for Hong Kong Offer Shares by giving electronic application instructions to HKSCC should refer to "How to Apply for Hong Kong Offer Shares – 6. Applying by Giving Electronic Application Instructions to the HKSCC via the CCASS" in this prospectus.

(4) You will not be permitted to submit your application through the designated website at **www.eipo.com.hk** after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.

(5) H Share certificates will only become valid certificates of title if the Global Offering has become unconditional and if neither of the Underwriting Agreements has been terminated in accordance with its terms. Investors who trade H Shares on the basis of publicly available allocation details prior to the receipt of H Share certificates or prior to the H Share certificates becoming valid certificates of title do so entirely at their own risk.

(6) The Price Determination Date, being the date on which the Offer Price is to be determined, is expected to be on or around Friday, December 13, 2013, and in any event no later than Thursday, December 19, 2013. If, for any reason, the Offer Price is not agreed on or before Thursday, December 19, 2013, the Global Offering (including the Hong Kong Public Offering) will not proceed and will lapse.

(7) Applicants who apply for 1,000,000 or more Hong Kong Offer Shares and have provided all information required by the Application Forms, may collect their H Share certificates (where applicable) or refund check (where applicable) from our H Share registrar, Computershare Hong Kong Investor Services Limited, from 9:00 a.m. to 1:00 p.m. on Thursday, December 19, 2013. Applicants being individuals who opt for personal collection must not authorize any other person to collect on their behalf. Applicants being corporations who opt for personal collection must attend by their authorized representatives each bearing a letter of authorization from his/her corporation stamped with the corporation's chop. Both individuals and authorized representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to Computershare Hong Kong Investor Services Limited. Uncollected refund checks and H Share certificates will be dispatched promptly by ordinary post to the addresses as specified in the applicants' Application Forms at the applicants' own risk. Details of the arrangements are set out in "How to Apply for Hong Kong Offer Shares" in this prospectus.

(8) Applicants who apply through the **White Form eIPO** service and paid their application monies through single bank accounts may have refund monies (if any) dispatched to the application payment account, in the form of e-Refund payment instructions. Applicants who apply through the **White Form eIPO** service and paid their application monies through multiple bank accounts may have refund monies (if any) dispatched to the address as specified in their application instructions to the **White Form eIPO** Service Provider, in the form of refund checks, by ordinary post at their own risk.

(9) White Form e-Refund payment instructions/refund checks will be issued in respect of wholly or partially unsuccessful applications and in respect of successful applications if the Offer Price is less than the price payable on application.

IMPORTANT NOTICE TO INVESTORS

This prospectus is issued by China Everbright Bank Company Limited solely in connection with the Hong Kong Public Offering and the Hong Kong Offer Shares and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Hong Kong Offer Shares offered by this prospectus pursuant to the Hong Kong Public Offering. This prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any other jurisdictions or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than Hong Kong and no action has been taken to permit the distribution of this prospectus in any jurisdictions other than Hong Kong. The distribution of this prospectus and the offering and sale of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. We have not authorized anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made in this prospectus must not be relied on by you as having been authorized by us or any of our affiliates or advisors, nor by any of the Underwriters or any of their affiliates or advisors.

CONTENTS

This summary aims to give you an overview of the information contained in this prospectus. As it is a summary, it does not contain all the information that may be important to you. You should read the whole document before you decide to invest in the Offer Shares.

There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in "Risk Factors" in this prospectus. You should read that section carefully before you decide to invest in the Offer Shares.

OVERVIEW

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

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

Retail Banking:

Our retail banking business focuses on mid- to high-end customers as our core customers. Driven by our wealth management business, micro-enterprise business and credit card business, our retail banking business enjoyed healthy and rapid growth. As of June 30, 2013, we had approximately 44 million retail banking customers.

- Our "Sunshine Wealth Management" (陽光理財) brand is one of the longest-standing and most influential wealth management brands in the PRC banking industry. As of June 30, 2013, the number of Sunshine Wealth Management customers reached approximately 1.3 million, and our total retail AUM contributed by mid- to high-end customers with an AUM amount of more than RMB500,000 reached 65.5%.
- Our micro-enterprise business has grown rapidly, with micro-enterprise personal loans amounting to RMB133.3 billion and the number of total micro-enterprise customers reaching approximately 750,000, as of June 30, 2013.
- Our credit card business has experienced rapid growth through effective marketing and innovations. The amount of credit card transactions in the six months ended June 30, 2013 and the year ended December 31, 2012 was RMB257.3 billion and RMB306.7 billion, respectively, and the over-draft balance for the six months ended June 30, 2013 and the year ended December 31, 2012 reached RMB89.5 billion and RMB69.6 billion, respectively. From 2010 to 2012, the amounts of transactions and the over-draft balance grew at a CAGR of 99.9% and 131.4%, respectively.
- In 2012, we successfully elevated our electronic banking business into a front-office function and focused on developing internet banking and mobile finance.

Corporate Banking:

Our strong corporate banking operations have a high-quality customer base. As of June 30, 2013, we had approximately 450,000 corporate customers covering approximately 90% of the state-owned enterprises under the direct administration of the SASAC.

Meanwhile, through model-based operations, we achieved fast and healthy development of our SME business. The number of our SME customers that undertook credit transactions with us was approximately 21,000 as of June 30, 2013, representing an increase of over 10,000 customers from December 31, 2010. Our SME loan balances grew at a CAGR of 38.2% from 2010 to 2012.

Treasury Operations:

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

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

OUR COMPETITIVE STRENGTHS

As a result of the following strengths, we are able to compete effectively in China's highly competitive banking industry:

- Successful business transformation by focusing on capital efficiency to adapt to the interest rate liberalization in China
- Rapid and healthy growth in our retail banking business leading to enhanced revenue contribution and elevated market position
- Committed to serving the real economy, focusing on deepening SME services and customer penetration
- Well positioned to meet diversified financing needs while expanding financial market businesses
- Advanced IT platform and industry-leading E-banking innovation
- Prudent and comprehensive risk management and dedication to enhancing our risk control capabilities
- Experienced and visionary management and high-quality employees

OUR STRATEGIES

Our strategic vision is to establish our Bank as one of the most innovative banks in China. We will continue to accelerate our strategic transformation to achieve steady and sustainable growth.

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

- Enhance our capabilities for providing comprehensive financial services to large corporate customers
- Develop our SME and micro-enterprise financial services
- Develop and improve our trading, agency and wealth management service businesses
- Strive to develop our electronic banking business
- Strengthen and optimize our physical network

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

- Strengthen advantages in our core banking business
- Enhance capital planning and management
- Achieve prudent risk controls
- Foster a flourishing corporate culture

PRC BANKING INDUSTRY AND REGULATIONS

The rapid growth of China's economy over the past three decades has driven the expansion of its banking industry. From 2007 to 2012, total RMB-denominated loans and deposits of China's banking institutions increased at CAGRs of 19.2% and 18.7%, respectively. The growth of the banking industry was partially driven by a rapid increase in retail loans and deposits as a result of continually rising national income. At the same time, there has been increasing demand for more diverse and advanced financial products and services from all types of banking customers. Interest rate liberalization, exchange policy reform and financial disintermediation trends are continuing to impact and change China's banking industry, which is further spurring the diversification of financial products and services, particularly fee- and commission-based products and services such as investment banking, wealth management and alternative investment services.

China's banking industry is principally regulated by the PRC Commercial Banking Law, the PRC People's Bank of China Law and the PRC Banking Supervision and Regulatory Law and the rules and regulations promulgated thereunder, which lay out the fundamental principles of commercial banking operations, licensing requirements and risk management guidelines for China's commercial banks. Based on the principles set by Basel II and Basel III, the Rules Governing Capital Management of Commercial Banks (Provisional), which came into effect on January 1, 2013, established an updated regulatory system for capital management.

SUMMARY FINANCIAL INFORMATION

The summary historical consolidated statements of comprehensive income for the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013 and the summary historical consolidated statements of financial position as of December 31, 2010, 2011 and 2012 and June 30, 2013 set forth below, have been derived from the Accountants' Report received from KPMG, our certified public accountants, which is included in Appendix I to this prospectus. You should read the summary financial information below in conjunction with "Appendix I – Accountants' Report", "Appendix II – Unaudited Interim Financial Information" and "Appendix III – Unaudited Supplementary Financial Information."

For more information regarding our position amongst National Joint Stock Commercial Banks, see "Industry Overview – Current Competitive Landscape – National Joint Stock Commercial Banks" of this prospectus for a comparison of the relevant Chinese banking institutions in terms of total assets, total loans and total deposits.

Summary Historical Consolidated Statements of Comprehensive Income

	For the year ended December 31,			For the six months ended June 30,	
	2010	2011	2012	2012	2013
				(unaudited)	
	(in millions of RMB)				
Interest income	54,156	77,884	103,971	50,736	58,368
Interest expense	(23,733)	(38,444)	(53,708)	(25,428)	(32,314)
Net interest income	30,423	39,440	50,263	25,308	26,054
Net fee and commission income	4,709	6,973	9,479	4,938	7,349
Other net income/(loss)(1)	596	(215)	328	285	435
Operating income	35,728	46,198	60,070	30,531	33,838
Operating expenses(2)	(15,126)	(18,289)	(22,685)	(10,802)	(12,160)
Impairment losses on assets	(3,491)	(3,698)	(5,795)	(2,439)	(2,250)
Profit before tax	17,111	24,211	31,590	17,290	19,428
Income tax	(4,317)	(6,126)	(7,970)	(4,354)	(4,489)
Net profit	12,794	18,085	23,620	12,936	14,939
Other comprehensive income, net of tax	(856)	427	(70)	990	120
Total comprehensive income	11,938	18,512	23,550	13,926	15,059
Attributable to equity shareholders of the Bank	11,935	18,495	23,521	13,910	15,037
Non-controlling interests	3	17	29	16	22
Basic and diluted earnings per share (RMB)	0.36	0.45	0.58	0.32	0.37

Notes:

(1) Consists of net trading gain/(loss), net gain/(loss) arising from investment securities, net foreign exchange gain/(loss), dividend income and other operating income.

(2) Consist of staff costs, other general and administrative expenses, business taxes and surcharges, depreciation and amortization and rental and property management expenses.

Summary Historical Consolidated Statements of Financial Position

	As of December 31,			As of June 30,
	2010	2011	2012	2013
	(in millions of RMB)			
Loans and advances to customers, net	760,555	868,782	997,331	1,078,665
Investments, net[(1)]	187,431	161,214	478,384	574,569
Financial assets held under resale agreements and placements with banks and other financial institutions, net	193,870	288,687	366,705	318,444
Cash and deposits with the central bank	185,745	228,666	285,478	311,708
Deposits with banks and other financial institutions, net	53,275	105,263	47,019	73,870
Other assets[(2)]	103,074	80,734	104,378	113,912
Total assets	1,483,950	1,733,346	2,279,295	2,471,168
Deposits from customers	1,063,180	1,225,278	1,426,941	1,554,691
Deposits from banks and other financial institutions	197,214	270,627	527,561	564,122
Placements from banks and other financial institutions and financial assets sold under repurchase agreements	30,893	67,971	97,490	112,439
Debt securities issued	16,000	16,000	52,700	44,700
Other liabilities[(3)]	95,200	57,320	60,281	68,150
Total liabilities	1,402,487	1,637,196	2,164,973	2,344,102
Share capital	40,435	40,435	40,435	40,435
Capital reserve	19,901	20,328	20,258	20,378
Surplus reserve	2,434	4,226	6,560	6,560
General reserve	11,632	13,877	28,063	28,063
Retained earnings	6,963	17,169	18,862	31,434
Equity attributable to equity shareholders of the Bank	81,365	96,035	114,178	126,870
Non-controlling interests	98	115	144	196
Total equity	81,463	96,150	114,322	127,066
Total liabilities and equity	1,483,950	1,733,346	2,279,295	2,471,168

Notes:

(1) Consist of debt securities (net), equity instruments (net), fixed-rate mortgages and debt securities classified as receivables.

(2) Primarily consist of interest receivables, positive fair value of derivatives, fixed assets, intangible assets, deferred tax assets and goodwill.

(3) Primarily consist of negative fair value of derivatives, accrued staff costs, tax payable, interests payable and provisions.

Selected Financial Ratios

	For the year ended December 31,			For the six months ended June 30,	
	2010	2011	2012	2012	2013
				(unaudited)	
Profitability indicators					
Return on total assets[(1)]	0.86%	1.04%	1.04%	1.24%	1.21%
Return on average total assets[(2)]	0.95%	1.12%	1.18%	1.35%	1.26%
Return on weighted average equity[(3)]	20.99%	20.44%	22.54%	25.20%	24.59%
Net interest spread[(4)]	2.06%	2.30%	2.34%	2.48%	2.04%
Net interest margin[(5)]	2.17%	2.49%	2.54%	2.70%	2.23%
Net fee and commission income to operating income	13.18%	15.09%	15.78%	16.17%	21.72%
Cost-to-income ratio[(6)]	35.53%	32.12%	30.19%	28.22%	27.93%

	As of December 31,			As of June 30,
	2010	2011	2012	2013
Capital adequacy indicators				
Core capital adequacy ratio[(7)]	8.15%	7.89%	8.00%	8.34%[(8)]
Core tier-one capital adequacy ratio[(9)]	–	–	–	7.77%
Tier-one capital ratio[(10)]	–	–	–	7.77%
Capital adequacy ratio	11.02%[(11)]	10.57%[(11)]	10.99%[(11)]	10.55%[(12)]/9.67%[(13)]
Total equity to total assets ratio[(14)]	5.49%	5.55%	5.02%	5.14%
Liquidity indicators				
Liquidity ratio[(15)]				
RMB	45.63%	37.67%	51.25%	27.63%
Foreign currency	95.81%	70.94%	45.88%	43.94%
Core liabilities ratio[(16)]	52.78%	53.92%	50.45%	53.08%
Liquidity gap ratio[(17)]	15.28%	11.64%	(2.57)%	1.73%
Assets quality indicators				
NPL ratio[(18)]	0.75%	0.64%	0.74%	0.80%
Provision coverage ratio[(19)]	313.38%	367.00%	339.63%	292.83%
Allowance to total loans[(20)]	2.34%	2.36%	2.53%	2.34%
Allowance adequacy ratio for asset impairment[(21)]	376.75%	487.42%	537.99%	542.86%
Allowance adequacy ratio for loan impairment[(22)]	401.17%	518.89%	595.98%	586.18%
Other indicators				
Loan-to-deposit ratio[(23)]	71.63%	71.67%	71.52%	70.28%
Cumulative foreign currency exposure ratio[(24)]	2.53%	10.78%	10.61%	0.94%

Notes:

(1) Represents the net profit for the year/period (including net profit attributable to non-controlling interests) as a percentage of the respective year/period end balance of total assets on an annualized basis.

(2) Represents the net profit for the year/period (including net profit attributable to non-controlling interests) as a percentage of the average balance of total assets at the respective beginning and end of the year/period on an annualized basis.

(3) Represents the net profit attributable to equity Shareholders for the year/period as a percentage of the weighted average balance of total equity for the year/period, excluding non-controlling interests on an annualized basis.

(4) Calculated as the difference between the average yield on an annualized basis on total interest-earning assets and the average cost on an annualized basis on total interest-bearing liabilities.

(5) Calculated by dividing net interest income (including the impact of fair value change of structured deposits) by average interest-earning assets on an annualized basis.

(6) Calculated by dividing total operating expenses (excluding business tax and surcharges) by operating income, prepared under IFRS.

(7) Core capital adequacy ratio (as of December 31, 2010, 2011 and 2012) = (core capital – core capital deductions)/(risk-weighted assets + 12.5 x capital charge for market risk), calculated in accordance with the Capital Adequacy Regulations (資本充足率管理辦法).

(8) Effective on January 1, 2013, core capital adequacy ratio was no longer a regulatory requirement under the Rules Governing Capital Management of Commercial Banks (Provisional) (商業銀行資本管理辦法(試行)). The core capital adequacy ratio as of June 30, 2013, calculated in accordance with the superseded Capital Adequacy Regulations (資本充足率管理辦法), is presented here for illustrative purposes only.

(9) Core tier-one capital adequacy ratio = (core tier-one capital – corresponding capital deduction)/(risk-weighted assets).

(10) Tier-one capital adequacy ratio = (tier-one capital – corresponding capital deduction)/(risk-weighted assets).

(11) Capital adequacy ratio (as of December 31, 2010, 2011 and 2012) = (capital – capital deductions)/(risk-weighted assets + 12.5 x capital charge for market risk), calculated in accordance with the Capital Adequacy Regulations (資本充足率管理辦法).

(12) Effective on January 1, 2013, the Rules Governing Capital Management of Commercial Banks (Provisional) (商業銀行資本管理辦法(試行)) required a new formula for calculating the capital adequacy ratio. The capital adequacy ratio as of June 30, 2013, calculated in accordance with the superseded Capital Adequacy Regulations (資本充足率管理辦法), was no longer a regulatory requirement and is presented here for illustrative purposes only.

(13) Capital adequacy ratio (as of June 30, 2013) = (total capital – corresponding capital deduction)/(risk-weighted assets), calculated in accordance with the Rules Governing Capital Management of Commercial Banks (Provisional) (商業銀行資本管理辦法(試行)), which became effective on January 1, 2013.

(14) Calculated by dividing the balance of total equity at the end of the year/period by the balance of total assets at the end of the year/period.

(15) Liquidity ratio = current assets/current liabilities x 100%. Current assets include cash, gold, surplus deposit reserve, net placement, and deposits with banks and financial institutions with maturities of one month or less, interest receivable and other receivables due within one month, qualified loans with maturities of one month or less, investment in debt securities with maturities of one month or less, debt securities that can be liquidated in the international secondary market at any time and other liquid assets with maturities of one month or less (excluding the non-performing portion of such assets). Current liabilities include demand deposits (excluding policy deposits), time deposits with remaining maturities of one month or less (excluding policy deposits), net placements and deposits from banks and financial institutions due within one month, issued debt securities with maturities of one month or less, interest payable and other payables due within one month, borrowings from the PBOC due within one month and other liabilities due within one month.

(16) Core liabilities ratio = amount of core liabilities/amount of total liabilities x 100%. Core liabilities refer to the combined amount of time deposit with remaining maturities of three months or longer, issued debt securities and 50% of demand deposits. Total liabilities refer to total liabilities on the balance sheet prepared under PRC GAAP.

(17) Liquidity gap ratio = liquidity gap/amount of on- or off-balance sheet assets with maturities of 90 days or less x 100%. Liquidity gap refers to the amount of on- or off-balance sheet assets with maturities of 90 days or less minus the amount of on- or off-balance sheet liabilities.

(18) Calculated by dividing total non-performing loans by total loans.

(19) Calculated by dividing the allowance for impairment losses on total loans and advances to customers by total non-performing loans.

(20) Calculated by dividing the allowance for impairment losses on total loans and advances to customers by total loans.

(21) Allowance adequacy ratio for asset impairment = actual amount of allowance for assets subject to credit risk/required amount of allowance for assets subject to credit risk x 100%.

(22) Allowance adequacy ratio for loan impairment = actual amount of allowance for loans/required amount of allowance for loans x 100%. The required amount of allowance for loans is calculated based on the methodology under the PBOC guidelines as described under "Supervision and Regulation – Loan Classification, Allowance and Write-offs – Loan Allowance."

(23) See "Business – Legal and Regulatory – Regulatory Reviews and Proceedings – Findings of Regulatory Examinations – CBRC" and "Supervision and Regulation – PRC Banking Supervision and Regulation – Other Operational and Risk Management Ratios" for more information with respect to regulatory ratios.

(24) Cumulative foreign currency exposure ratio = amount of cumulative foreign currency exposure/net capital x 100%. Cumulative foreign currency exposure refers to exchange rate sensitive foreign currency assets subtracted by exchange rate sensitive foreign currency liabilities.

SELECTED UNAUDITED FINANCIAL INFORMATION

As required by the rules of the Shanghai Stock Exchange, we published a report containing our unaudited consolidated financial information as of and for the nine months ended September 30, 2013 in the PRC prior to the date of this prospectus. We have included the unaudited condensed consolidated financial statements as of and for the nine months ended September 30, 2013 in the Unaudited Interim Financial Information, together with selected explanatory notes of our Group, in Appendix II to this prospectus. The unaudited condensed consolidated financial statements were prepared in accordance with IFRS and were reviewed by KPMG, our independent reporting accountants in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. The following selected unaudited financial information are derived from, and should be read in conjunction with, our unaudited condensed consolidated financial statements included in Appendix II to this prospectus.

Summary Unaudited Consolidated Statements of Comprehensive Income

	Nine months ended September 30,	
	2012	2013
	(in millions of RMB)	
Interest income	76,629	89,015
Interest expense	(38,698)	(50,477)
Net interest income	37,931	38,538
Net fee and commission income	6,677	11,106
Other net loss(1)	(150)	(768)
Operating income	44,458	48,876
Operating expenses(2)	(15,769)	(18,026)
Impairment losses on assets	(3,366)	(3,287)
Profit before tax	25,323	27,563
Income tax	(6,267)	(5,863)
Net profit	19,056	21,700
Other comprehensive income, net of tax	178	(1,361)
Total comprehensive income	19,234	20,339
Attributable to equity shareholders of the Bank	19,211	20,303
Non-controlling interests	23	36
Basic and diluted earnings per share (RMB)	0.47	0.54

Notes:

(1) Consists of net trading gain/(loss), net gain/(loss) arising from investment securities, net foreign exchange gain/(loss), dividend income and other operating income.

(2) Consist of staff costs, other general and administrative expenses, business taxes and surcharges, depreciation and amortization and rental and property management expenses.

Summary Consolidated Statements of Financial Position

	As of December 31, 2012	As of September 30, 2013
		(unaudited)
	(in millions of RMB)	
Loans and advances to customers, net	997,331	1,115,545
Investments, net(1)	478,384	518,825
Financial assets held under resale agreements and placements with banks and other financial institutions, net	366,705	343,247
Cash and deposits with the central bank	285,478	325,432
Deposits with banks and other financial institutions, net	47,019	55,231
Other assets(2)	104,378	116,064
Total assets	2,279,295	2,474,344
Deposits from customers	1,426,941	1,622,107
Deposits from banks and other financial institutions	527,561	512,266
Placements from banks and other financial institutions and financial assets sold under repurchase agreements	97,490	106,196
Debt securities issued	52,700	45,181
Other liabilities(3)	60,281	56,248
Total liabilities	2,164,973	2,341,998
Share capital	40,435	40,435
Capital reserve	20,258	18,897
Surplus reserve	6,560	6,560
General reserve	28,063	28,063
Retained earnings	18,862	38,181
Equity attributable to equity shareholders of the Bank	114,178	132,136
Non-controlling interests	144	210
Total equity	114,322	132,346
Total liabilities and equity	2,279,295	2,474,344

Notes:

(1) Consist of debt securities (net), equity instruments (net), fixed-rate mortgages and debt securities classified as receivables.

(2) Primarily consist of interest receivables, positive fair value of derivatives, fixed assets, intangible assets, deferred tax assets and goodwill.

(3) Primarily consist of negative fair value of derivatives, accrued staff costs, tax payable, interests payable and provisions.

Selected Financial Ratios

	Nine months ended September 30, 2012	Nine months ended September 30, 2013
	(unaudited)	(unaudited)
Profitability indicators		
Return on total assets[(1)]	1.15%	1.17%
Return on average total assets[(2)]	1.28%	1.22%
Return on weighted average equity[(3)]	24.44%	23.43%
Net interest spread[(4)]	2.41%	1.94%
Net interest margin[(5)]	2.63%	2.14%
Net fee and commission income to operating income	15.02%	22.72%
Cost-to-income ratio[(6)]	28.10%	28.36%

	As of December 31, 2012	As of September 30, 2013
		(unaudited)
Capital adequacy indicators		
Core capital adequacy ratio	8.00%[(7)]	8.43%[(8)]
Core tier-one capital adequacy ratio[(9)]	–	7.89%
Tier-one capital ratio[(10)]	–	7.89%
Capital adequacy ratio	10.99%[(11)]	10.44%[(12)]/9.65%[(13)]
Total equity to total assets ratio[(14)]	5.02%	5.35%
Liquidity indicators		
Liquidity ratio[(15)]		
RMB	51.25%	30.26%
Foreign currency	45.88%	32.83%
Core liabilities ratio[(16)]	50.45%	51.97%
Liquidity gap ratio[(17)]	(2.57)%	(7.62)%
Assets quality indicators		
NPL ratio[(18)]	0.74%	0.82%
Provision coverage ratio[(19)]	339.63%	254.73%
Allowance to total loans[(20)]	2.53%	2.09%
Allowance adequacy ratio for asset impairment[(21)]	537.99%	474.70%
Allowance adequacy ratio for loan impairment[(22)]	595.98%	511.59%
Other indicators		
Loan-to-deposit ratio[(23)]	71.52%	70.22%
Cumulative foreign currency exposure ratio[(24)]	10.61%	0.58%

Notes:

(1) Represents the net profit for the period (including net profit attributable to non-controlling interests) as a percentage of the respective period end balance of total assets on an annualized basis.

(2) Represents the net profit for the period (including net profit attributable to non-controlling interests) as a percentage of the average balance of total assets at the respective beginning and end of the period on an annualized basis.

(3) Represents the net profit attributable to equity Shareholders for the period as a percentage of the weighted average balance of total equity for the period, excluding non-controlling interests on an annualized basis.

(4) Calculated as the difference between the average yield on an annualized basis on total interest-earning assets and the average cost on an annualized basis on total interest-bearing liabilities.

(5) Calculated by dividing net interest income (including the impact of fair value change of structured deposits) by average interest-earning assets on an annualized basis.

(6) Calculated by dividing total operating expenses (excluding business tax and surcharges) by operating income, prepared under IFRS.

(7) Core capital adequacy ratio (as of December 31, 2012) = (core capital – core capital deductions)/(risk-weighted assets + 12.5 x capital charge for market risk), calculated in accordance with the Capital Adequacy Regulations (資本充足率管理辦法).

(8) Effective on January 1, 2013, core capital adequacy ratio was no longer a regulatory requirement under the Rules Governing Capital Management of Commercial Banks (Provisional) (商業銀行資本管理辦法(試行)). The core capital adequacy ratio as of September 30, 2013, calculated in accordance with the superseded Capital Adequacy Regulations (資本充足率管理辦法), is presented here for illustrative purposes only.

(9) Core tier-one capital adequacy ratio = (core tier-one capital – corresponding capital deduction)/(risk-weighted assets).

(10) Tier-one capital adequacy ratio = (tier-one capital – corresponding capital deduction)/(risk-weighted assets).

(11) Capital adequacy ratio (as of December 31, 2012) = (capital – capital deductions)/(risk-weighted assets + 12.5 x capital charge for market risk), calculated in accordance with the Capital Adequacy Regulations (資本充足率管理辦法).

(12) Effective on January 1, 2013, the Rules Governing Capital Management of Commercial Banks (Provisional) (商業銀行資本管理辦法(試行)) required a new formula for calculating the capital adequacy ratio. The capital adequacy ratio as of September 30, 2013, calculated in accordance with the superseded Capital Adequacy Regulations (資本充足率管理辦法), was no longer a regulatory requirement and is presented here for illustrative purposes only.

(13) Capital adequacy ratio (as of September 30, 2013) = (total capital – corresponding capital deduction)/(risk-weighted assets), calculated in accordance with the Rules Governing Capital Management of Commercial Banks (Provisional) (商業銀行資本管理辦法(試行)), which became effective on January 1, 2013.

(14) Calculated by dividing the balance of total equity at the end of the period by the balance of total assets at the end of the period.

(15) Liquidity ratio = current assets/current liabilities x 100%. Current assets include cash, gold, surplus deposit reserve, net placement, and deposits with banks and financial institutions with maturities of one month or less, interest receivable and other receivables due within one month, qualified loans with maturities of one month or less, investment in debt securities with maturities of one month or less, debt securities that can be liquidated in the international secondary market at any time and other liquid assets with maturities of one month or less (excluding the non-performing portion of such assets). Current liabilities include demand deposits (excluding policy deposits), time deposits with remaining maturities of one month or less (excluding policy deposits), net placements and deposits from banks and financial institutions due within one month, issued debt securities with maturities of one month or less, interest payable and other payables due within one month, borrowings from the PBOC due within one month and other liabilities due within one month.

(16) Core liabilities ratio = amount of core liabilities/amount of total liabilities x 100%. Core liabilities refer to the combined amount of time deposit with remaining maturities of three months or longer, issued debt securities and 50% of demand deposits. Total liabilities refer to total liabilities on the balance sheet prepared under PRC GAAP.

(17) Liquidity gap ratio = liquidity gap/amount of on- or off-balance sheet assets with maturities of 90 days or less x 100%. Liquidity gap refers to the amount of on- or off-balance sheet assets with maturities of 90 days or less minus the amount of on- or off-balance sheet liabilities.

(18) Calculated by dividing total non-performing loans by total loans.

(19) Calculated by dividing the allowance for impairment losses on total loans and advances to customers by total non-performing loans.

(20) Calculated by dividing the allowance for impairment losses on total loans and advances to customers by total loans.

(21) Allowance adequacy ratio for asset impairment = actual amount of allowance for assets subject to credit risk/required amount of allowance for assets subject to credit risk x 100%.

(22) Allowance adequacy ratio for loan impairment = actual amount of allowance for loans/required amount of allowance for loans x 100%. The required amount of allowance for loans is calculated based on the methodology under the PBOC guidelines as described under "Supervision and Regulation – Loan Classification, Allowance and Write-offs – Loan Allowance."

(23) See "Business – Legal and Regulatory – Regulatory Reviews and Proceedings – Findings of Regulatory Examinations – CBRC" and "Supervision and Regulation – PRC Banking Supervision and Regulation – Other Operational and Risk Management Ratios" for more information with respect to regulatory ratios.

(24) Cumulative foreign currency exposure ratio = amount of cumulative foreign currency exposure/net capital x 100%. Cumulative foreign currency exposure refers to exchange rate sensitive foreign currency assets subtracted by exchange rate sensitive foreign currency liabilities.

FINANCIAL DISCLOSURES AFTER GLOBAL OFFERING

As a company having A Shares listed on the Shanghai Stock Exchange, we are required to publish quarterly financial information. We confirm that our quarterly financial information (in both English and Chinese) will also be released in Hong Kong simultaneously pursuant to Rule 13.10B of the Listing Rules subsequent to our listing on the Hong Kong Stock Exchange. Subsequent to our listing on the Hong Kong Stock Exchange, we will publish annual, interim and quarterly financial information under PRC GAAP for A Share disclosure purposes and IFRS for H Share disclosure purposes simultaneously.

OFFERING STATISTICS

The statistics in the following table are based on the assumptions that (i) the Global Offering is completed and 5,080,000,000 H Shares are newly issued in the Global Offering, (ii) neither the Offer Size Adjustment Option nor the Over-allotment Option for the Global Offering is exercised and (iii) 5,588,000,000 H Shares are issued and outstanding following the completion of the Global Offering:

	Based on an Offer Price of HK$3.83	Based on an Offer Price of HK$4.27
Market capitalization of our H Shares	HK$21,402 million	HK$23,861 million
Unaudited pro forma adjusted consolidated net tangible assets per Share[(1)]	RMB3.19 (HK$4.03)	RMB3.23 (HK$4.08)

Note:

(1) The amount of unaudited pro forma adjusted consolidated net tangible assets per Share is calculated in accordance with Listing Rule 4.29 after the adjustments referred to in "Appendix IV – Unaudited Pro Forma Financial Information."

GLOBAL OFFERING

The Global Offering comprises:

(a) the Hong Kong Public Offering of initially 254,000,000 H Shares (subject to adjustment and the Offer Size Adjustment Option) in Hong Kong; and

(b) the International Offering of initially 4,826,000,000 H Shares (subject to adjustment and the Offer Size Adjustment Option and the Over-allotment Option) outside the United States (including to professional and institutional investors within Hong Kong) in offshore transactions in reliance on Regulation S and in the United States to QIBs in reliance on Rule 144A or another exemption from the registration requirements under the US Securities Act.

Investors may apply for H Shares under the Hong Kong Public Offering or apply for or indicate an interest for H Shares under the International Offering, but may not do both.

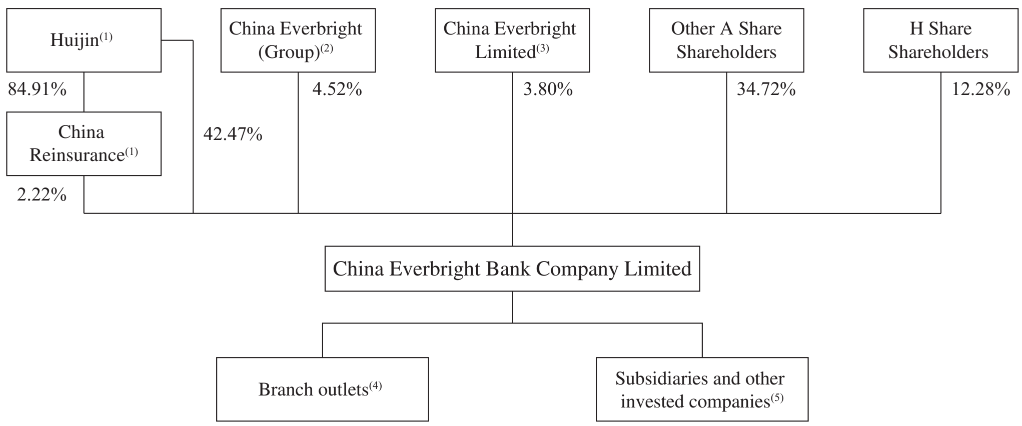
References in this prospectus to applications, application forms, application monies or the procedure for application relate solely to the Hong Kong Public Offering.

A SHARE INITIAL PUBLIC OFFERING AND LISTING

We issued 6,100 million A Shares upon our initial public offering in August 2010 and issued an additional 900 million A Shares under the over-allotment option in September 2010. Our A Shares were listed and commenced trading on the Shanghai Stock Exchange (SH Stock Code: 601818) on August 18, 2010. Upon completion of the A Share Offering, our registered capital was increased from RMB33,434.79 million to RMB40,434.79 million. The total proceeds from the A Share Offering were RMB21,700 million.

OUR SHAREHOLDING STRUCTURE

The following chart sets out our shareholding and group structure, to the best knowledge of our Directors, immediately following completion of the Global Offering (assuming neither the Offer Size Adjustment Option nor the Over-allotment Option is exercised):



Notes:

(1) As Huijin held 84.91% of the shares of China Reinsurance as of September 30, 2013, the equity interest held by China Reinsurance in our Bank is deemed to be the equity interest held by Huijin in our Bank under the provisions of Divisions 2 and 3 of Part XV of the SFO.

(2) China Everbright (Group) is a wholly state-owned company established on November 12, 1990 whose registered capital was wholly contributed by the MOF. China Everbright (Group) is a financial holding group which mainly engages in investment and management of banks, securities companies, insurance companies and other financial enterprises.

(3) China Everbright Limited was established on August 25, 1972 and is a company listed on the Hong Kong Stock Exchange (HK Stock Code: 00165). Its authorized share capital was HK$2,000 million and its issued share capital was HK$1,720,561,712 as of June 30, 2013. China Everbright Limited provides financial services, including direct investment, asset management, brokerage and wealth management, investment banking and asset investment.

(4) As of June 30, 2013, we had 807 branch outlets (including our Head Office, 37 tier-one branches, 42 tier-two branches and 727 network outlets (including one Hong Kong branch)).

(5) As of June 30, 2013, our Bank held 70% of the shares of Shaoshan Everbright Village Bank, 90% of the shares of Everbright Financial Leasing, 70% of the shares of Huai'an Everbright Village Bank and 2.56% of the shares of China UnionPay.

(6) The above shareholders' equity calculations are subject to rounding.

USE OF PROCEEDS

We estimate the net proceeds from the Global Offering accruing to us (after deduction of underwriting fees and estimated expenses payable by us in relation to the Global Offering, assuming an Offer Price of HK$4.05, being the mid-point of the proposed Offer Price range of HK$3.83 to HK$4.27) to be approximately HK$20,137 million, if neither the Offer Size Adjustment Option nor the Over-allotment Option is exercised, or HK$23,177 million if either the Offer Size Adjustment Option or the Over-allotment Option is exercised in full, or HK$26,217 million if both the Offer Size Adjustment Option and the Over-allotment Option are exercised in full.

We intend to use the net proceeds from the Global Offering (after deduction of fees and expenses in relation to the Global Offering) to replenish our core capital base, to increase capital adequacy, to strengthen our ability to resist risks as well as to strengthen our profitability and to support growth of our business.

LISTING EXPENSES

We incur listing expenses in connection with the Listing, which include professional fees and underwriting commissions and fees. We expect listing expenses to be borne by us to amount to approximately HK$458 million, assuming that neither the Offer-Size Adjustment Option nor the Over-allotment Option is exercised and without taking into account any discretionary incentive fees. Please refer to "Financial Information – Listing Expenses" in this prospectus.

RECENT DEVELOPMENTS

We continued to experience stable growth during the nine months ended September 30, 2013. For the nine months ended September 30, 2013 compared to the nine months ended September 30, 2012, our total interest income and operating income increased by 16.2% and 9.9%, respectively, primarily due to our overall business expansion. As of September 30, 2013, our assets, deposits and loans amounted to RMB2,474.3 billion, RMB1,622.1 billion and RMB1,139.4 billion, respectively. Our net profit increased by 13.9% to RMB21.70 billion for the nine months ended September 30, 2013 from RMB19.06 billion for the nine months ended September 30, 2012, primarily due to a 66.3% increase in our net fee and commission income to RMB11.1 billion for the nine months ended September 30, 2013 from RMB6.7 billion for the nine months ended September 30, 2012.

While our net profit grew at a healthy rate, our non-performing loans increased by 23.0% from RMB7,613 million as of December 31, 2012 to RMB9,364 million as of September 30, 2013. Our NPL ratio increased from 0.74% to 0.82% during the same period. The increase was primarily attributable to the recent development of the macro economy which had negatively impacted some of our customers' repayment ability and was generally in line with the trend of the banking sector in the PRC. According to the CBRC, non-performing loans of National Joint Stock Commercial Banks increased by 28.7% from RMB79.7 billion as of December 31, 2012 to RMB102.6 billion as of September 30, 2013. Their NPL ratio increased from 0.72% to 0.83% during the same period.

Our Directors confirm that, up to the date of this prospectus, there has been no material adverse change in our financial or trading position since June 30, 2013, being the date of our audited consolidated financial statements.

RISK FACTORS

There are certain risks and considerations relating to an investment in our Shares. These can be summarized into five categories: (i) risks relating to our loan portfolio; (ii) risks relating to our business; (iii) risks relating to the banking industry in China; (iv) risks relating to China; and (v) risks relating to the Global Offering. Please refer to "Risk Factors" on page 25 of this prospectus for further details. Some risk factors relating to our loan portfolio and our business are summarized below:

Risks Relating to Our Loan Portfolio

We may be unable to effectively maintain the quality of our loan portfolio and our allowance for impairment losses may not be sufficient to cover the actual losses on our loan portfolio in the future. Our collateral or guarantees securing our loans may not be sufficient. We also may not be able to realize the full value of the collateral or guarantees in a timely manner, or at all. In addition, the value of the assets we receive from our borrowers for repaying debts may significantly decrease. We have a relatively high concentration of loans to certain industries, customers and regions, and the conditions of these industries or these regions or the financial conditions of such customers may deteriorate. Any of the above risks may materially and adversely affect our asset quality, financial condition and results of operations.

Risks Relating to Our Business

We may not be able to maintain the rapid growth of our loan portfolio and other business operations or obtain adequate resources required to support the growth of our business. There are mismatches between the maturity dates of our liabilities and assets. If we fail to maintain the growth rate of our deposits from customers or if we experience a significant decrease in our deposits from customers, our business operations and liquidity may be materially and adversely affected. We may also be exposed to credit risks relating to credit commitments, risks that we may incur losses on our investments and risks that we may not be able to detect and prevent fraudulent acts or other misconduct committed by our staff, customers or other entities. In addition, we may face difficulties in meeting regulatory requirements relating to capital adequacy in the future. Any of the above risks may materially and adversely affect our business, financial condition and results of operations.

DIVIDEND POLICY

The CBRC has the discretionary authority to prohibit any bank that fails to fulfill the capital adequacy ratio requirement, or has violated certain PRC banking regulations, from paying dividends and making other forms of distributions. See "Supervision and Regulation – PRC Banking Supervision and Regulation – Supervision Over Capital Adequacy – Supervision on capital adequacy level by the CBRC" and "Supervision and Regulation – PRC Banking Supervision and Regulation – Principal Regulators – CBRC." As of September 30, 2013, we had a capital adequacy ratio of 9.65% and a core tier-one capital adequacy ratio of 7.89%.

In 2011, 2012 and 2013, we declared and paid dividends of RMB3,825 million for the year 2010, RMB5,378 million for the year 2011 and RMB2,345 million for the year 2012, respectively. These dividends were declared based on the number of our A Shares in issue at the record dates in those respective years.

At our general meeting of Shareholders held on May 17, 2013, our Shareholders adopted a resolution that the accumulated undistributed profits prior to the Global Offering will be attributable to both our existing Shareholders and our new Shareholders after the Global Offering.

In compliance with relevant PRC laws and regulations, the requirements of the securities regulatory authorities of the jurisdictions where our Shares are listed and our Articles of Association, and in consideration of the interests of our Shareholders and our business development needs, for the years 2013 and 2014, our Board will develop an annual dividend distribution plan for submission to the general meeting of Shareholders for approval.

For further information on our dividend policy, please refer to "Financial Information – Dividend Policy."

PROPOSED RESTRUCTURING

Along with Huijin and China Everbright (Group), we have been advised by the relevant PRC authorities that the State Council has agreed in principle that appropriate adjustments should be made in order to facilitate the reorganization of China Everbright (Group), whereby certain equity interests in our Bank will be injected into China Everbright (Group) by Huijin in order to consolidate our accounts with China Everbright (Group). The Proposed Restructuring involves changes of shareholdings among our existing shareholders but does not affect the normal business operation of our Bank. We made an announcement relating to the Proposed Restructuring on the Shanghai Stock Exchange on January 10, 2013. As a result of the announcement of the Proposed Restructuring, both Huijin and China Everbright (Group) are deemed as our controlling shareholders and are subject to the lock-up requirements under Rule 10.07 of the Listing Rules. For details of the lock-up undertakings of Huijin and China Everbright (Group), see "Underwriting – Underwriting Arrangements and Expenses – Undertakings".

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

For the purpose of the listing of our H Shares on the Hong Kong Stock Exchange, we have sought various waivers from strict compliance with the relevant provisions of the Listing Rules. See the section "Waivers from Strict Compliance with the Listing Rules" for details of the waivers.

In this prospectus, unless the context otherwise requires, the following terms shall have the meanings set out below.

"A Share(s)"	domestic share(s) of our Bank, with a nominal value of RMB1.00 each, which is (are) listed on the Shanghai Stock Exchange (SH Stock Code: 601818) and traded in RMB
"A Share Offering"	the initial public offering of our A Shares in the PRC on August 10, 2010 and the A Shares were listed on the Shanghai Stock Exchange on August 18, 2010
"Application Form(s)"	**WHITE**, **YELLOW** and **GREEN** application form(s) or, where the context so requires, any of them
"Articles of Association"	Articles of Association of our Bank, as constituted and amended from time to time. Except where the context otherwise requires, the Articles of Association refers to our Articles of Association as amended in our Shareholders meeting held on March 29, 2013 which have been approved by the CBRC and will come into effect upon our H Share listing
"ATM"	automated teller machine
"AUM"	assets under management
"Basel I"	1988 Basel Capital Accord
"Basel II" or "New Basel Capital Accord"	the Revised Basel Capital Framework promulgated in June 2004
"Basel III"	the newest Basel Capital Accord promulgated in December 2010
"Big Four"	Industrial and Commercial Bank of China, Agricultural Bank of China, Bank of China and China Construction Bank
"CAGR"	compound annual growth rate
"Capital Adequacy Regulations"	the Administrative Measures on the Capital Adequacy Ratio of Commercial Banks (商業銀行資本充足率管理辦法), as promulgated by the CBRC on February 23, 2004, effective as of March 1, 2004 and amended on July 3, 2007, superseded by the Rules Governing Capital Management of Commercial Banks (Provisional) (商業銀行資本管理辦法(試行)) which became effective on January 1, 2013
"CBRC"	China Banking Regulatory Commission (中國銀行業監督管理委員會)
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"CCASS Clearing Participant"	a person admitted to participate in CCASS as a direct clearing participant or a general clearing participant

"CCASS Custodian Participant"	a person admitted to participate in CCASS as a custodian participant
"CCASS Investor Participant"	a person admitted to participate in CCASS as an investor participant who may be an individual, joint individuals or a corporation
"CCASS Participant"	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
"China" or "PRC"	the People's Republic of China, but excluding for the purpose of this prospectus only, except where the context requires, Hong Kong, Macau and Taiwan
"China Everbright (Group)"	China Everbright (Group) Corporation (中國光大(集團)總公司), a company incorporated under the laws of the PRC on November 12, 1990 and a Shareholder of our Bank
"China Everbright Holdings"	China Everbright Holdings Company Limited (中國光大集團有限公司), a company funded by the State Council and was established in Hong Kong in May 1983 as a company limited by shares with an issued share capital of HK$500 million. China Everbright Limited, a Shareholder of our Bank, is a subsidiary of China Everbright Holdings
"China Everbright Limited"	China Everbright Limited (中國光大控股有限公司), the predecessor of which was IHD Holding Ltd. (明輝發展有限公司), a company incorporated under the laws of Hong Kong on August 25, 1972 and listed on the Hong Kong Stock Exchange in February 1973 (HK Stock Code: 00165). The controlling interest of IHD Holding Ltd. was acquired by China Everbright Holdings in 1994 and it was renamed as China Everbright Limited in 1997. It is a Shareholder of our Bank
"China Reinsurance"	China Reinsurance (Group) Corporation (中國再保險(集團)股份有限公司), a company incorporated under the laws of the PRC in October 2007 and a Shareholder of our Bank
"China UnionPay"	China UnionPay Co., Ltd. (中國銀聯股份有限公司), a bank card association in the PRC established in March 2002 under the approval of the State Council and the PBOC, in which we hold a 2.56% shareholding as of September 30, 2013
"CIRC"	China Insurance Regulatory Commission (中國保險監督管理委員會)
"Co-Lead Managers"	China Merchants Securities (HK) Co., Limited and CCB International Capital Limited
"CRS"	cash recycle system, an automatic banking machine that provides both cash withdrawal and cash deposit services

"CSRC"	China Securities Regulatory Commission (中國證券監督管理委員會)
"Director(s)," "Board of Directors" or "Board"	director(s) or the board of directors of our Bank, respectively
"EVA"	economic value added
"Everbright Finance"	Everbright Finance Limited (光大財務有限公司), a company incorporated under the laws of Hong Kong on April 12, 1994 and a subsidiary of China Everbright Holdings
"Everbright Financial Holding Asset Management"	Everbright Financial Holding Asset Management Co., Ltd. (光大金控資產管理有限公司), a company incorporated under the laws of the PRC on June 8, 2009 and a wholly owned subsidiary of China Everbright (Group)
"Everbright Financial Leasing"	Everbright Financial Leasing Co., Ltd. (光大金融租賃股份有限公司), a company incorporated under the laws of the PRC on May 19, 2010 and a non-wholly owned subsidiary of our Bank
"Everbright Pramerica Fund Management"	Everbright Pramerica Fund Management Co., Ltd. (光大保德信基金管理有限公司), a company incorporated under the laws of the PRC on April 22, 2004 and a non-wholly owned subsidiary of Everbright Securities
"Everbright Securities"	Everbright Securities Co., Ltd. (光大證券股份有限公司), a company incorporated under the laws of the PRC on April 23, 1996 and listed on the Shanghai Stock Exchange in 2009 (SH Stock Code: 601788) and owned as to 33.92% by China Everbright (Group) and 33.33% by China Everbright Limited as of June 30, 2013
"GDP"	gross domestic product
"Global Offering"	the Hong Kong Public Offering and the International Offering
"GREEN Application Form(s)"	the application form(s) to be completed by the **White Form eIPO** Service Provider Computershare Hong Kong Investor Services Limited
"H Share(s)"	foreign share(s) listed overseas in the share capital of our Bank, with a nominal value of RMB1.00 each, which is (are) to be subscribed for and traded in HK dollars and for which an application will be made for listing and permission to trade on the Hong Kong Stock Exchange
"Head Office"	headquarters of our Group located in Beijing
"HKD" or "HK$" or "Hong Kong dollars" or "HK dollars"	Hong Kong dollars, the lawful currency of Hong Kong
"HKSCC"	Hong Kong Securities Clearing Company Limited

"HKSCC Nominees"	HKSCC Nominees Limited, a wholly owned subsidiary of HKSCC
"Hong Kong" or "HK"	The Hong Kong Special Administrative Region of the PRC
"Hong Kong Companies Ordinance"	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) (as amended from time to time)
"Hong Kong Offer Shares"	the H Shares offered pursuant to the Hong Kong Public Offering
"Hong Kong Public Offering"	the offer of the Hong Kong Offer Shares for subscription by the public in Hong Kong
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Hong Kong Underwriters"	the underwriters of the Hong Kong Public Offering listed in "Underwriting – Hong Kong Underwriters"
"Hong Kong Underwriting Agreement"	the underwriting agreement dated December 9, 2013 relating to the Hong Kong Public Offering entered into among us, the Joint Global Coordinators, the Hong Kong Underwriters, UBS Securities Hong Kong Limited and ABCI Capital Limited, as further described in "Underwriting – Underwriting Arrangements and Expenses – Hong Kong Public Offering – Hong Kong Underwriting Agreement"
"Huai'an Everbright Village Bank"	Jiangsu Huai'an Everbright Village Bank Co., Ltd. (江蘇淮安光大村鎮銀行股份有限公司), a company incorporated under the laws of the PRC on February 1, 2013 and a non wholly-owned subsidiary of our bank
"Huijin"	Central Huijin Investment Ltd. (中央匯金投資有限責任公司)
"IAS 39"	International Accounting Standard 39 "Financial Instruments: Recognition and Measurement" and its interpretations by the IASB
"IASB"	the International Accounting Standards Board
"IFRS"	International Accounting Standards, International Financial Reporting Standards, amendments and the related interpretations issued by the International Accounting Standards Board
"independent third party" or "independent third parties"	person(s) or company(ies) who/which is/are not connected with (within the meaning of the Listing Rules) and is/are independent of the directors, chief executives and substantial shareholders of the Bank and its subsidiaries or any of their respective associates
"International Offering"	the conditional placement by the International Underwriters of the International Offer Shares, as further described in "Structure of the Global Offering"
"International Offer Shares"	the H Shares offered pursuant to the International Offering
"International Underwriters"	the underwriters of the International Offering expected to enter into the International Underwriting Agreement to underwrite the International Offering

"International Underwriting Agreement"	the underwriting agreement relating to the International Offering to be entered into among us, the Joint Global Coordinators and the International Underwriters on or around the Price Determination Date, as further described in "Underwriting – Underwriting Arrangements and Expenses – International Offering"
"Joint Bookrunners"	China International Capital Corporation Hong Kong Securities Limited, UBS AG, Hong Kong Branch, Morgan Stanley Asia Limited (in relation to the Hong Kong Public Offering), Morgan Stanley & Co. International plc (in relation to the International Offering), China Everbright Securities (HK) Limited, BNP Paribas Securities (Asia) Limited, BOCI Asia Limited, ABCI Capital Limited, Daiwa Capital Markets Hong Kong Limited, Haitong International Securities Company Limited and Essence International Securities (Hong Kong) Limited
"Joint Global Coordinators"	China International Capital Corporation Hong Kong Securities Limited, UBS AG, Hong Kong Branch, Morgan Stanley Asia Limited and China Everbright Securities (HK) Limited
"Joint Sponsors"	China International Capital Corporation Hong Kong Securities Limited, UBS Securities Hong Kong Limited, Morgan Stanley Asia Limited, China Everbright Capital Limited, BNP Paribas Securities (Asia) Limited and BOCI Asia Limited
"Large Commercial Banks"	Industrial and Commercial Bank of China, Agricultural Bank of China, Bank of China, China Construction Bank and Bank of Communications
"Latest Practicable Date"	December 2, 2013, being the latest practicable date prior to the printing of this prospectus for the purpose of ascertaining certain information contained in this prospectus
"LGFV"	local government financing vehicle
"LIBOR"	London Inter-Bank Offer Rate (normally overnight to one year)
"Listing"	the listing of the Company
"Listing Date"	the date, expected to be on December 20, 2013 on which dealings in the H Shares first commence on the Hong Kong Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
"MOF"	Ministry of Finance of the PRC (中華人民共和國財政部)
"NAO"	National Audit Office of the PRC (中華人民共和國審計署)
"National Joint Stock Commercial Banks"	China Merchants Bank, China CITIC Bank, Huaxia Bank, China Guangfa Bank, Ping An Bank, Shanghai Pudong Development Bank, Industrial Bank, China Minsheng Bank, Evergrowing Bank, China Zheshang Bank, China Bohai Bank and our Bank

"NBSC"	National Bureau of Statistics of China (中華人民共和國國家統計局)
"NDRC"	National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
"NPL ratio"	the percentage ratio calculated by dividing non-performing loans by total loans
"OFAC"	US Treasury Department's Office of Foreign Assets Control
"Offer Price"	the final price per Offer Share in Hong Kong dollars (exclusive of the brokerage fee, SFC transaction levy and Hong Kong Stock Exchange trading fee) at which the Offer Shares are to be subscribed, to be determined in the manner further described in "Structure of the Global Offering – Pricing of the Global Offering"
"Offer Shares"	the Hong Kong Offer Shares and the International Offer Shares together, where relevant, with any additional H Shares being issued pursuant to the exercise of the Offer Size Adjustment Option and the Over-allotment Option
"Offer Size Adjustment Option"	the option granted by us under the Hong Kong Underwriting Agreement and expected to be granted by us under the International Underwriting Agreement, respectively, exercisable by the Joint Global Coordinators on behalf of the Underwriters on or before the Price Determination Date, pursuant to which our Bank may be required to issue additional H Shares representing in aggregate up to 15% of the initial number of Offer Shares at the Offer Price to cover additional market demand if any
"Over-allotment Option"	the option expected to be granted by us to the Joint Global Coordinators on behalf of the International Underwriters under the International Underwriting Agreement, pursuant to which our Bank may be required by the Joint Global Coordinators to issue up to 762,000,000 additional H Shares, representing approximately 15% of the initial number of Offer Shares, at the Offer Price, to cover over-allocations in the International Offering
"PBOC"	People's Bank of China (中國人民銀行)
"Ping An Insurance Co."	Ping An Insurance (Group) Company of China, Ltd. (中國平安保險(集團)股份有限公司), a company incorporated under the laws of the PRC in March, 1988 and listed on the Hong Kong Stock Exchange (HK Stock Code: 02318) and the Shanghai Stock Exchange (SH Stock Code: 601318), and independent of our Bank, Directors, substantial Shareholder(s), and their respective associates
"POS"	point of sale, a checkout counter in a shop or any location where a transaction occurs

"PRC Company Law"	the Company Law of the PRC, as amended and adopted by the Standing Committee of the Tenth National People's Congress of the PRC on October 27, 2005 and effective on January 1, 2006, as amended, supplemented or otherwise modified from time to time
"PRC GAAP"	the PRC Accounting Standards and Accounting Regulations for Business Enterprises promulgated by the MOF on February 15, 2006 and its supplementary regulations
"Price Determination Date"	the date, expected to be on or around December 13, 2013, and in any event no later than December 19, 2013, on which the Offer Price is fixed for the purposes of the Global Offering
"Promoter(s)"	the promoters of our Bank, comprising a total of 131 companies, including China Everbright (Group), China National Tobacco Corporation Yunnan Company and Asian Development Bank, or any of them
"Proposed Restructuring"	The proposed restructuring of Huijin's shareholding in our Bank as described in "Our History, Restructuring and Operational Reform – Proposed Restructuring."
"QDIIs"	qualified domestic institutional investors in the PRC, which are licensed by the CSRC to invest in foreign securities markets
"QFIIs"	qualified foreign institutional investors licensed by the CSRC to invest in RMB-denominated shares listed on China's domestic securities exchanges
"Qualified Institutional Buyers" or "QIBs"	qualified institutional buyers within the meaning of Rule 144A
"RAROC"	Risk-Adjusted Return On Capital
"Regulation S"	Regulation S under the US Securities Act
"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"Rule 144A"	Rule 144A under the US Securities Act
"SAFE"	State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
"SAIC"	State Administration for Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局)
"SASAC"	State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會)
"SAT"	State Administration of Taxation of the PRC (中華人民共和國國家稅務總局)
"Securities and Futures Commission" or "SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (as amended from time to time)

"Shaoshan Everbright Village Bank"	Shaoshan Everbright Village Bank Co., Ltd. (韶山光大村鎮銀行股份有限公司), a company incorporated under the laws of the PRC on September 24, 2009 and a non-wholly owned subsidiary of our Bank
"Share(s)"	ordinary share(s) of nominal value of RMB1.00 each in the share capital of our Company, including both A Shares and H Shares
"Shareholder(s)"	holder(s) of the Shares
"SHIBOR"	Shanghai Inter-bank Offered Rate, a daily reference rate published by the National Inter-bank Funding Center
"SME" or "SMEs"	small- and medium-sized enterprise(s)
"Special Regulations"	the Special Regulations on the Overseas Offering and the listing of Shares by Joint Stock Limited Companies, as promulgated by the State Council on August 4, 1994
"SSF"	National Council for Social Security Fund of the PRC (全國社會保障基金理事會)
"State Council"	the PRC State Council (中華人民共和國國務院)
"Sun Life Everbright"	Sun Life Everbright Life Insurance Co., Ltd. (光大永明人壽保險有限公司), a company incorporated under the laws of the PRC on April 22, 2002 and a non-wholly owned subsidiary of China Everbright (Group)
"Supervisor(s)" or "Board of Supervisors"	supervisor(s) or the board of supervisors of our Bank
"Underwriters"	the Hong Kong Underwriters and the International Underwriters
"Underwriting Agreements"	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
"United States," "US" or "U.S."	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
"US$," "U.S.$," "US dollars" or "U.S. dollars"	United States dollars, the lawful currency of the United States
"US Securities Act"	the US Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
"White Form eIPO"	the application for Hong Kong Offer Shares to be lodged in the applicant's own name by submitting applications online through the designated website at **www.eipo.com.hk**
"White Form eIPO Service Provider"	Computershare Hong Kong Investor Services Limited
"WTO"	World Trade Organization

In this prospectus references to:

- the "Bank," "Company," "our Company," "we," "us," "our," "our Bank" and "our Group" refer to China Everbright Bank Company Limited, as applicable, and except as the context may otherwise require, the subsidiaries of China Everbright Bank Company Limited;
- a "business day" is a day that is not Saturday, Sunday or public holiday in Hong Kong; and
- the terms "associate(s)," "connected person(s)," "connected transaction(s)," "controlling shareholder(s)," "subsidiary(ies)" and "substantial shareholder(s)" shall have the meanings given to such terms in the Listing Rules, unless the context otherwise requires.

In this prospectus, we define the geographical regions of China to which we refer for the purpose of describing our branch network and presenting certain results of operations and financial conditions as follows:

Geographical regions	Branches	
"Yangtze River Delta"	• Shanghai Municipality • City of Hangzhou • City of Wuxi	• City of Suzhou • City of Ningbo • City of Nanjing
"Pearl River Delta"	• City of Guangzhou • City of Fuzhou • City of Haikou	• City of Shenzhen • City of Xiamen
"Bohai Rim"	• Beijing Municipality • City of Jinan • City of Shijiazhuang	• City of Qingdao • Tianjin Municipality • City of Yantai
"Central China"	• City of Changsha • City of Hefei • City of Taiyuan	• City of Wuhan • City of Zhengzhou • City of Nanchang
"Northeastern China"	• Heilongjiang Province • City of Shenyang	• City of Changchun • City of Dalian
"Western China"	• Chongqing Municipality • City of Chengdu • City of Nanning • City of Urumqi • City of Guiyang	• City of Xi'an • City of Kunming • City of Hohhot • City of Lanzhou

You should carefully consider all of the information in this prospectus, including the risks and uncertainties described below, before making an investment in our H Shares. Our business, financial condition, results of operations and prospects could be materially and adversely affected by any of these risks, the market price of H Shares could decrease significantly due to any of these risks, and you may lose all or part of your investment accordingly. You should also pay particular attention to the fact that we are a PRC company and are governed by a legal and regulatory system which may differ from those prevailing in other countries. For more information concerning the PRC legal and regulatory system and certain related matters discussed below, see "Supervision and Regulation," "Appendix V – Summary of Principal Legal and Regulatory Matters" and "Appendix VI – Summary of Articles of Association."

RISKS RELATING TO OUR LOAN PORTFOLIO

We have a relatively high concentration of loans to certain industries, customers and regions, and if the conditions of these industries or these regions or the financial conditions of these customers deteriorate, our asset quality, financial condition and results of operations may be materially and adversely affected.

As of June 30, 2013, the top five industries to which we provided corporate loans were: (i) manufacturing, (ii) wholesale and retail, (iii) real estate, (iv) transportation, storage and postal services and (v) construction, which represented 31.9%, 19.2%, 12.5%, 9.2% and 5.5% of our total corporate loans, respectively, and together represented 78.3% of the balance of our total corporate loans as of the same date. As of December 31, 2011 and 2012, the top five industries to which we provided corporate loans were: (i) manufacturing, (ii) wholesale and retail, (iii) real estate, (iv) transportation, storage and postal services and (v) leasing and commercial services, which together represented 76.7% and 78.3% of the balance of our total corporate loans, respectively. As of December 31, 2010, the top five industries to which we provided corporate loans were (i) manufacturing, (ii) real estate, (iii) water, environment and public utilities management, (iv) wholesale and retail and (v) transportation, storage and postal services, which together represented 73.7% of the balance of our total corporate loans. If any of the industries which dominates a relatively large portion of our loans experiences a slowdown in the future, our non-performing loans may increase and the extension of our new loans may be negatively affected. As a result, our asset quality, financial condition and results of operations may be materially and adversely affected.

In addition to our corporate loans to the real estate industry as mentioned above, we are also exposed to real estate market-related risks through our retail residential and commercial mortgage loans and other loans secured by real estate collateral. As of June 30, 2013, our retail residential and commercial mortgage loans represented 47.4% of our total retail loans. Recently, the PRC government has imposed and may continue to impose various macroeconomic measures with an aim of cooling the overheated real estate market in China. For example, the State Council, the PBOC and the CBRC have announced a number of measures and notices which, among other things (i) limited the number of residential properties that a PRC resident can purchase; (ii) for the second residential property and any subsequent residential property purchased by a PRC family, raised the minimum down payment percentage to not less than 60% of the total property price and increased the minimum interest rate of residential mortgage loans to not less than 110% of the PBOC benchmark interest rate; and (iii) for certain residential property transactions, imposed a 20 percent individual income tax on profit made. See "Supervision and Regulation." The measures adopted by the PRC government may adversely affect the growth and quality of our loans to the real estate industry and our retail residential and commercial mortgage loans.

As of June 30, 2013, loans to our ten largest single-borrowers totaled RMB35,738 million, which represented 3.2% of our total loan portfolio and 22.9% of our regulatory capital. As of the same date, credit exposures to our ten largest group-borrowers totaled RMB86,221 million, which represented 7.8% of our total loan portfolio and 55.4% of our regulatory capital. Our loans to the ten largest single- borrowers and the ten largest group borrowers were, as of June 30, 2013, classified as performing. However, if the quality of any of the loans to the above or other single-borrowers or group-borrowers with large borrowing amounts deteriorates, our asset quality, financial condition and results of operations may be materially and adversely affected.

Moreover, we also provide loans to SMEs. Our loans to SMEs represented 20.9% of our total loans and advances to customers as of June 30, 2013. Our loans to SMEs are generally vulnerable to the adverse impact of certain factors such as natural disasters, economic slowdown and appreciation of the Renminbi. We cannot assure you that the risk management measures we have adopted for the loans to SMEs will effectively reduce or eliminate the risks relating to such customers. If our loans to SMEs deteriorate, our asset quality, financial condition and results of operations may be materially and adversely affected.

If our corporate customers in certain regions or industries encounter operational or cash flow problems due to the economic cycle or economic transformations, our non-performing loans associated with such regions or industries could experience upward pressure. As of June 30, 2013, 55.1% of our total loans and advances to customers and 60.4% of our total deposits from customers were generated from our branches located in the Yangtze River Delta, Pearl River Delta and Bohai Rim regions. If the economies in those regions materially deteriorate or face local, regional or systemic risks, or if our credit risk assessments of the borrowers who are located at or conduct substantial business activities in such areas are inaccurate, our asset quality, financial condition and results of operations may be materially and adversely affected.

If we are unable to effectively maintain the quality of our loan portfolio, our financial condition and results of operations may be materially and adversely affected.

Our results of operations may be negatively impacted by our non-performing loans. Our NPL ratio as of December 31, 2010, 2011 and 2012 and June 30, 2013 was 0.75%, 0.64%, 0.74% and 0.80%, respectively, and our non-performing loans could experience upward pressure resulting from the economic cycle or economic transformations. Therefore, we cannot assure you that we will be able to maintain our NPL ratio at the current relatively low level in the future or that the quality of our existing or future loans and advances to customers will not deteriorate. Our NPL ratios as of these dates may not fully reflect the actual changes to our asset quality due to our collective disposal of non-performing loans. For example, in April 2008, we, on a non-recourse basis, disposed of certain impaired assets to three Chinese asset management companies by means of an open bid. As of December 31, 2007, the original principal amount of such impaired assets was RMB14,206 million, their net book value was RMB1,852 million, and the total consideration for and the loss recognized on such disposal were RMB1,644 million and RMB208 million, respectively. In the absence of such disposal, our NPL ratio as of December 31, 2010, 2011 and 2012 and June 30, 2013 would have been substantially higher.

The quality of our loan portfolio may deteriorate due to various reasons, most of which are beyond our control, such as slower than expected recoveries for the PRC or global economies, deterioration of the global credit environment, other adverse macroeconomic trends in China or any other part of the world and the occurrence of natural disasters or other catastrophes, all of which could adversely impact our borrowers' businesses, financial conditions or liquidity and in turn impair their repayment abilities. The actual or perceived deterioration in creditworthiness of our borrowers, declines in real property prices, increases in unemployment rate and decreases in profitability of our borrowers may also have an adverse impact on our asset quality and may lead to significant increases in the allowance made for our impaired loans. If our non-performing loans or the allowance made for our impaired loans increase in the future, our results of operations and financial condition may be materially and adversely affected. In addition, the sustainability of our growth also depends largely on our abilities to effectively manage our credit risk and to maintain or improve the quality of our loan portfolio. We cannot assure you that our credit risk management policies, procedures and systems are effective or free from any deficiencies. Failure of our credit risk management policies, procedures, or systems may lead to an increase in our non-performing loans and adversely affect the quality of our loan portfolio.

Our allowance for impairment losses may not be sufficient to cover the actual losses on our loan portfolio in the future.

As of June 30, 2013, our allowance for impairment losses on loans was RMB25,889 million, our allowance for impairment losses as a percentage of total loans was 2.34% and our provision coverage ratio was 292.83%. The amount of the allowance is based on our current assessment of various factors affecting the quality of our loan portfolio. These factors include, among other things, our borrowers' businesses and financial condition, their ability and intention to repay, the realizable value of any collateral, the ability of any guarantors to fulfill their obligations, the conditions and developments of industries in which our borrowers and their guarantors are engaged and our credit policies and their implementations. In addition, China's economy, macroeconomic policies, benchmark and prevailing market interest rates, exchange rates and legal and regulatory environments may also affect the quality of our loan portfolio. Many of these factors are partially or entirely beyond our control and, as a result, our assessment of these factors may materially differ from their actual developments. The occurrence of or change to any of the foregoing factors may result in our allowance for impairment losses becoming insufficient to cover our actual losses on the underlying loans and we may need to increase our allowance for impairment losses accordingly. If our assessment of these factors differs from their actual developments, our profit may be reduced, and our asset quality, results of operations and financial condition may be materially and adversely affected.

In addition, the adequacy of our allowance for impairment losses also depends on the reliable application and effective functioning of our risk assessment system to estimate our potential losses and our ability to accurately collect, process and analyze relevant statistical data. If the results of our assessment prove to be inaccurate or our application of the assessment systems or our ability to collect relevant statistical data proves to be insufficient, our allowance for impairment losses may not be adequate to cover our actual losses, which may reduce our profit and materially and adversely affect our asset quality, financial condition and results of operations.

The collateral or guarantees securing our loans may not be sufficient, we may be unable to realize the full value of the collateral or guarantees in a timely manner or at all, and the value of the assets we receive from our borrowers for repaying debts may significantly decrease.

A large portion of our loan portfolio is secured by collateral or guarantees. As of June 30, 2013, 36.1%, 9.1% and 25.2% of our total loans and advances to customers were secured by mortgages, pledges and guarantees, respectively. The collateral securing our loans are primarily in respect of real estate properties and other assets located in China. The value of the collateral securing our loans is usually higher than the amount of the corresponding loans but it may significantly decline due to factors beyond our control, such as a slowdown in China's economic growth or a downturn of China's real estate market. A slump in China's real estate market may result in a decline in the value of the real estate properties securing our loans to a level below the outstanding balances of the principal and interest of such loans. Any such decline may reduce the amount we may be able to recover from such collateral and, as a result, increase our impairment losses. Some of our loans are secured by guarantees provided by our borrowers' affiliates or other third parties. Deterioration in these guarantors' financial conditions could reduce the amount we may be able to recover from such guarantors. Moreover, in the event that the relevant guarantor fails to comply with his or her obligations under the guarantee, we are subject to the risk that a court or other judicial or governmental bodies may declare a guarantee invalid or otherwise decline to enforce such guarantees. As a result, we may not be able to recover all or any part of the amount guaranteed in respect of our loans.

In addition, under certain circumstances, our rights to the collateral securing our loans may be subordinated to other rights. For example, pursuant to the PRC Enterprises Bankruptcy Law (中華人民共和國企業破產法), effective from June 1, 2007, if the other assets of a bankrupt enterprise are insufficient to cover the outstanding salaries, medical and injury allowances, death or disability compensation and basic pension and medical insurance contribution attributable to its employees' personal accounts, as well as other compensation payable to the employees as required by law and administrative regulations, the relevant claims of such employees shall prevail over our rights to the collateral.

In China, the procedures for liquidating or otherwise realizing the value of collateral may be protracted and it may be difficult in practice to enforce claims on such collateral. For example, pursuant to the Directive on Foreclosure of Mortgages on Residential Properties issued by the Supreme Court of the PRC (最高人民法院關於人民法院執行設定抵押的房屋的規定), effective from December 21, 2005, a PRC court may not enforce the eviction of an enforcee and his or her dependents from the mortgaged principal residence within six months after it has rendered its judgment on the auction, sale or liquidation of such property for repayment purpose. As a result, it may be difficult and time-consuming for us to take control of or liquidate the collateral securing our non-performing loans.

If any of our borrowers are unable to repay us when due, we will be entitled to claim our creditor's rights. Through consultation or by way of judicial procedures, we may take possession or dispose of the tangible assets or other property rights that such borrower is entitled to. However, due to the risk of market price fluctuations, depreciation of the assets or the property rights concerned, or the difficulty of liquidating such assets and property rights, the value of such assets for repayment of debts that we receive may materially decrease. If we anticipate that the realizable value of such assets or property rights is lower than their book value in light of the occurrence of such risks, we will make impairment provisions accordingly. In addition, if our borrowers become insolvent, we may not be able to realize the full value of the collateral and guarantees securing our loans in a timely manner, or if the value of the assets for repayment of debts that we receive substantially decrease in the future, our asset quality, financial condition, or results of operations may be materially and adversely affected.

If the debt repayment abilities of the LGFVs to which we extend loans deteriorate, our asset quality, financial condition and results of operations may be materially and adversely affected.

Loans extended to LGFVs form part of the loan portfolio for China's commercial banks. The State Council defines LGFVs as economic entities with an independent legal person status that assume financing functions for government investment projects and that are incorporated via fiscal allocations or the injection of assets such as land and equity by local governments and their departments or agencies. Our loans to LGFVs are primarily extended to support urban development, transportation, land reserve centers, economic development zones and industrial parks. The recipients of these loans are LGFVs that generally rank at or above the municipal level, though we do not lend directly to local governments. Our loans to LGFVs are generally targeted at economically developed areas in China, such as the Yangtze River Delta, Pearl River Delta and Bohai Rim regions. The majority of our loans to LGFVs are secured by mortgages, pledges, or guarantees. On June 17, 2011, the CBRC promulgated a notice in relation to a new standard of calculating the balance of the loans to LGFVs, which subjects a larger range of borrowers to reporting requirements. We were required to apply this calculating standard to our balance of loans to LGFVs as of December 31, 2011 and 2012 and June 30, 2013. As of June 30, 2013, the balance of our loans to LGFVs was approximately RMB84,050 million. As of June 30, 2013, the NPL ratio of our loans to LGFVs was 0.09%, and the provision coverage ratio was 3,073%. Our LGFVs as a percentage of our total loan portfolio decreased from 15.0% in 2010 to 9.0% in 2012, and further decreased to 7.6% as of June 30, 2013.

In recent years, with the aim of reinforcing the risk management of loans to LGFVs, the State Council, the CBRC and the PBOC, along with several other PRC regulatory authorities, promulgated a series of notices, guidelines and other regulatory documents to direct PRC banks and other financial institutions to optimize and strengthen their risk management measures regarding their loans to LGFVs. See "Supervision and Regulation – Regulation of Principal Commercial Banking Activities." In addition, recent media publications have continued to express concerns about LGFV debt levels. Our loans to LGFVs and NPL ratio decreased from December 31, 2012 to June 30, 2013. Any unfavorable developments in macroeconomic conditions, adverse changes to state policies, adverse changes to the financial condition of local governments, or other factors may adversely affect the debt repayment abilities of these LGFVs and other government-related entities, which may in turn materially and adversely affect our asset quality, financial condition and results of operations. For our risk management measures relating to our loans to LGFVs, see "Risk Management – Credit Risk Management – Management of Credit Risk Associated with Corporate Credit Business."

Our loan classification and impairment loss provision policies may be different in some respects from those applicable to banks in other countries or regions.

We assess the level of our provisions for impaired loans and recognize the amount of any relevant allowances in compliance with IAS 39 and the relevant loan impairment regulations of accounting standards of the PRC. Our loan provision policies may be different in certain respects from equivalent policies adopted by banks incorporated in other countries or regions which do not assess their loans under IAS 39. As a result, the impairment allowance reported by us under our loan provisioning policies may be different from banks incorporated in other countries or regions.

Pursuant to a five-category loan classification system adopted by the CBRC, we classify our loans into five categories: (i) normal; (ii) special mention; (iii) substandard; (iv) doubtful; and (v) loss. The five-category loan classification system adopted by us may be different from equivalent systems adopted by banks incorporated in other countries or regions. As a result, the risk exposure shown by this system may be different from that of banks incorporated in other countries or regions.

RISKS RELATING TO OUR BUSINESS

We may not be able to maintain the rapid growth of our loan portfolio and other business operations, may not obtain adequate resources to support the growth of our business, or may not achieve the expected results from our business transformation.

The total amount of our loans and advances to customers has increased significantly in the past few years from RMB778,828 million as of December 31, 2010 to RMB1,023,187 million as of December 31, 2012, representing a CAGR of 14.6%. As of June 30, 2013, our loans and advances to customers amounted to RMB1,104,554 million. From 2010 to 2012, the CAGR of our total assets, net profit, net interest income and net fee and commission income was 23.9%, 35.9%, 28.5% and 41.9%, respectively. The growth of our loan portfolio may be affected by various factors, such as China's macroeconomic policies and our capital constraints. In the future, the rate of growth of our loan portfolio may slow down, cease to grow or even experience negative growth, which could materially and adversely affect our business, business prospects, financial condition and results of operations.

Our rapid growth in recent years has placed significant demand on our managerial, operational and capital resources. The fast expansion of our business activities also exposes us to a number of risks and challenges, including but not limited to those relating to:

- recruiting, training and retaining personnel with the proper experience and knowledge to handle new and existing business activities;
- enhancing our risk management systems to support the growth of our business; and
- providing creative and attractive products and services to our customers.

In addition, we have implemented and are in the process of implementing a number of strategic transformation initiatives. See "Business – Our Strategies – Accelerate our Strategic Transformation." We may be exposed to new and currently unknown risks relating to such implementation and may not achieve the expected results or profitability of these transformation initiatives. We cannot assure you that we will continue to grow at our current rate. To the extent that we cannot achieve a faster pace of growth or are not able to obtain adequate resources to support the current pace of growth, our business, financial condition, results of operations and business prospects may be adversely affected.

There are mismatches between the maturity dates of our liabilities and assets. If we fail to maintain the growth rate of our deposits from customers or if we experience a significant decrease in our deposits from customers, our business operations and liquidity may be materially and adversely affected.

Deposits from customers are our primary source of funding. From December 31, 2010 to December 31, 2012, our total deposits from customers grew from RMB1,063,180 million to RMB1,426,941 million, representing a CAGR of 15.9%. As of June 30, 2013, our total deposits from customers amounted to RMB1,554,691 million. From December 31, 2010 to December 31, 2012, our retail deposits (including retail structured deposits and retail pledged deposits) grew from RMB166,415 million to RMB314,013 million, representing a CAGR of 37.4%. As of June 30, 2013, our retail deposits (including retail structured deposits and retail pledged deposits) amounted to RMB364,232 million. However, there are many factors that may affect the growth of deposits, some of which are beyond our control, such as economic and political conditions, availability of other investment channels and retail customers' changing perceptions toward savings.

In addition, as of June 30, 2013, 63.4% of our total deposits from customers were demand deposits or deposits with remaining maturities of three months or less, whereas 74.1% of our total loans and advances to customers (net of allowance for impairment losses) at the same date had remaining maturities of more than three months, resulting in a mismatch between the maturities of our liabilities and those of our assets. Such mismatches might recur in the future. We cannot assure you that our short-term deposits from customers will continue to represent a stable source of funding for us, given the continued development of China's capital markets and Chinese customers' increased appetite for diversified wealth management and insurance products.

If we fail to maintain the growth of our deposits from customers or a substantial portion of our depositors withdraw their deposits and do not roll over their time deposits upon maturity, our liquidity position, financial condition, and results of operations may be materially and adversely affected. In such an event, we may need to seek more expensive sources of funding and we cannot assure you that we will be able to obtain additional funding on commercially reasonable terms as and when required or at all.

We may not be able to obtain necessary short-term funding and inter-bank deposits through the exchange market and inter-bank market, which may have a material adverse effect on our liquidity or financial condition.

We depend on short-term funding and inter-bank deposits in the exchange market and the inter-bank market for a portion of our liquidity needs. There can be no assurance that we will be able to obtain additional funding on commercially reasonable terms as and when required, if at all. In order to ensure sufficient liquidity reserves, some of our branches generally obtain inter-bank deposit commitments from various local-level financial institutions on the inter-bank lending market. However, we may not always be able to obtain sufficient short-term financing from such sources, which may in turn have a material adverse effect on us. For example, due to sudden market changes late on June 5, 2013, two of our branches failed to receive from certain counterparties the expected proceeds from such inter-bank deposit commitments. There was an inadvertent delay of the branches notifying our Head Office. Then, the PBOC's large amount settlement system closed on that particular day. The branches did not manage to fulfill their obligations to repay short-term inter-bank loans in the aggregate amount of RMB6.5 billion to another bank, notwithstanding that our Bank had sufficient funding and liquidity. On the same day, the lending bank agreed for our branches to settle the outstanding balance in full on the next day, June 6, 2013, which was done accordingly. Although this particular incident did not have a material adverse effect on our liquidity, business, financial condition or results of operations, we cannot assure you that similar incidents will not occur in the future.

Subsequently, we have implemented certain measures to address any potential future occurrences of similar incidents. See "Risk Management – Key Recent Improvements in Risk Management."

If we incur losses on our investments, our financial condition and results of operations may be materially and adversely affected.

Apart from our businesses of taking deposits, providing loans and credit and providing fee- and commission-based products and services, we also engage in a range of investment activities. As of June 30, 2013, debt securities classified as receivables were the largest component of our investments. Our returns on investment and our profitability may be materially and adversely affected by the foreign exchange rate, credit and liquidity conditions, the performance and volatility of capital markets, asset values and macroeconomic and geopolitical conditions. Any adverse changes in one or more of these factors could reduce the value of, and the gains generated from, our investment portfolio and could have a material and adverse effect on our business, financial condition and results of operations.

If any of the issuers or guarantors of these investments goes into bankruptcy, experiences poor financial performance, or becomes unable to service their debts for any other reason, or if such investments lack liquidity, the economy suffers from a downturn or for other reasons, the value of such investments may decrease substantially. As a result, our asset quality, financial condition and results of operations may be materially and adversely affected.

In addition, we act as an intermediary in domestic and international foreign exchange and derivative markets. We currently have foreign currency forward and swap arrangements as well as interest rate swap arrangements with a number of domestic and international banks, financial institutions and other entities. We cannot assure you that our counterparties with significant risk exposures will not face difficulties in making payments to us on derivative contracts when due, which may result in financial losses to us.

We have made substantial investments in debt securities classified as receivables, and any adverse development relating to these types of investments could materially and adversely affect our profitability and liquidity.

In recent years, we have made substantial investments in debt securities classified as receivables, which include investments in beneficial interest transfer plans and wealth management products offered by other domestic financial institutions. As of June 30, 2013, the balance of our investments in debt securities classified as receivables amounted to RMB350.3 billion, representing 60.9% of our total investments as of the same date.

Debt securities classified as receivables, which typically have predetermined rates of return and fixed terms, and are guaranteed by the issuers or third party financial institutions, carry certain risks. We rely on the issuers and underlying companies for such products to make investment decisions to achieve the agreed-upon rates of return. If they are unable to fully achieve such returns or maintain the principal of our investments, we would rely on the issuers to reduce our losses and would exercise our rights under the related contracts and guarantees to recover any losses from the issuers and guaranteeing entities. In addition, as there has not yet been an active secondary market for debt securities classified as receivables and the majority of our investments in such products have terms of more than one year, their liquidity is limited. As a result, we generally hold our investments in debt securities classified as receivables to maturity, and enter into forward sales contracts with the issuers or third party financial institutions for those that we do not plan to hold to maturity. For the above reasons, our investments in debt securities classified as receivables primarily expose us to counterparty credit risk, which we manage by setting certain minimum requirements for such counterparties. For further details, please see "Assets and Liabilities – Assets – Investments."

PRC regulatory authorities have not prohibited commercial banks from investing in debt securities classified as receivables. However, we cannot assure you that future changes in regulatory policies will not restrict us or our counterparties with respect to investments in debt securities classified as receivables. Any adverse development relating to these types of investments could cause a significant decline in the value of our investments and, as a result, may materially and adversely affect our profitability and liquidity.

We have increasingly focused on developing our wealth management business in recent years, and any adverse developments or changes in relevant regulatory policies could materially and adversely affect our business, financial condition, results of operations and prospects.

In recent years, with the slowdown in the growth of deposits in the PRC banking industry as a whole, competition for deposits among commercial banks has become increasingly intense. In response to such competition, PRC commercial banks, including us, have been expanding their offering of wealth management products and services to customers. As of June 30, 2013, the number of our Sunshine Wealth Management customers reached approximately 1.3 million and the number of our high net-worth customers reached approximately 18,000. Our wealth management service fees amounted to RMB1.2 billion for the six months ended June 30, 2013.

As most of the wealth management products issued by us are non-guaranteed products, we are not liable for losses suffered by investors in these products in principle. However, if investors incur losses on these wealth management products, our reputation may be damaged and our prospects, for our wealth management business and otherwise, may suffer.

In addition, the terms of wealth management products issued by us are often shorter than that of the underlying assets. This mismatch subjects us to liquidity risk and requires us to issue new wealth management products, sell the underlying assets, or otherwise address the funding gap when existing wealth management products mature.

PRC regulatory authorities have introduced regulatory policies with respect to operations of wealth management businesses by PRC commercial banks. For further details, please see "Supervision and Regulation – Regulation of Principal Banking Activities – Personal Wealth Management" and "Supervision and Regulation – Regulation of Principal Banking Activities – Investment Operations of Wealth Management." If PRC regulatory authorities implement further regulations restricting the wealth management businesses of PRC commercial banks, our business, financial condition, results of operations and prospects could be materially and adversely affected.

We may be exposed to credit risk relating to credit commitments.

In our ordinary course of business, we provide our customers with credit commitments and guarantees, including commitments and guarantees not reflected on our balance sheet under the relevant accounting principles, such as bank acceptance bills, letters of guarantee, letters of credit and other credit commitments to guarantee the performance of our customers. See "Financial Information – Credit Commitments." We may be exposed to credit risk relating to our credit commitments and guarantees because these commitments and guarantees may need to be fulfilled by us in certain circumstances. If we are unable to receive repayment from our customers in respect of the commitments and guarantees that we are called upon to fulfill, our financial condition and results of prospects could be adversely affected.

We recorded net cash outflows for the six months ended June 30, 2013 and we cannot assure you that we will not record net cash outflow positions in the future.

For the six months ended June 30, 2013, we recorded net cash outflows of RMB33,711 million, primarily due to net cash outflows from investing activities of RMB96,660 million and net cash used in financing activities of RMB12,434 million, partially offset by net cash inflows from operating activities of RMB75,640 million. Our net cash outflows from investing activities were primarily due to payments on acquisitions of investments. Our net cash outflows from financing activities were primarily due to cash dividends paid to Shareholders, interest paid on debt securities issued and repayment of subordinated debt issued. We cannot assure you that we will not record net cash outflow positions in the future due to the same reason or other reasons, including the risk factors disclosed in this prospectus. If we have net cash outflow positions in the future, our working capital may be constrained and we may be forced to seek additional external funding at a cost higher than our existing financial arrangements. Any such development could materially and adversely affect our liquidity condition and results of operations.

Our expanding range of products, services and business activities may expose us to new risks.

We have been expanding and will continue to expand the range of our products and services to meet the increasing needs of our customers and to enhance our competitiveness. For example, we have rolled out a wide range of new businesses, such as financial derivatives transactions, investment banking, financial advisory services, assets custody and enterprise annuity, as well as continued to grow existing business, such as wealth management. Expansion of our businesses may expose us to a number of risks and challenges, including but not limited to:

- lack of or insufficient experience in certain new products and services;
- inability to identify, monitor, analyze and report on risks associated with such new businesses comprehensively and effectively, which may result in damages and prevent us from competing in these areas effectively;
- inability to achieve the expected profitability of such new businesses;
- inability to recruit and retain qualified personnel on commercially reasonable terms;
- lack of customer acceptance or expected success of our new products and services;

- inability to promptly adapt to changes in regulatory requirements and approval standards for new products or services;
- possible unsuccessful attempts to enhance our risk management and internal control capabilities to support a broader range of products and services; and
- significant and/or increasing competition from other industry participants offering similar products or services.

If we are not able to (i) successfully expand or develop our new products, services and related business areas due to the above or other risks or challenges, (ii) achieve the expected results with respect to our new products and services or (iii) experience losses, our business, financial condition and results of operations may be materially and adversely affected. In addition, if we are not able to make decisions to enter new business areas to meet the increasing needs of our customers for certain products and services in a timely manner, our market share may decrease and we may lose some of our existing customers.

If our risk management and internal control policies and procedures fail to be implemented effectively, our business and prospects may be materially and adversely affected.

We have in the past suffered from certain internal control deficiencies and risk management weaknesses. See "Business – Legal and Regulatory – Regulatory Reviews and Proceedings." We have significantly revamped and enhanced our risk management and internal control policies and systems in recent years in a continual effort to improve our risk management capabilities and enhance our internal controls. See "Risk Management – Overview." However, we cannot assure you that our risk management and internal control policies and procedures will adequately control, or protect us against, all credit risk and other risks. Some of these risks are unforeseeable or unidentifiable and may be more severe than what we may anticipate.

Our risk management capabilities and ability to effectively monitor credit risk and other risks are restricted by the information, tools, models and technologies available to us. In addition, given the short history of some aspects of our risk management and internal control policies and procedures, we will require additional time to implement these policies and procedures in order to fully assess the impact of and evaluate our compliance with them. Moreover, our employees will require time to adjust to these policies and procedures and we cannot assure you that our employees will be able to consistently comply with or accurately apply them.

If our risk management and internal control policies, procedures and systems fail to be implemented effectively, or if the intended results of such policies, procedures or systems are not achieved in a timely manner (including our ability to maintain an effective internal control system to monitor our financial obligations as they become due), our asset quality, business, financial condition, results of operations and reputation may be materially and adversely affected.

Our business is dependent to a large extent on the proper functioning and continuous improvement of our information technology systems.

We depend on the capabilities of our information technology systems to process our transactions on a timely and accurate basis and to store and process our business and operating data. The proper functioning of our financial control, risk management, credit analysis and reporting, accounting, customer service and other information technology systems, as well as the communication networks between our branches and our main data processing centers, is critical for us to conduct our business in an orderly manner and to increase our competitiveness. Our business activities could be materially disrupted if there is a partial failure or complete breakdown of any of our information technology systems or communication networks. Such failure can be caused by a variety of reasons, including natural disasters, extended poweroutages, breakdown of key hardware and systems, software malfunction and computer viruses. The proper functioning of our information technology systems also depends on accurate and reliable data input and installation of ancillary systems, which are subject to error. Any failure or delay in recording or processing our transaction data could expose us to significant financial risk and subject us to the risk of claims for losses and regulatory fines and penalties.

In particular, the secure transmission of confidential information is critical to our operations. Our networks and systems may be vulnerable to unauthorized access and other security problems. We cannot assure you that our existing security measures will prevent unforeseeable security loopholes, including break-ins and viruses, or other disruptions such as those caused by defects in hardware or software and errors or misconduct of operators. Persons who circumvent our security measures could use our or our clients' confidential information illegally. Any material security loopholes or other disruptions could expose us to risk of loss or regulatory actions, which may in turn harm our reputation or results of operations.

Although we own and operate most of our information technology systems, some applications and information technology functions that are necessary for and form an integral part of our business operations are currently outsourced to third parties. Due to the inherent risks associated with outsourcing, such as lack or limitation of control and supervision over these third parties, abrupt discontinuance of a contractual relationship, divergent views and approaches on implementing business plans and leakage of important confidential information and business secrets, we cannot assure you that such third parties will always be able to provide us with the stable and quality information technology support which is indispensable to our business operations. We also cannot assure you that, after our current outsourcing expires or is otherwise terminated, we will be able to timely find a satisfactory substitute.

Our competitiveness will to some extent depend on our ability to upgrade and optimize our information technology systems on a timely and cost-effective basis. In addition, the information available to and received by us through our existing information technology systems may not be timely or sufficient for us to manage risks and prepare for, and respond to, market changes and other developments in our current operating environment. Any failure to improve or upgrade our information technology systems effectively or on a timely basis could materially and adversely affect our competitiveness, results of operations and financial condition.

We may face difficulties in meeting regulatory requirements relating to capital adequacy in the future.

Prior to January 1, 2013, we were required by the PRC Commercial Banking Law (中華人民共和國商業銀行法) and the Capital Adequacy Regulations (商業銀行資本充足率管理辦法) promulgated by the CBRC, to maintain a core capital adequacy ratio of no less than 4% and a capital adequacy ratio of no less than 8%. Prior to our financial restructuring in 2007, our capital adequacy ratio and core capital adequacy ratio were both below the regulatory requirements, and accordingly our expansion of branches and sub-branches and businesses were restricted. In 2007, following the approval of the State Council, Huijin made a U.S. dollar-denominated capital injection in the form of share capital to us for an amount equivalent to RMB20.0 billion to enhance our capital base. In 2009, following the approvals of the MOF and the CBRC, we further increased our capital base by bringing in eight additional investors, through which we raised RMB11,479.38 million. In addition, we issued subordinated debts to reinforce our supplementary capital. In August 2010, our A Shares were listed on the Shanghai Stock Exchange and raised proceeds of RMB21.7 billion (including proceeds from exercising the over-allotment option). As of December 31, 2012, our core capital adequacy ratio was 8.00% and our capital adequacy ratio was 10.99% based on the Capital Adequacy Regulations (商業銀行資本充足率管理辦法) at that time. On June 7, 2012, the CBRC promulgated the Rules Governing Capital Management of Commercial Banks (Provisional) (商

業銀行資本管理辦法(試行)), which superseded the Capital Adequacy Regulations (商業銀行資本充足率管理辦法) and became effective on January 1, 2013. See "Supervision and Regulation – PRC Banking Supervision and Regulation – Supervision Over Capital Adequacy". Our core tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio, calculated under the new regulatory requirements, were 7.77%, 7.77% and 9.67%, respectively, as of June 30, 2013. Although these capital adequacy ratios were in compliance with the relevant PRC laws and regulations, certain developments could affect our ability to satisfy the capital adequacy requirements in the future, including but not limited to:

- losses resulting from deterioration in our asset quality;
- a decrease in the value of our investments;
- an increase in the minimum capital adequacy requirements by the banking regulators;
- changes in guidelines by the banking regulators regarding the calculation of the capital adequacy ratios of commercial banks; and
- the other factors discussed elsewhere in this section.

We may also be required to raise additional capital in the future by issuing equity securities and other financial instruments in order to maintain our capital adequacy ratios above the minimum required level. In addition, our ability to raise additional capital may be limited by numerous factors, including:

- our future business and financial condition, results of operations and cash flows;
- our credit rating;
- any government regulatory approval;
- general market conditions for capital-raising activities, in particular by commercial banks and other financial institutions; and
- economic, political and other conditions in and outside of China.

If we require additional capital in the future or if any such factors experiences adverse change, we cannot assure you that we will be able to obtain such capital on commercially reasonable terms, in a timely manner or at all and any equity capital raising may dilute the existing Shareholders.

Furthermore, the CBRC may increase the minimum capital adequacy ratios requirements or change the methodology for calculating net capital or capital adequacy ratios or we may otherwise be subject to new capital adequacy requirements. In recent years, the CBRC has issued several regulations and guidelines governing capital adequacy requirements applicable to commercial banks in China. On February 28, 2007, the CBRC issued the Guidelines on Implementation of the New Capital Accord in PRC Banking Industry (中國銀行業實施新資本協議指導意見), which require Large Commercial Banks that have set up active operational entities in other countries or regions (including Hong Kong and Macau) and have a significant international business to implement Basel II by the end of 2010 or upon the CBRC's approval, and in any event no later than the end of 2013, and allow other commercial banks to elect to comply with Basel II from 2011. In December 2010, the Basel Committee officially issued Basel III. On April 27, 2011, the CBRC issued new guidelines setting more stringent capital adequacy, leverage, liquidity and loan loss provisioning requirements for PRC banks in accordance with the reform of China's banking industry and the related regulatory framework and in light of the implications of Basel III. On June 7, 2012, the CBRC further promulgated the Rules Governing Capital Management of Commercial Banks (Provisional) (商業銀行資本管理辦法(試行)), which became effective on January 1, 2013 and requires commercial banks to fulfill all relevant capital regulatory requirements by the end of 2018, and on November 30, 2012, the CBRC released the Notification on Matters Related to the Implementation of the Rules Governing Capital Management of Commercial Banks (Provisional) in Transitional Period (關

於實施《商業銀行資本管理辦法(試行)》過渡期安排相關事項的通知). See "Supervision and Regulation – PRC Banking Supervision and Regulation – Supervision Over Capital Adequacy." Since Basel III and the CBRC have made further requirements on the capital adequacy ratio and other metrics, we may not be able to meet such requirements in the future.

If we fail to meet the applicable capital adequacy requirements, the CBRC may take corrective measures, including, for example, restricting the growth of our loans and other assets, restricting our ability to issue subordinated debt to improve our capital adequacy ratio, declining to approve our application to introduce a new service or restricting our declaration or distribution of dividends. These measures could materially and adversely affect our reputation, financial condition, results of operations and our ability to pay dividends to our Shareholders.

We are subject to various PRC and overseas regulatory requirements, and our failure to fully comply with such requirements could materially and adversely affect our business, reputation, financial condition and results of operations.

We are subject to the regulatory requirements and guidelines set forth by the PRC regulatory authorities. Our Hong Kong branch is subject to Hong Kong laws and regulations as set forth by the Hong Kong legislative and regulatory authorities.

The PRC regulatory authorities include but are not limited to the MOF, PBOC, CBRC, CSRC, CIRC, SAT, NAO, SAIC and SAFE. These regulatory authorities inspect us on a periodic or non-periodic basis and conduct spot checks of our compliance with the relevant laws, regulations and guidelines and have the authority to take corrective or punitive measures on the basis of their supervision and checks.

We are subject to various PRC and overseas regulatory requirements, and PRC and overseas regulatory authorities conduct periodic inspections of, examinations of and inquiries into our compliance with such requirements. In the past, we have failed to meet certain requirements and guidelines set by the PRC regulatory authorities and we were found to have violated certain regulations. In addition, we in the past were subject to fines and other penalties for cases of our non-compliance. See "Business – Legal and Regulatory – Regulatory Reviews and Proceedings." We cannot assure you that we will be able to meet all the regulatory requirements and guidelines, or comply with all the laws and regulations at all times, or that we will not be subject to sanctions, fines or other penalties in the future as a result of non-compliance. If sanctions, fines and other penalties are imposed on us for failing to comply with applicable requirements, guidelines or regulations, our business, reputation, financial condition and results of operations may be materially and adversely affected.

Apart from the penalties imposed by regulatory authorities, we may also be sued by our shareholders and other related parties in relation to our business operations and capital markets activities.

We may not be able to detect and prevent fraudulent acts or other misconduct committed by our staff, customers or other entities.

We may be unable to fully detect and completely prevent any fraudulent act and other misconduct committed by our staff, customers or other entities, which could therefore subject us to lawsuits, financial losses and sanctions imposed by governmental authorities as well as result in serious harm to our reputation. Types of misconduct by our staff in the past have included, among others, improper extension of loans, deposit fraud, extension of Renminbi-denominated loans with foreign currency pledged as collateral in violation of the relevant regulations, illegal fundraising and other financing activities, settlement, sale and payment of foreign exchange in violation of the relevant regulations and the opening of bank acceptance bills without underlying transactions. Types of misconduct conducted by other entities against us include, among others, fraud, theft and robbery. The types and incidents of fraud and other misconduct by staff, customers or other entities against us in the future may be more difficult to detect compared to certain fraudulent acts and misconducts found in the past. For example, it was discovered that our company website was imitated by others on several occasions. By the use of such fraudulent websites on the internet, the imitators solicited and successfully acquired certain important confidential bank account information from some of our customers. As a result, some of these customers' funds were obtained by deception. Such imitators usually plagiarized our company website by imitating our company website's layout and applying for similar website addresses with an intention to confuse our customers,to deceive our customers into providing their key account information and to steal their funds by using such confidential information obtained through these fraudulent websites.

In addition, our staff may commit errors or take improper actions, resulting in the risk that we could be liable for economic compensation, or be subject to regulatory actions, litigation or other legal proceedings. As of June 30, 2013, we had 807 branch outlets (including our Head Office, 37 tier-one branches, 42 tier-two branches and 727 network outlets (including one Hong Kong branch)) and 33,509 employees. We cannot assure you that all of our staff will comply with our risk management and internal control policies and procedures. We also cannot assure you that we can adequately detect and prevent our staff and any other third-party from engaging in fraudulent acts or any other misconduct. Any fraudulent acts or other misconduct, whether involving an act in the past that has not been detected or an act in the future, may have a material adverse effect on our reputation, results of operations and business prospects.

We or our customers may engage in certain transactions in or with countries or persons that are the subject of U.S. and other sanctions.

U.S. law generally prohibits U.S. persons from directly or indirectly investing or otherwise doing business in or with certain countries or governments (such as Iran, Cuba, Burma/Myanmar, Libya, North Korea, Sudan, the Republic of South Sudan, Zimbabwe and Syria) and with certain persons or businesses that have been specially designated by the OFAC or other U.S. government agencies. Other governments and international or regional organizations also administer similar economic sanctions.

We provide trade settlement and other services to customers doing business with, or located in, countries to which certain OFAC-administered and other sanctions apply, such as Iran. While we do not believe that we are in violation of any applicable sanctions, if it were determined that the transactions in which we participated violate U.S. or other sanctions, we could be subject to U.S. sanctions or other penalties and our reputation and future business prospects in the United States or with U.S. persons or in other jurisdictions, could be adversely affected. Further, U.S. investors in the Global Offering could incur reputational risk or other risks as the result of our and our customers' dealings in or with countries or persons that are the subject of U.S. sanctions.

We may not be able to detect money laundering and other illegal or improper activities completely or on a timely basis, which could expose us to additional liability and harm our business or reputation.

We are required to comply with applicable anti-money laundering and anti-terrorism laws and regulations stipulated in the PRC, Hong Kong and other relevant jurisdictions. These laws and regulations require us to adopt and enforce "know-your-customer" policies and procedures and to report suspicious and large transactions to the relevant regulatory authorities in different jurisdictions. In light of our short implementation period of the relevant policies and procedures, and due to other reasons such as the complexity and secrecy of money-laundering activities and other illegal or improper activities, such policies and procedures may not completely eliminate the above illegal or improper activities at the time when we may be used by other parties to engage in these activities. To the extent that we fail to fully comply with such laws and regulations, the relevant government agencies by which we are regulated have the power and authority to impose fines and other penalties on us. In addition, our business and reputation could suffer if customers manipulate their transactions with us for money laundering or other illegal or improper purposes. See "Supervision and Regulation – PRC Banking Supervision and Regulation – Risk Management – Anti-money Laundering Regulation."

We do not possess the relevant land use right certificates or building ownership certificates for some of our properties, and we may be required to seek alternative premises for some of our offices or business premises due to our landlords' lack of relevant title certificates for some leased properties.

As of June 30, 2013, we held and occupied 707 properties with an aggregate gross floor area of approximately 709,385.2 square meters in the PRC. There were 144 properties with an aggregate gross floor area of approximately 91,818.6 square meters with respect to which we still have not obtained the relevant land use right certificates and/or building ownership certificates. We cannot assure you that we will be able to obtain title certificates for all of these properties. We also cannot assure you that our ownership rights would not be adversely affected in respect of properties for which we were unable to obtain the relevant title certificates. If we were forced to relocate any of our business operations located at the affected properties, we may incur additional costs as a result of such relocation.

In addition, as of June 30, 2013, we leased approximately 1,202 properties with an aggregate area of approximately 815,695.9 square meters in China, primarily as business premises for our branches and sub-branches. Among these properties, 435 properties with an aggregate area of approximately 264,717.7 square meters were leased from lessors who were not able to provide the title certificates or documents evidencing the authorization or consent of the landlord of such properties. As a result, such leases may be invalid. In addition, we cannot assure you that we would be able to renew our leases on terms acceptable to us upon their expiration. If any of our leases is terminated as a result of challenges by third parties or if we fail to renew them upon expiration, we may be forced to relocate affected branches and sub-branches and incur the relevant additional costs, and our business, financial condition and results of operations may be adversely affected accordingly.

Our major Shareholders have the ability to exercise significant influence over us.

Huijin, a controlling Shareholder of us, will directly and indirectly own approximately 44.68% of our issued and outstanding Shares upon the completion of the Global Offering, assuming that neither the Offer Size Adjustment Option nor the Over-allotment Option will be exercised. In accordance with the relevant laws and regulations and our Articles of Association, Huijin will have the ability to exercise its control over certain of our important matters, including matters relating to:

- our business strategies and policies;
- the timing for the distribution of dividends and the amount of dividends;
- the issuance of new securities;
- the nomination and election of our Directors and Supervisors;
- the composition of our management, especially the senior management;
- any plans relating to mergers, acquisitions, joint ventures, investments, changes of business scope or sale of investment;
- amendments to our Articles of Association; and
- increase or reduction of our registered capital.

The interests of Huijin may conflict with our interests or those of our other Shareholders. In addition, since Huijin is a wholly state-owned limited liability company incorporated under the PRC law to independently exercise its rights and obligations of capital contributors for its investments in the major PRC financial institutions and to implement the state's policies on the reform of state-owned financial institutions, it has material interests in the successful implementation of the economic or fiscal policies that are enacted by the PRC government but may not be in our best interest or in the best interest of our other Shareholders.

Immediately after completion of the Global Offering and as a result of our Proposed Restructuring, China Everbright (Group) will continue to be one of our largest shareholders and controlling Shareholder, and will be able to directly or indirectly exercise influence on us. See "Our History, Restructuring and Operational Reform – Proposed Restructuring." The interests of China Everbright (Group) may conflict with our interests or those of our other Shareholders. In addition, we, China Everbright (Group), and many of its group member companies share the common brand name "Everbright" and other brand names, which are important to us. We may not be able to protect "Everbright" and other brand names as we are not in a position to control or influence the conduct of the other parties that share such brand names with us. Any failure to protect these brand names could reduce the value of goodwill associated with our names, result in the loss of our competitive advantage and materially harm our business and profitability.

We may not be able to recruit, train or retain a sufficient number of qualified employees.

We require the continued service and performance of our employees, including our senior management, as most of our businesses depend on the quality of our professional employees. Therefore, we devote considerable resources to recruiting, training and retaining talent. However, we face intense competition in recruiting and retaining these individuals as other banks are competing for the same pool of potential employees. In addition, our employees may resign at any time and may seek to divert customer relationships that they have developed while working for us. The loss of members of our senior management team or professional employees may have a material adverse effect on our business and results of operations.

We may be subject to FATCA.

Under certain provisions of the U.S. Internal Revenue Code commonly referred to as "FATCA", from July 1, 2014 we and certain of our subsidiaries may be subject to 30% U.S. withholding on certain payments we receive, unless we enter into an agreement (a "FATCA Agreement") with the U.S. Internal Revenue Service ("IRS") or are subject to the terms of an intergovernmental agreement between the United States and the PRC relating to FATCA (an "IGA") if any such agreement is concluded. A financial institution that enters into a FATCA Agreement with the IRS will be required to comply with certain due diligence and reporting procedures, and from 2017 will be required to withhold 30% from certain "foreign passthru payments" that it makes. A financial institution subject to an IGA may be subject to similar requirements. Under current guidance, it is not clear whether or to what extent payments on securities such as our H Shares will be treated as foreign passthru payments subject to FATCA withholding. We may decide in the future to enter into a FATCA Agreement or we may become subject to an IGA. U.S. holders of our H Shares should consult their tax advisers regarding the application of the FATCA rules to an investment in our H Shares in the event we should enter into a FATCA Agreement or be subject to an IGA.

We may enter into transactions subject to the European Market Infrastructure Regulation.

We may, from time to time, enter into transactions which subject us to the European Market Infrastructure Regulation (the "**EMIR**"). This regulation on derivatives, central counterparties and trade repositories introduces new requirements to improve transparency and reduce the risks associated with the derivatives market. However, any failure by us to adhere to the policies set forth by the EMIR could result in penalties or other negative consequences, any of which could have a material adverse effect on our business, financial condition or results of operations.

RISKS RELATING TO THE BANKING INDUSTRY IN CHINA

We face intense competition in China's banking industry as well as competition from alternative corporate financing and investment channels.

The competition in China's banking industry continues to intensify. We face competition from Large Commercial Banks, other National Joint Stock Commercial Banks, city commercial banks, foreign banks and other institutions in China. Large Commercial Banks generally have much larger customer and deposit bases, more extensive distribution networks and greater capital strength than we have. Large Commercial Banks were historically wholly owned by the PRC government and some of them have in the past received capital contributions or other support from the PRC government in connection with their disposal of non-performing loans. All of these banks have been restructured to become joint stock companies and all of them are currently listed on the Hong Kong Stock Exchange and/or the Shanghai Stock Exchange. As a result, Large Commercial Banks may enjoy significant competitive advantages over us. Some other banks may have a more established presence in certain areas and more financial, managerial and technological resources than we do. Additionally, following the removal of regulatory restrictions on foreign invested commercial banks relating to their geographical presence, customer base and operating license in China since December 2006 as part of China's WTO accession commitments, we have experienced increased competition from such banks. Recently, a number of well-known foreign banks have expanded their presence in China. Furthermore, the Mainland and Hong Kong Closer Economic Partnership Arrangement (內地與香港關於建立更緊密經貿關係的安排), the Mainland and Macau Closer Economic Partnership Arrangement (內地與澳門關於建立更緊密經貿關係的安排) as well as the Cross-Straits Economic Cooperation Framework Agreement (海峽兩岸經濟合作框架協議), which permit banks from Hong Kong, Macau and Taiwan to operate in China, have also increased competition in China's banking industry.

Moreover, the PRC government has, in recent years, implemented a series of measures designed to further liberalize the banking industry, including, among others, measures relating to interest rates and non-interest-based products and services, which are changing the basis on which we compete with other banks for customers.

We compete with many of our competitors for substantially the same loan customers, deposit customers and fee- and commission-based customers. Such competition may adversely affect our business and prospects by, for example:

- reducing our market share in our principal products and services;
- slowing down the growth of our loan or deposit portfolios and other products and services;
- decreasing our interest income or increasing our interest expenses, thereby reducing our net interest income;
- reducing our fee and commission income;
- increasing our non-interest expenses, such as marketing expenses;
- adversely affecting our asset quality; and
- increasing competition for senior management and qualified professional personnel.

We may also face direct competition from alternative corporate financing channels, such as the issuance of securities in the domestic and international capital markets. The domestic securities markets have experienced, and are expected to continue to experience, expansion and growth. If a substantial number of our customers choose alternative corporate financing to fund their capital needs, our interest income, financial condition and results of operations may be adversely affected.

Moreover, we may face competition from other forms of investment as the PRC capital markets continue to develop. As the PRC stock and bond markets continue to develop and have become a more viable and attractive investment alternative to certain customers, our deposit customers may decide to transfer their funds to invest in equity and debt securities or other investment products, which may reduce our deposits and adversely affect our business, financial condition and results of operations.

In addition, we may also face competition from other emerging payment and settlement service providers.

Our business and operations are stringently regulated and our business, financial condition, results of operations and future prospects may be materially and adversely affected by regulatory changes or other governmental policies, including their interpretation and application.

Our business and operations are directly affected by changes in the PRC government's policies, laws and regulations relating to the banking industry, such as those affecting the extent to which we can engage in specific businesses, as well as changes in other governmental policies. For example, the PRC government's policies governing loan growth and required deposit reserve ratio for the Chinese banking industry directly affects our business and operation. In addition, certain financial products and services, such as wealth management, are relatively nascent in the PRC and may be subject to more extensive regulations going forward. Since its establishment in 2003 as the primary banking industry regulator assuming the majority of the PRC government's bank regulatory functions from the PBOC, the CBRC has promulgated a series of regulations and guidelines. See "Supervision and Regulation – PRC Banking Supervision and Regulation." The banking regulatory regime in China is currently undergoing significant changes and may propose significant reforms, most of which are or will be applicable to us and may result in additional costs or restrictions to our business. There can be no assurance that such policies, laws and regulations governing the banking industry will not be changed in the future or that any such changes will not materially and adversely affect our business, financial condition and results of operations. There can also be no assurance that we will be able to adapt to all such changes on a timely basis. In addition, there may be uncertainties regarding the interpretation and application of new policies, laws and regulations. Failure to comply with such policies, laws and regulations may result in fines and restrictions relating to our business, which could also have a significant and adverse impact on our reputation, business, financial condition and results of operations.

We are subject to changes in interest rates including the potential for further interest rate liberalization and other market risks, and our ability to hedge against market risk is limited.

As with most PRC commercial banks, our results of operations depend to a large extent on our net interest income. For the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, our net interest income represented 85.2%, 85.4%, 83.7% and 77.0%, respectively, of our operating income. Historically, interest rates in China were stringently regulated but have been gradually liberalized in recent years. During June and July 2012, the PBOC lowered the one-year loan rate and the one-year deposit rate twice, bringing the one-year loan rate to 6.00% and the one-year deposit rate to 3.00%. Effective on June 8, 2012, the PBOC allowed commercial banks to set deposit rates at up to 110% of the PBOC benchmark deposit interest rate. Effective on July 20, 2013, the PBOC removed the lower limit for new loans provided by commercial banks, except for new residential mortgage loans, which is set at 70% of the PBOC benchmark lending interest rate. As a result, going forward our lending business may face increased competition and reduced profitability as China's commercial banks seek to offer more attractive rates to customers. The PBOC may further liberalize the existing interest rate regime on RMB-denominated loans and deposits, which would likely intensify competition in China's banking industry. In this respect, we expect to face greater pricing pressure as compared to Large Commercial

Banks. Further liberalization of the interest rate regime by the PBOC may result in the narrowing of the spread in the average interest rates between RMB-denominated loans and RMB-denominated deposits, thereby materially and adversely affecting our results of operations. Furthermore, we cannot assure you that we will be able to adjust the composition of our asset and liability portfolios and our pricing mechanism to enable us to effectively respond to the further liberalization of interest rates. In recent years, the PBOC has adjusted the benchmark interest rates several times. As our discretion to set loan and deposit interest rates is restricted, the availability of risk management tools on the market is limited and our pricing decision-making experience in response to changes in market interest rates is relatively insufficient, any adjustments by the PBOC in the benchmark interest rates on loans or deposits or changes in market interest rates may adversely affect our financial condition and results of operations in various ways. For example, changes in the PBOC benchmark interest rates could affect the average yield on our interest-earning assets differently from the average cost on our interest-bearing liabilities and therefore may narrow our net interest margin, leading to a reduction in our net interest income, which may materially and adversely affect our results of operations and financial condition. In addition, an increase in interest rates may result in an increase in the financing costs of our customers and thus reduce the overall demand for loans and, accordingly, adversely affect the growth of our loan portfolio, as well as increase the risk of default by our customers. As a result, changes in interest rates may adversely affect our net interest income, financial condition and results of operations.

We also undertake trading and investment activities involving certain financial instruments both in China and abroad. Our income from these activities is subject to volatilities caused by, among other things, changes in interest rates and foreign currency exchange rates. For example, increases in interest rates generally have an adverse effect on the value of our fixed rate securities investment portfolio, which may materially and adversely affect our results of operations and financial condition. Furthermore, the derivatives market in the PRC is relatively premature and there are limited risk management tools available to enable us to reduce market risk.

Certain PRC restrictive regulations governing investment portfolios of commercial banks limit our ability to diversify our investments and, as a result, a decrease in the value of a particular type of investment may have a material adverse effect on our financial condition and results of operations.

As a result of the current PRC regulatory restrictions, substantially all of our RMB-denominated investment assets are concentrated in a limited variety of products permitted to be invested by PRC commercial banks, such as bills issued by the PBOC, treasury bonds issued by the MOF, financial bonds issued by domestic policy banks, debt securities issued by other commercial banks and commercial paper issued by qualified domestic corporations as well as domestic corporate bonds. We are restricted from diversifying our investment portfolio which limits our ability to seek the best returns on our investments. If the value of a particular type of our investments decreases, we may be exposed to greater losses given these regulatory restrictions. For example, an interest rate hike may cause a significant fall in the value of fixed interest and fixed income bonds held by us. In addition, our ability to manage RMB-denominated investment assets risk is restricted due to the limited availability of RMB-denominated hedging instruments. A significant decrease in the value of our RMB-denominated financial assets within a short period could have a material adverse effect on our financial condition and results of operations.

There may be a slowdown in the fast growth of China's banking industry.

We expect the banking industry in China to continue to grow as a result of anticipated growth in China's economy, increases in household income, further improvement of social welfare, demographic changes and the opening of China's banking industry to foreign participants. However, it is not clear how certain trends and events, such as the pace of China's economic growth, China's implementation of its commitment to WTO accession, the development of the domestic capital and insurance markets and the ongoing reform of the social welfare system, will affect China's banking industry. These risks could be exemplified as a result of the increasing inter-dependence among the financial institutions in the PRC. Consequently, there can be no assurance that the fast growth and development of China's banking industry will continue.

We may be required to amend our provisioning for loans pursuant to IAS 39 and the interpretive guidance on its application in the future.

We assess our loans and investment assets for impairment under IAS 39, as amended from time to time. The International Accounting Standards Board (IASB), which has the responsibility for developing and revising accounting standards under IFRS, issued an exposure draft open to comments in March 2013 on expected credit loss which, if adopted, will result in the replacement of the incurred loss model under IAS 39 with an expected loss model. In addition, the International Financial Reporting Interpretations Committee and other relevant accounting standard-setting bodies and regulators have been asked by their constituents to consider providing interpretive guidance relating to the application of IAS 39. Any future amendments to IAS 39 and interpretive guidance on the application of IAS 39 may require us to change our current provisioning practice and may, as a result, materially and adversely affect our financial condition and results of operations.

The effectiveness of our credit risk management is affected by the quality and scope of information available in China.

Information infrastructure in China is relatively less developed than that in many other jurisdictions. In 2006, the PBOC commenced operations on nationwide individual and corporate credit information databases. However, due to their short operational history, they can only provide limited information. Therefore, our assessment of the credit risk associated with a particular customer may not be based on complete, accurate or reliable information. Until these nationwide credit information databases become more fully developed, we will have to rely on other publicly available resources and our internal resources, which are not necessarily as extensive nor as effective as a unified nationwide credit information system. As a result, our ability to effectively manage our credit risk and, in turn, our asset quality, our financial condition and results of operations may be materially and adversely affected.

We cannot assure you of the accuracy or comparability of facts, forecasts, certain information and statistics contained in this prospectus with respect to China, its economy and financial conditions or its banking industry, and investors should not place undue reliance on them.

Facts, forecasts, certain information and statistics in this prospectus relating to China, its economy and financial conditions and its banking industry, including our market share information, are derived from various sources which are generally believed to be reliable. However, there can be no assurance as to the quality and reliability of such sources. We believe that the sources of the information are appropriate for such information and the Directors have taken reasonable care in the extraction and reproduction of the information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. However, such information has not been prepared or independently verified by us, the Joint Global Coordinators, the Joint Sponsors or the

Underwriters or any of our or their respective affiliates or advisors and, therefore, we make no representation as to the accuracy or completeness of such facts, forecasts, certain information and statistics. In addition, these facts, forecasts, certain information and statistics may not be consistent with the information available from other sources and may not be complete or up-to-date. Because of the potential deviation in the compilation methods, discrepancies in market practice and other problems, these facts, forecasts, certain information and other statistics may be inaccurate, incomplete or may not be comparable from period to period or to facts, forecasts, certain information or statistics of other economies. In all cases, investors should consider carefully how much weight or importance they should attach to or place on such facts, forecasts, certain information and statistics.

Investments in commercial banks in China are subject to ownership restrictions that may adversely affect your investment value.

Investments in commercial banks in China are subject to a number of ownership restrictions. For example, prior approval from the CBRC is required for any person or entity to hold 5% or more of the registered capital or total issued shares of a commercial bank in China. If a shareholder of a commercial bank in China increases its shareholding above the 5% threshold without obtaining the CBRC's prior approval, the shareholder will be subject to CBRC's sanctions, which include, among other things, correction of such misconduct, fines and confiscation of the related gains. In addition, under the PRC Company Law (中華人民共和國公司法) and the PRC Commercial Banking Law (中華人民共和國商業銀行法), we may not extend any loans that use our Shares as pledged collateral. However, according to the Guidelines on Corporate Governance of Commercial Banks (商業銀行公司治理指引), shareholders of our Bank may pledge our Shares to lenders other than us, provided that they file a prior notification to our Board of Directors and abide by relevant laws and regulations. Nonetheless, if a shareholder holds Shares of our Bank for which the audited value of such Shares for the previous financial year exceeds such shareholder's outstanding loan balance with our Bank, such shareholder may not pledge any such Shares to others.

Our business, financial condition, results of operations, prospects and the value of your investment may be adversely affected as a result of negative media coverage relating to us or the PRC banking industry.

In recent years, the PRC banking industry has been the subject of negative reports or criticism by various media, including in relation to incidents of fraud and issues relating to loan quality, capital adequacy, solvency, internal controls and management. In particular, there have recently been negative publications in the media regarding two of our branches being unable to fulfill their obligations to repay short-term inter-bank loans. See "– We may not be able to obtain necessary short-term funding and inter-bank deposits through the exchange market and inter-bank market, which may have a material adverse effect on our liquidity or financial condition." In addition, we share a common major shareholder with a company that has received negative publicity due to sanctions and penalties levied by the PRC government in connection with such company's improper behavior in its trading of securities. Furthermore, our practices of selecting third party service providers have been questioned by and subject to negative media coverage, which we believe is without merit. In response, we have made timely clarifications of such negative publications. However, if we or the PRC banking industry as a whole suffers from similar negative media reports or criticism in the future, we cannot make any representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. Any negative coverage, whether or not related to us or our related parties and regardless of truth or merit, may have an impact on our reputation and, consequently, may undermine the confidence of our customers and investors, which may in turn materially and adversely affect our business, results of operations, financial condition, reputation, prospects and the value of your investment.

RISKS RELATING TO CHINA

China's economic, political and social conditions, as well as governmental policies and financial market conditions, could affect our business, financial condition, results of operations and prospects.

Substantially all of our businesses, assets and operations are located in China. Accordingly, our financial condition, results of operations and prospects are, to a material extent, subject to the economic, political and legal developments in China. China's economy differs from the economies of developed countries in many respects, including, among other things, government involvement, level of development, growth rate, foreign exchange control and resources allocation.

China's economy was previously a planned economy and a substantial portion of productive assets in China are still owned by the PRC government. The government exercises significant control over the economic growth in China by allocating resources, formulating monetary policy and providing preferential treatment to particular industries or companies. Despite the fact that the government has implemented economic reform measures to introduce market forces and establish sound corporate governance systems in business enterprises, such economic reform measures may be adjusted, modified or applied inconsistently from industry to industry, or across different regions of the country. As a result, we may not benefit from some of such measures.

The PRC government has the power to implement macroeconomic measures affecting China's economy. The government has implemented various measures in an effort to speed up or control the rate of growth and adjust the structure of certain industries. For example, in response to a decreased growth rate partially due to the global financial crisis and economic slowdown, since early September 2008, the PRC government has begun to implement a series of macroeconomic measures and moderately loose monetary policies, which include announcing economic stimulus packages and lowering benchmark interest rates. In order to curb inflation, the PRC government implemented a number of macroeconomic measures from the second half of 2009 to October 2011 and a moderate monetary policy since 2011. For example, the PBOC increased the benchmark interest rates and required deposit reserve ratio from time to time. At the end of November 2011, the PBOC announced that it will lower the bank required deposits reserve ratio by 0.5 percentage point as from December 5, 2011 to replenish liquidity in the country's banking system as inflation starts to ease. On February 18 and May 12, 2012, China's central bank further lowered banks' reserve requirement ratio, each time by 0.5 percentage point, effective from February 24, 2012 and May 18, 2012, respectively.

Some of the PRC government's macroeconomic measures may materially and adversely affect our financial condition, results of operations and asset quality. For example, the PRC government implemented macroeconomic measures to prevent the real estate industry from overheating. Measures implemented by the PRC government to cool down the real estate market may adversely affect the growth and quality of our loans related to real estate and could also have a significant impact on our business, financial condition and results of operations. Furthermore, on September 26, 2009, the State Council approved the "Several Opinions on Suppressing Over-capacity and Repetitive Constructions in Certain Industries for Healthy Development" issued by the NDRC and other ministries (關於抑制部份行業產能過剩和重複建設引導產業健康發展的若干意見) to curb the expansion of certain sectors with over-capacity, such as iron and steel, cement, flat glass, coal chemical, polysilicon, wind power equipment, electrolysis aluminum, ship building and soybean oil extraction. It is provided for in this circular that financial institutions are prohibited from granting loans to projects not meeting the relevant requirements and those who have granted such loans are required to take remedial measures. These requirements may adversely affect some of our loans to the relevant industries.

The global economic recovery is subject to a number of instabilities and uncertainties. During the recent global financial crisis and economic downturn, the growth of China's GDP slowed down. According to the statistics promulgated by the PRC government, the real GDP growth rate of China dropped from 9.6% in 2008 to 7.8% in 2012. The uncertainties in the global economy and China's economy may adversely affect our financial condition and results of operations in many ways, including the possibility that, during an economic slowdown, more of our customers or counterparties could become delinquent in respect of their loan repayments or other obligations to us, which, in turn, could result in a higher level of non-performing loans, allowance for impairment losses and write-offs, all of which would adversely affect our results of operations and financial condition. We cannot assure you that China's economy or the global economy will maintain sustainable growth. If further economic downturn occurs or continues, our business, results of operations and financial condition could be materially and adversely affected.

Legal protections available to you under the PRC legal system may be limited.

We are established under the laws of the PRC. The PRC legal system is based on written statutes. Prior court decisions may be adduced for reference but are not legally binding. Since 1979, the PRC government has promulgated laws and regulations dealing with such economic matters as securities, shareholders' rights, foreign investment, corporate structure and governance, commerce, taxation and trade, with a view towards developing a comprehensive system of commercial law. However, as these laws and regulations are relatively new and the development of products, investment instruments and environment in the PRC banking industry continue to evolve, the effect of these laws and regulations on the rights and obligations of the parties involved may involve uncertainty. As a result, the legal protections available to you under the PRC legal system may be limited.

Our Articles of Association provide that disputes between holders of H Shares and us, our Directors, Supervisors or senior officers or holders of A Shares arising out of our Articles of Association or any rights or obligations conferred or imposed on the above parties by the PRC Company Law and related rules and regulations concerning our affairs are to be resolved through arbitration. Our Articles of Association further provide that such arbitral award will be final, conclusive and binding on all parties. A claimant may elect to submit a dispute to arbitration organizations in Hong Kong or the PRC. Awards that are made by PRC arbitral authorities recognized under the Arbitration Ordinance of Hong Kong can be enforced in Hong Kong. Hong Kong arbitration awards may be recognized and enforced by PRC courts, subject to the satisfaction of certain PRC legal requirements. However, we cannot assure you that any action brought in the PRC by any holder of H Shares to enforce a Hong Kong arbitral award made in favor of holders of H Shares would succeed.

You may experience difficulties in effecting service of legal process and enforcing judgments against us and our management.

We are a company incorporated under the laws of the PRC and substantially all of our business, assets and operations are located in China. In addition, the majority of our Directors, Supervisors and senior management reside in China and substantially all of the assets of such Directors, Supervisors and senior management are located in China. As a result, it may not be possible to effect service of process within the United States or elsewhere outside China upon us or our Directors, Supervisors or senior management, including with respect to matters arising under U.S. federal securities laws or applicable state securities laws. Moreover, China has not entered into any treaty for the reciprocal recognition and enforcement of court judgments with the United States, the United Kingdom, Japan and many other countries. In addition, Hong Kong has no arrangement with the United States for reciprocal enforcement of judgments. As a result, recognition and enforcement in China or Hong Kong of a court judgment obtained in the United States and many other jurisdictions may be difficult or impossible.

Although we will be subject to the Listing Rules and the Codes on Takeovers and Mergers and Share Repurchases of Hong Kong upon the listing of our H Shares on the Hong Kong Stock Exchange, the holders of H Shares will not be able to bring actions on the basis of violations of the Listing Rules and must rely on the Hong Kong Stock Exchange to enforce its rules. The Listing Rules and the Codes on Takeovers and Mergers and Share Repurchases of Hong Kong do not have the force of law in Hong Kong.

Payment of dividends is subject to restrictions under PRC laws.

Under PRC laws, dividends may only be paid out of distributable profits. Our distributable profits represent the result of the lower of the unconsolidated net profits as determined under PRC GAAP or under IFRS less appropriations to statutory surplus reserve, general reserve and discretionary surplus reserve (as approved by our Shareholders' meeting), each of such appropriations based on our unconsolidated net profit determined under PRC GAAP. As a result, we may not have sufficient distributable profits, if any, to make dividend distributions to our Shareholders in the future, including in respect of periods where we register an accounting profit. Any distributable profits that are not distributed in a given year may be retained for distribution in subsequent years.

In January 2013, the Shanghai Stock Exchange issued the Guidelines on Distribution of Cash Dividends by Listed Companies (上市公司現金分紅指引), requiring that in the event that the listed company's profits and accumulated undistributed earnings for the previous year were positive, but the amount of cash dividends to be distributed by such listed company is less than 30% of net profit, then the listed company in its annual report and in a board resolution must disclose in detail relevant matters such as, among others, reasons for low dividends and the opinions of the independent directors.

In addition, the CBRC has the discretion to restrict dividend payments and other profit distributions by any bank that fails to fulfill the capital adequacy ratio regulatory requirements or that has violated certain other PRC banking regulations. See "Supervision and Regulation – PRC Banking Supervision and Regulation – Supervision Over Capital Adequacy – Supervision on capital adequacy level by the CBRC" and "Supervision and Regulation – PRC Banking Supervision and Regulation – Principal Regulators – CBRC."

You may be subject to PRC income taxation.

Individual income tax

Under the applicable PRC tax laws, dividends paid to, and gains realized through the sale or transfer by other means of H shares by, non-PRC resident individual holders of H shares are both subject to PRC individual income tax at a rate of 20%.

Pursuant to the Circular on Questions Concerning Tax on the Profits Earned by Foreign Invested Enterprises, Foreign Enterprises and Individual Foreigners from the Transfer of Shares (Equity Interests) and on Dividend Income (Guo Shui Fa [1993] No. 045) (關於外商投資企業、外國企業和外籍個人取得股票(股權)轉讓收益和股息所得税收問題的通知(國税發[1993]045號)) issued by the SAT, non-PRC resident individual holders of H shares were temporarily exempted from PRC individual income tax on dividends paid by PRC domestic enterprises that issued H shares. However, this circular was repealed by the Announcement on the List of Fully or Partially Invalid and Repealed Tax Regulatory Documents (《關於公佈全文失效廢止、部分條款失效廢止的税收規範性文件目錄的公告》) dated January 4, 2011.

Pursuant to the Circular on Questions Concerning the Collection of Individual Income Tax following the Repeal of Guo Shui Fa [1993]045 (關於國稅發[1993]045號文件廢止後有關個人所得稅徵管問題的通知) dated June 28, 2011 issued by the SAT, dividends paid by H share issuers to a non-PRC resident individual holder of H shares are subject to PRC individual income tax at the rates determined in accordance with applicable tax treaties or arrangements between the PRC and the jurisdiction in which the shareholder resides. Such tax rates range from 5% to 20%. This circular further provides that, in general, the tax rate applicable to dividend income as stipulated in relevant tax treaties or arrangements is 10%; therefore, H share issuers can withhold 10% of the dividend without seeking prior consent from competent tax authorities. Any shareholder residing in a jurisdiction where the applicable tax rate for such dividends, as stipulated in the relevant tax treaties or arrangements, is lower than 10% shall be entitled to a refund of the excess tax withheld by H share issuers; however, such refund shall be subject to the approval of the competent tax authority. For a shareholder residing in a jurisdiction where the applicable tax rate for such dividends, as stipulated in the relevant tax treaties or arrangements, is more than 10% but less than 20%, H share issuers shall withhold the individual income tax at the actual tax rate, as stipulated in the relevant tax treaties or arrangements, without seeking prior consent from competent tax authorities. For a shareholder residing in a jurisdiction where the applicable tax rate for such dividends, as stipulated in the relevant tax treaties or arrangements, is 20% or where there is no relevant tax treaty or arrangement with the PRC, H share issuers shall withhold the individual income tax at the rate of 20%. Such arrangements have also been addressed in a letter dated June 28, 2011 issued by the SAT to the Hong Kong Inland Revenue Department. The letter explicitly provides that Hong Kong resident individuals shall be subject to a tax rate of 10% on the dividend income they receive from H share issuers. In view of this, we will withhold 10% of any dividend to be distributed to non-PRC resident individual holders of our H Shares as individual income tax unless otherwise specified by the relevant requirements and procedures of PRC tax authorities.

Despite these arrangements, there are significant uncertainties as to the interpretation and application of applicable PRC tax laws and rules due to several factors, including the relatively short history of such laws and rules, and whether the relevant preferential tax treatment will be revoked in the future such that all non-PRC resident individual holders of H shares will be subject to PRC individual income tax at a flat rate of 20%.

Enterprise income tax

According to the PRC Enterprise Income Tax Law (中華人民共和國企業所得稅法) and the implementation rules thereof, non-PRC resident enterprises that do not have any establishment or premises within the PRC are subject to enterprise income tax at a rate of 10% on any income generated within the PRC. Furthermore, pursuant to the Notice of Withholding and Payment of Enterprise Income Tax for PRC Resident Enterprises Paying Dividends to Overseas Non-resident Enterprise Shareholders of H Shares (關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得稅有關問題的通知) issued by the SAT on November 6, 2008, PRC resident enterprises are required to withhold enterprise income tax at a flat rate of 10% on distributions of dividends to overseas non-PRC resident enterprise holders of H shares for the year 2008 and thereafter.

According to relevant PRC tax laws, non-PRC resident enterprise holders of H shares are subject to enterprise income tax at a rate of 10% on profit from the sale or transfer of H shares as well as dividends received from H shares.

According to the Interim Measures for Source-based Withholding of Enterprise Income Tax on Non-resident Enterprises (非居民企業所得稅源泉扣繳管理暫行辦法) issued by the SAT, in offshore H share transfers between non-PRC resident enterprises, the selling party is required to, personally or through proxy, file enterprise income taxes with the competent PRC tax authorities in the local jurisdiction where the enterprise that issued the H shares is registered.

In addition, it is also unclear whether and how the PRC individual income tax and enterprise income tax on gains realized by non-PRC resident holders of H shares through the sale, or transfer by other means, of H shares will be collected by the PRC tax authorities in the future, and such tax has not been collected by the PRC tax authorities in practice. Considering these uncertainties, non-PRC resident holders of our H Shares should be aware that they may be obligated to pay PRC income tax on dividends paid by us and gains realized through the sale, or transfer by other means of our H Shares. See "Appendix V – Summary of Principal Legal and Regulatory Matters – PRC Taxation – Taxation of Dividends" and "Appendix V – Summary of Principal Legal and Regulatory Matters – PRC Taxation – Taxation of Capital Gains."

We are subject to the PRC government controls on currency conversion and may be affected by the risks relating to fluctuations in exchange rates in the future.

Substantially all of our revenues are denominated in Renminbi, which currently is not freely convertible into foreign currencies. A portion of our revenues must be converted into other currencies in order to meet our demand for foreign currency. For example, we need to obtain foreign currency to make payments of declared dividends, if any, on our H Shares.

Under the existing PRC laws and regulations on foreign exchange, following completion of the Global Offering, we will be able to undertake foreign exchange transactions under current account by complying with certain procedural requirements, including payment of dividends without prior approval from the SAFE. However, in the future, the PRC government may, at its discretion, take measures to restrict access to foreign currencies for capital account and current account transactions under certain circumstances. In this case, we may not be able to pay dividends in foreign currencies to holders of our H Shares.

The value of Renminbi against the U.S. dollars and other currencies fluctuates from time to time and is affected by a number of factors which include, among other things, changes in China's and international political and economic conditions and the fiscal and currency policies prescribed by the PRC government. Since 1994, the conversion of Renminbi into foreign currencies, including Hong Kong and U.S. dollars, has been based on rates set by the PBOC, which are determined by the PBOC on a daily basis based on the inter-bank foreign exchange market rates of the previous business day and the current exchange rates of the international financial markets. From 1994 to July 20, 2005, the official exchange rate for the conversion of the Renminbi to U.S. dollars was generally stable. On July 21, 2005, the PRC government introduced a managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. On the same day, the value of the Renminbi appreciated by 2% against the U.S. dollar. On May 18, 2007, the PBOC announced that the floating band for the trading prices in the inter-bank foreign exchange market of the Renminbi against the U.S. dollar would be expanded from 0.3% to 0.5% around the central parity rate, effective on May 21, 2007. The PBOC further enlarged the floating band for the trading prices in the inter-bank spot exchange market of Renminbi against the U.S. dollar to 1.0% around the central parity rate on April 16, 2012. The PRC government may, in the future, make further adjustments to the exchange rate system.

Any appreciation of Renminbi against the U.S. dollars or any other foreign currencies may result in the decrease in the value of our foreign currency-denominated assets. Conversely, any depreciation of Renminbi may adversely affect the value of, and any dividends payable on, our H Shares in foreign currency terms. As of June 30, 2013, 3.0% of our assets and 4.1% of our liabilities were denominated in foreign currencies. We cannot assure you that we will be able to reduce our foreign exchange risk exposure by way of monetary derivatives or otherwise. In addition, there are limited instruments available to us to reduce our foreign exchange risk exposure at reasonable costs. See "Financial Information – Quantitative and Qualitative Analysis of Market Risk – Exchange Rate Risk." Any appreciation of Renminbi against the U.S. dollar or any other foreign currencies may materially and adversely affect the financial conditions of some of our customers, particularly those deriving substantial revenue from exporting products or engaging in related businesses, and in turn affect their abilities to service their obligations to us. Furthermore, we are also currently required to obtain the approval of the SAFE before converting significant sums of foreign currencies into Renminbi. All of these factors could materially and adversely affect our financial condition, results of operations and compliance with the capital adequacy ratio and the operational ratio.

Any future occurrence of force majeure events, natural disasters or outbreaks of contagious diseases in China may have a material adverse effect on our business operations, financial condition and results of operations.

Any future occurrence of force majeure events, natural disasters or outbreaks of epidemics and contagious diseases, including avian influenza from H7N9 or other strains, severe acute respiratory syndrome, and swine influenza from H1N1 or other strains, may materially and adversely affect our business and results of operations. In 2009, there were reports on the occurrences of H1N1 influenza in certain regions of the world, including the PRC and Hong Kong where we operate our principal business. An outbreak of an epidemic or contagious disease could result in a widespread health crisis and restrict the level of business activities in affected areas, which may in turn adversely affect our business. Moreover, China has experienced natural disasters such as earthquakes, floods and droughts in the past few years. For example, in May 2008 and April 2013, Sichuan Province experienced earthquakes with reported magnitudes of 8.0 and 7.0 on the Richter scale. In April 2010, Qinghai Province also experienced an earthquake with a reported magnitude of 7.1 on the Richter scale. These earthquakes collectively resulted in the death of tens of thousands of people. We suffered the adverse impact of the earthquakes in Sichuan Province and Qinghai Province, but the impact was not material because our operations in the localities affected by the earthquakes were small. Since the beginning of 2010, severe droughts occurred in southwestern China, resulting in significant economic losses in these areas. Any future occurrence of severe natural disasters in China may adversely affect its economy and in turn our business. There can be no assurance that any future occurrence of natural disasters or outbreak of avian influenza, severe acute respiratory syndrome, swine influenza or other epidemics, or the measures taken by the PRC government or other countries in response to such contagious diseases, will not seriously disrupt our operations or those of our customers, which may have a material adverse effect on our results of operations.

RISKS RELATING TO THE GLOBAL OFFERING

An active trading market for our H Shares may not develop, and trading prices may fluctuate significantly.

Prior to the Global Offering, no public market for our H Shares existed. We cannot assure you that a liquid public market for our H Shares will be developed or be sustained after the Global Offering. In addition, the Offer Price of our H Shares is expected to be fixed by agreement between the Joint Global Coordinators (on behalf of the Underwriters) and us, and may not reflect the market price of our H Shares following the completion of the Global Offering. If an active public market for our H Shares cannot be developed or maintained after the Global Offering, the market price and liquidity of our H Shares may be adversely affected.

The characteristics of the A Share and H Share markets are different.

Our A Shares are listed and traded on the Shanghai Stock Exchange. Following the Global Offering, our A Shares will continue to be traded on the Shanghai Stock Exchange and our H Shares will be traded on the Hong Kong Stock Exchange. Without approval from the relevant regulatory authorities, our H Shares and A Shares are neither convertible nor fungible between each other and there is no trading or settlement between the H Share and the A Share markets. The H Share and A Share markets have different trading characteristics (including trading volume and liquidity) and investor bases (including different levels of retail and institutional participation). As a result of these differences, the trading prices of our H Shares and A Shares may not be the same. Moreover, fluctuations in our A Share price may affect our H Share price, and vice versa. Because of the different characteristics of the A Share and H Share markets, the changes in the prices of our A Shares may not be indicative of the price trend of our H Shares performance. You should therefore not place undue reliance on the trading price of our A Shares when evaluating an investment in our H Shares.

Future sale or perceived sale of a substantial number of our H Shares or A Shares in the public markets or the conversion of our A Shares to H Shares could have a material adverse effect on the prevailing market price of our H Shares and dilute the shareholdings of our holders of H Shares.

The market price of our H Shares could decline as a result of future sale of substantial amounts of our H Shares or other securities relating to our H Shares in the public market, or the issuance of new H Shares, or the perception that such sales or issuances may occur. Future sale, or perceived sale, of substantial amounts of our H Shares could also materially and adversely affect our ability to raise capital at a price favorable to us at a prescribed time in the future. In addition, our Shareholders would experience dilution in their shareholdings upon issuance of additional securities in the future. If additional funds are raised through the issuance of new equity or equity-linked securities of our Bank other than raising on a pro-rata basis from the existing Shareholders, the percentage ownership of such Shareholders in our Bank may be reduced and such new securities may confer rights and privileges that prevail over those conferred by the H Shares.

A portion of the H Shares in the International Offering will be subscribed for by the corporate investors. While the corporate investors have agreed not, directly or indirectly, at any time during the period of six months following the Listing Date, to dispose of any of such H Shares, such restrictions do not apply to certain of the corporate investors where such corporate investors use the relevant H Shares as security (including as a charge or a pledge) for a bona fide commercial loan, which could include a pledge of such shares as security for a loan to finance the purchase of such H Shares. See "Our Corporate Investors – Restrictions on Disposals by the Corporate Investors – Exceptions" for further details. If such pledge were to be created and subsequently enforced, such shares may be subject to sale during the relevant lock-up period.

Upon the completion of the Global Offering, the SSF will hold some of the H Shares. Such portion of H Shares is not subject to any lock-up restrictions. Any future sale, or perceived sale, of our H Shares by the SSF may adversely affect the market price of our H Shares. Any conversion of A Shares to H Shares could have a material adverse effect on the prevailing market price of our H Shares and dilute the shareholdings of holders of our H Shares.

Huijin holds a substantial portion of our A Shares. Subject to the prevailing PRC regulations approving the conversion of their A Shares into H Shares, A Shares held by Huijin may be converted into H Shares that may be listed and traded on the Hong Kong Stock Exchange in the future without the approval of a class shareholders' meeting. Any future sale, or perceived sale, of the converted H Shares held by Huijin may adversely affect the trading price of our H Shares.

Your equity interest will be immediately diluted if the Offer Price of the H Shares may be higher than the net tangible asset per share.

The initial public offering price of our H Shares may be higher than the net tangible asset per share of the shares issued to our existing Shareholders as of September 30, 2013. Therefore, purchasers of our H Shares in the Global Offering may experience an immediate dilution by HK$0.19 per share, representing the difference between the Offer Price and the pro forma adjusted net tangible asset per share as of September 30, 2013, without taking into account of any changes to our net tangible assets subsequent to September 30, 2013 other than the Global Offering (assuming that the Offer Price is HK$4.27, being the high-end of our indicative offer price ranges of the Global Offering, and that neither the Offer Size Adjustment Option nor the Over-allotment Option for the Global Offering is exercised, and after deduction of estimated underwriting fees and offering expenses in connection with the Global Offering payable by us). If we issue additional shares in the future, purchasers of our H Shares may experience further dilution.

Dividends distributed in the past by us may not be indicative of our dividend policy in the future.

On May 17, 2013, our 2012 general meeting of Shareholders approved the distribution of a cash dividend of RMB0.58 (before tax) for every 10 A Shares in respect of the year ended December 31, 2012. A cash dividend of RMB2,345 million has been paid in 2013. We paid a cash dividend of RMB5,378 million in 2012 following approval from our 2011 general meeting of Shareholders of the distribution of a cash dividend of RMB1.33 (before tax) for every 10 A Shares in respect of the year ended December 31, 2011. Any future declaration of dividends will be proposed by our Board of Directors, the amount of which will depend on various factors, including our results of operations, financial condition, future business prospects and other factors that our Board may determine to be important. See "Financial Information – Dividend Policy." We cannot guarantee if and when we will pay dividends in the future. Additionally, certain shareholders may or may not be satisfied with our dividend distributions, given that the amount of dividends distributed and the timing of dividend distributions varies from time to time. Such variations may lead to potential disputes against our dividend policies and distributions.

We strongly caution you not to place any reliance on any report contained in the press or made by other media regarding our Global Offering.

Press and media coverage in connection with us and our Global Offering may have been made prior to the publication of this prospectus, or after the publication of this prospectus but prior to the completion of the Global Offering. You should rely solely upon the information contained in this prospectus, the Application Forms and any formal announcements made by us in Hong Kong in making your investment decision regarding our H Shares. We do not accept any responsibility for the accuracy or completeness of any information reported by the press or other media, nor the fairness or appropriateness of any forecasts, views or opinions expressed by the press or other media regarding our Global Offering or us. We have no obligation to make any representation as to the appropriateness, accuracy, completeness or reliability of the disclosure of any such information or publication.

Investors in our H Shares are reminded that, in making their decisions as to whether to purchase our H Shares, they should rely only on the financial, operational and other information included in this prospectus and the Application Forms. If you decide to apply to purchase our H Shares in the Global Offering, you will be deemed to have agreed that you will not rely on any information other than that contained in this prospectus and the Application Forms.

There will be a time gap of several business days between pricing and trading of the H Shares offered under the Global Offering.

The Offer Price of the H Shares sold to the public under the Global Offering will be determined on the Price Determination Date. However, trading of the H Shares on the Hong Kong Stock Exchange will not commence until they are delivered, which is expected to be several business days after the Price Determination Date. As a result, investors of our H shares may not be able to sell or otherwise deal in the H Shares during that period. Accordingly, holders of the H Shares may be subject to the risk that the H Share trading price could fall before trading begins as a result of adverse market conditions or other unfavorable circumstances that may arise during the period between the Price Determination Date and the date on which the dealing begins.

This prospectus contains certain forward-looking statements and information relating to us and our subsidiaries that are based on the beliefs of our management as well as assumptions made by and information currently available to our management. When used in this prospectus, the words "aim," "anticipate," "believe," "could," "expect," "going forward," "intend," "may," "ought to," "plan," "project," "seek," "should," "will," "would," and the negative of these words and other similar expressions, as they relate to our Company or our management, are intended to identify forward-looking statements. Such statements reflect the current views of our Company's management with respect to future events, operations, liquidity and capital resources, some of which may not materialize or may change. These statements are subject to certain risks, uncertainties and assumptions, including the other risk factors as described in this prospectus. You are strongly cautioned that reliance on any forward-looking statements involves known and unknown risks and uncertainties. The risks and uncertainties facing our Company which could affect the accuracy of forward-looking statements include, but are not limited to, the following:

- our business prospects and financial condition;
- future developments, trends and conditions in the industry and markets in which we operate;
- our business strategies and plans to achieve these strategies;
- general economic conditions;
- changes to the regulatory environment and general outlook in the industry and markets in which we operate;
- our ability to reduce costs;
- our dividend policy;
- the amount and nature of, and potential for, future development of our business;
- capital market developments;
- the actions and developments of our competitors; and
- certain statements in "Risk Factors," "Industry Overview," "Supervision and Regulation," "Business," "Risk Management," "Assets and Liabilities," "Financial Information," "Relationship with Our Controlling Shareholders and Connected Transactions," and "Future Plans and Use of Proceeds" with respect to trends in interest rates, exchange rates, prices, volumes, operations, margins, risk management and overall market trends.

Subject to the requirements of the Listing Rules, we do not intend to publicly update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements in this prospectus are qualified by reference to this cautionary statement.

DIRECTORS' RESPONSIBILITY FOR THE CONTENT OF THIS PROSPECTUS

This prospectus includes particulars given in compliance with the Hong Kong Companies Ordinance, the Securities and Futures (Stock Market Listing) Rules and the Listing Rules for the purpose of giving information with regard to our Group. Our Directors collectively and individually accept full responsibility for the accuracy of the information contained in this prospectus and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive and there are no other matters the omission of which would make any statement in this prospectus misleading.

CBRC AND CSRC APPROVALS

We have obtained approvals from the CBRC and the CSRC for the Global Offering and the making of the application to list the H Shares on the Hong Kong Stock Exchange on May 7, 2013 and October 15, 2013, respectively. In granting such consent, neither the CBRC nor the CSRC accepts any responsibility for the financial soundness of us or for the accuracy of any of the statements made or opinions expressed in this prospectus or in the Application Forms.

UNDERWRITING

The listing of our H Shares on the Hong Kong Stock Exchange is sponsored by China International Capital Corporation Hong Kong Securities Limited, UBS Securities Hong Kong Limited, Morgan Stanley Asia Limited, China Everbright Capital Limited, BNP Paribas Securities (Asia) Limited and BOCI Asia Limited, collectively referred to as our Joint Sponsors.

China International Capital Corporation Hong Kong Securities Limited, UBS AG, Hong Kong Branch, Morgan Stanley Asia Limited and China Everbright Securities (HK) Limited are the joint global coordinators of the Global Offering, collectively referred to as the Joint Global Coordinators.

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters and the International Offering is expected to be underwritten by the International Underwriters subject to agreement on the Offer Price between us (on behalf of ourselves) and the Joint Global Coordinators (on behalf of the Underwriters).

For further details about the Underwriters and the underwriting arrangements, see "Underwriting".

RESTRICTIONS ON OFFER AND SALE OF THE OFFER SHARES

No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than Hong Kong, or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering and sale of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.

APPLICATION FOR LISTING OF THE SHARES ON THE HONG KONG STOCK EXCHANGE

We have applied to the Listing Committee of the Hong Kong Stock Exchange for the granting of listing of, and permission to deal in, our H Shares, including (i) the Offer Shares; (ii) any H Shares which may be issued pursuant to the exercise of either the Offer Size Adjustment Option or the Over-allotment Option; and (iii) any H Shares converted from state-owned Shares which are to be held by the SSF.

Shares held by Huijin and the SSF may be converted to H shares subject to satisfying certain requirements. See "Share Capital" for further information.

Save for our A Shares listed on the Shanghai Stock Exchange as disclosed in this prospectus, no part of our Shares is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought in the near future.

PROFESSIONAL TAX ADVICE RECOMMENDED

If you are unsure about the taxation implications of subscribing for, purchasing, holding or dealing in our H Shares, you should consult an expert. It is emphasized that none of us, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Underwriters, their respective directors nor any other person involved in the Global Offering accepts responsibility for any tax effects on, or liabilities of, any person resulting from subscribing for, purchasing, holding or disposing of our H Shares.

REGISTER OF MEMBERS AND STAMP DUTY

All of the H Shares issued pursuant to applications made in the Global Offering will be registered on our H Share register to be maintained in Hong Kong. Our principal register of members will be maintained by us at our Head Office in the PRC.

Dealings in the H Shares registered in our H Share register will be subject to the Hong Kong stamp duty. The current ad valorem rate of Hong Kong stamp duty is 0.1% on the higher of the consideration for or the market value of the H Shares and it is charged on the purchaser on every purchase and on the seller on every sale of the H Shares. In other words, a total stamp duty of 0.2% is currently payable on a typical sale and purchase transaction involving the H Shares.

REGISTRATION OF SUBSCRIPTION, PURCHASE AND TRANSFER OF H SHARES

Each acquirer of our H Shares agrees with us and each of our Shareholders, and we agree with each Shareholder, to observe and comply with the PRC Company Law, the Special Regulations on Overseas Offering and Listing of Shares by Joint Stock Limited Companies ("Special Regulations") and our Articles of Association.

Each acquirer of our H Shares agrees with us, each of our Shareholders, Directors, Supervisors, managers and officers and we acting for ourselves and for each of our Directors, Supervisors, managers and officers agree with each of our Shareholders to refer all differences and claims arising from our Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant laws and administrative regulations concerning our affairs to arbitration in accordance with our Articles of Association, and any reference to arbitration shall be deemed to authorize the arbitration tribunal to conduct hearings in open session and to publish its award. Such arbitration shall be final and conclusive. See "Appendix V – Summary of Principal Legal and Regulatory Matters" and "Appendix VI – Summary of Articles of Association" for further information.

Each acquirer of our H Shares agrees with us and each of our Shareholders that the H Shares are freely transferable by the holders thereof.

Each acquirer of our H Shares authorizes us to enter into a contract on his/her behalf with each of our Directors and officers whereby such Directors and officers undertake to observe and comply with their obligations to our Shareholders as stipulated in our Articles of Association.

DIVIDENDS PAYABLE TO HOLDERS OF H SHARES

Unless determined otherwise by us, dividends payable in Hong Kong dollars in respect of H Shares will be paid to the Shareholders listed on our H Share register in Hong Kong, by ordinary post, at the Shareholders' risk, to the registered address of each Shareholder. The holders of H Shares may be subject to PRC income taxation for the dividends paid to, and gains realized through the sale or transfer by other means of H Shares. For further information, please refer to "Risk Factors – Risks Relating to China – You may be subject to PRC income taxation"

STRUCTURE OF THE GLOBAL OFFERING

Details of the structure of the Global Offering, including its conditions, are set out in the section entitled "Structure of the Global Offering" in this prospectus.

OVER-ALLOTMENT AND STABILIZATION

Details with respect to stabilization and the Over-allotment Option are set out in the section entitled "Underwriting" in this prospectus.

CURRENCY TRANSLATIONS

Unless otherwise specified, amounts denominated in RMB and US$ have been translated, for the purpose of illustration only, into Hong Kong dollars in this prospectus at the following rates:

HK$1.0000: RMB0.79103	(set by the PBOC for foreign exchange transactions prevailing on November 29, 2013)
HK$7.7526: US$1.0000	(the exchange rate set forth in the H.10 weekly statistical release of the Board of Governors of the Federal Reserve System of the United States on November 29, 2013)

No representation is made that any amounts in RMB, US$ or HK$ can be or could have been at the relevant dates converted at the above rates or any other rates or at all.

LANGUAGE

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, this prospectus shall prevail. Translated English names of Chinese laws and regulations, governmental authorities, institutions, natural persons or other entities (including certain of our subsidiaries) included in this prospectus and for which no official English translation exists are unofficial translations for your reference only.

ROUNDING

Any discrepancies in any table between totals and sums of amounts listed therein are due to rounding.

1. WAIVER IN RELATION TO CLAWBACK MECHANISM

We have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted to us, a waiver from strict compliance with paragraph 4.2 of Practice Note 18 of the Listing Rules such that, an alternative clawback mechanism shall be applied to the provisions under Paragraph 4.2 of Practice Note 18 of the Listing Rules, following the closing of the application lists. For further information, please refer to "Structure of the Global Offering – The Hong Kong Public Offering – Reallocation."

2. WAIVER FROM HONG KONG FINANCIAL DISCLOSURE REQUIREMENTS

Pursuant to Rule 4.10 of the Listing Rules, the financial information to be disclosed in our Accountants' Report must be in accordance with best practice, which is at least that is required to be disclosed in respect of specific matters in the accounts of a company under the Hong Kong Companies Ordinance, IFRS and the Banking (Disclosure) Rules.

We are currently unable to provide certain disclosures described below as required by the Banking (Disclosure) Rules as such information is currently not available. We believe that the financial disclosures which we are currently unable to provide are immaterial to potential investors under the Global Offering. We have applied to the Hong Kong Stock Exchange, and the Hong Kong Stock Exchange has granted to us, a waiver from strict compliance with Rule 4.10 of the Listing Rules. However, we endeavor to collect the relevant information and be in a position to provide such required disclosures under the Banking (Disclosure) Rules by the end of 2014.

Pursuant to section 48(3)(a) of the Banking (Disclosure) Rules, disclosure of the fair value of any collateral held in respect of the overdue loans is required. We are not able to disclose the fair value of collateral held in respect of overdue retail loans. We will only disclose the fair value of collateral in respect of overdue corporate loans.

Paragraph 13(1)(g) of the Tenth Schedule to the Hong Kong Companies Ordinance requires disclosure of income from listed and from unlisted investments separately. We are not able to disclose the breakdown of net interest income and investments income derived from investments by listed portion and unlisted portion respectively. We will disclose the total income from listed and unlisted investments.

Pursuant to paragraph B15 of IFRS 7, disclosure of the analysis of derivative financial instruments separately from that of non-derivative financial instruments in the contractual maturity analysis for financial liabilities is required. We are not able to disclose the contractual maturity analysis of derivative financial instruments.

As a financial institution incorporated and based in the PRC, we are required to comply with requirements laid down by the CBRC and the PBOC.

Certain provisions in the Banking (Disclosure) Rules require disclosure in respect of our capital structure, capital adequacy and liquidity ratios. We have maintained and compiled data in such respects in accordance with the similar regulatory requirements of the CBRC and the PBOC. While we believe that such requirements of the CBRC and the PBOC attempt to address similar disclosure purpose as the requirements of the Banking (Disclosure) Rules, the two regimes are slightly different.

3. WAIVER FROM RULES 8.17 AND 3.28 OF THE LISTING RULES

Mr. LU Hong, our company secretary, does not possess the relevant qualifications under Rule 3.28 of the Listing Rules. We have appointed Ms. LEE Mei Yi, who is a Hong Kong resident and a Member of The Hong Kong Institute of Chartered Secretaries (which is a qualification stipulated in Note 1 to Rule 3.28 of the Listing Rules) to act as an assistant to Mr. LU Hong and will continue to do so for a minimum period of three years after the Listing Date, to ensure that Mr. LU Hong will be able to acquire the necessary experience to satisfy the requirements of Note 2 to Rule 3.28 of the Listing Rules. In this regard, we also have procedures in place to provide Mr. LU Hong with appropriate training in order to enable him to acquire such necessary experience. We have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted to us, a waiver from strict compliance with the requirements under Rules 8.17 and 3.28 of the Listing Rules, in appointing Mr. LU Hong as our company secretary for a period of three years under the condition that Ms. LEE Mei Yi is appointed as an assistant to Mr. LU Hong as described above. Upon the expiry of the three-year period, we will re-evaluate the qualifications of Mr. LU Hong to determine whether the requirements under Rule 3.28 of the Listing Rules can be satisfied.

At the end of the three year period, the Bank will liaise with the Exchange. The Exchange will revisit the situation and the expectation that the Bank should be able to demonstrate to the Exchange's satisfaction that Mr. LU, having had the benefit of Ms. LEE's assistance for the last three years, will have acquired the relevant experience within the meaning of Rules 8.17 and 3.28 of the Listing Rules, so that a further waiver will not be necessary.

4. WAIVER FROM RULES 8.12 AND 19A.15 OF THE LISTING RULES

According to Rules 8.12 and 19A.15 of the Listing Rules, an issuer must have sufficient management presence in Hong Kong, normally meaning that at least two of the issuer's executive directors must be ordinarily resident in Hong Kong. Currently, none of our executive Directors resides in Hong Kong. Since our principal operations are located in China, we do not and, for the foreseeable future, will not have sufficient management presence in Hong Kong. Accordingly, we have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted to us, a waiver from strict compliance with the requirements under Rules 8.12 and 19A.15 of the Listing Rules, subject to the condition that, among other things, we maintain the following arrangements to maintain effective communication between us and the Hong Kong Stock Exchange.

We have appointed two authorized representatives, namely Mr. GUO You and Mr. LU Hong, who will act at all times as our principal channel of communication with the Hong Kong Stock Exchange. The authorized representatives will be readily contactable by telephone, mobile number, facsimile and email to deal promptly with inquiries from the Hong Kong Stock Exchange.

Each of our authorized representatives has access to our Board of Directors and senior management at all times. Each of our Directors, through the authorized representatives, can be reached by telephone, facsimile and email. Each of our executive Directors, non-executive Directors and independent non-executive Directors who are not ordinarily resident in Hong Kong holds a valid travel document for travel to Hong Kong, and will make themselves available in Hong Kong if required to meet with the Hong Kong Stock Exchange at reasonable notice.

In addition, we will, in compliance with Listing Rule 3A.19, retain China International Capital Corporation Hong Kong Securities Limited as our compliance advisor who will, among other things, act as our principal channel of communication with the Hong Kong Stock Exchange. For further information, please refer to "Directors, Supervisors and Senior Management – Compliance Advisor."

5. WAIVER FROM RULE 10.04 AND THE HONG KONG STOCK EXCHANGE'S CONSENT UNDER PARAGRAPH 5(2) OF APPENDIX 6 TO THE LISTING RULES

Rule 10.04 of the Listing Rules provides that a person who is an existing shareholder of the issuer may only subscribe for or purchase securities for which listing is sought if no securities will be offered to them on a preferential basis and no preferential treatment will be given to them in the allocation of the securities. Paragraph 5(2) of Appendix 6 to the Listing Rules provides, among other things, that, without the prior written consent of the Hong Kong Stock Exchange, no allocations will be permitted to existing shareholders or their associates, whether in their own names or through nominees, unless certain conditions are fulfilled.

We have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted to us, a waiver from strict compliance with the requirements under Rule 10.04 and Paragraph 5(2) of Appendix 6 to the Listing Rules to permit certain investors who hold a small amount of our A Shares to receive allocation of the H Shares in the International Offering, subject to the following conditions:

(i) each of the investors for which the above waiver is sought held less than 5% of the Company's issued share capital before the Listing, exerts no influence over the share allocation process and has no representation on our Board of Directors;

(ii) none of the investors for which the above waiver is sought has been or will be a connected person or an associate of a connected person of the Company, and will not negatively impact the Company's ability to meet the public float requirements under the Listing Rules;

(iii) such investors will be subject to the same book building and allocation process as with other investors in the International Offering and no preferential treatment is given to them in the allocation; and

(iv) such waiver does not apply to China Everbright (Group) or China Everbright Limited, both of which will be prohibited from subscribing for or purchasing the H Shares in the Global Offering.

6. WAIVER IN RELATION TO NON-DISPOSAL OF SHARES BY HUIJIN

Rule 10.07(1) of the Listing Rules provides that a person or a group of persons shown by the listing document issued at the time of the issuer's application for listing to be controlling shareholders of the issuer shall not and shall procure that the relevant registered holder(s) shall not (a) in the period commencing on the date by reference to which disclosure of the shareholding of the controlling shareholders is made in the listing document and ending on the date which is six months from the date on which dealings in the securities of a new applicant commence on the Hong Kong Stock Exchange, dispose of, enter into any agreement to dispose of, or otherwise create any options, rights, interests or encumbrances in respect of, any of those securities of the issuer in respect of which he is or they are shown by that listing document to be the beneficial owner(s) (the "First Six-Month Period"); or (b) in the period of six months commencing on the date on which the period referred to in Rule 10.07(1)(a) expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the securities referred to in Rule 10.07(1)(a) if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, that person or group of persons would cease to be a controlling shareholder (the "Second Six-Month Period"). The First Six-Month Period and the Second Six-Month Period are collectively referred to as the "Lock-up Period".

Huijin is an ultimate controlling Shareholder and the Shares it beneficially holds (the "Huijin Shares") are therefore subject to lock up during the Lock-up Period.

An application has been made to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted, a waiver from Rule 10.07 in respect of any and all transfers, exchanges, sales and purchases of the Huijin Shares between Huijin, on the one hand, China Everbright (Group) and/or one or more entities controlled by China Everbright (Group) (the "CEG Controlled Entities"), on the other hand, pursuant to the Proposed Restructuring. The Company has published an announcement on January 10, 2013 in connection with the Proposed Restructuring on the Shanghai Stock Exchange where the A Shares of the Company are listed.

The waiver from Rule 10.07 was granted by the Hong Kong Stock Exchange subject to the conditions that:

- except for the Proposed Restructuring, neither Huijin nor China Everbright (Group) (including any of its controlled entities acquiring the Huijin Shares) will dispose of any of the Shares during the First Six-Month Period.
- Huijin and China Everbright (Group) will in aggregate maintain, directly and indirectly, at least 30% shareholding interest in the Company during the Lock-up Period.
- The Bank should disclose in the prospectus the Directors' view that, in connection with the Proposed Restructuring during the Lock-up Period, whether there will be any intended or foreseeable material changes in the Company's core management and whether the Company's operations and interests of its Shareholders will be materially affected.

The Directors confirm that, as of the Latest Practicable Date, in connection with the Proposed Restructuring during the Lock-up Period, there are no intended or foreseeable material changes in the Company's core management and the Directors are of the view that the Proposed Restructuring will not affect the operations of the Company and interests of the Shareholders in any material respect.

As a result of the announcement of the Proposed Restructuring, both Huijin and China Everbright (Group) are deemed as our controlling Shareholders and are subject to the lock-up requirements under Rule 10.07 of the Listing Rules. For details of the lock-up undertakings of Huijin and China Everbright (Group), see "Underwriting – Underwriting Arrangements and Expenses – Undertakings".

7. WAIVER IN RELATION TO PUBLIC OFFERING WITHOUT LISTING IN JAPAN

As part of our International Offering, we are conducting a public offering without listing in Japan ("POWL"). In connection with this POWL, we have applied for and the Hong Kong Stock Exchange has granted, a waiver in relation to the requirement under Rule 9.11(35)(b) and paragraph 11 of Appendix 6 to the Listing Rules for each placing broker to provide a list setting out the names, addresses and identity card or passport numbers (where individuals) or the names, addresses and registration numbers (where companies) of all its placees, the names and addresses of the beneficial owners (in the case of nominee companies) and the number of shares taken up by each of the placees.

The application is made on the grounds that:

(i) Japanese regulations in general prohibit agents from disclosing individual clients' details (including but not limited to the name, address, age of clients and details of assets) to third parties;

(ii) information given by placees under standard market practice in Japan are insufficient for completing the information required under Listing Rule 9.11(35)(b);

(iii) the POWL was expected to involve over 10,000 retail investors in Japan. Further, all information relating to placees would need to be translated into English. It would be unduly burdensome and nearly impossible to submit to the Hong Kong Stock Exchange before commencement of dealings the required information relating to POWL placements;

(iv) the Japanese agents will confirm in writing the independence of each placee from any Director or their respective associates or any existing Shareholder or nominee of the Company.

The waiver granted by the Hong Kong Stock Exchange is subject to the following conditions:

(i) the POWL will be conducted in accordance with the laws and regulations of a public offering in Japan to ensure independence of investors;

(ii) the Company, the International Underwriters and the POWL placing brokers will use their reasonable efforts to comply with Rule 9.11(35)(b) and paragraph 11 of Appendix 6 to the Listing Rules in good faith;

(iii) the Joint Sponsors, the International Underwriters or the POWL placing brokers will confirm in writing to the Hong Kong Stock Exchange the independence of the POWL placees; and

(iv) each POWL placing broker will submit to the Hong Kong Stock Exchange a list setting out details of all the institutional placees under the POWL and the number of H Shares taken up by each of them as required under Rule 9.11(35)(b) and paragraph 11 of Appendix 6 to the Listing Rules.

8. WAIVER IN RELATION TO PUBLIC FLOAT

Rule 8.08(1) of the Listing Rules requires that there must be an open market in the securities for which listing is sought and that a sufficient public float of an issuer's listed securities must be maintained. Pursuant to Rule 8.08 (1)(b) of the Listing Rules, where an issuer has one class of securities or more apart from the class of securities for which listing is sought, the total securities of the issuer held by the public (on all regulated market(s) including the Hong Kong Stock Exchange) at the time of listing must be at least 25% of the issuer's total issued share capital. However, the class of securities for which listing is sought must not be less than 15% of the issuer's total issued share capital, having an expected market capitalization at the time of listing of not less than HK$50,000,000.

In August 2011, we applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted to us, a waiver from strict compliance with the requirements under Rule 8.08(1) of the Listing Rules to allow a reduced public float, which should be the higher of (i) 10%; or (ii) such a percentage of H Shares held by the public immediately after completion of the Global Offering, as increased by the H Shares to be issued upon the exercise of the Over-allotment Option.

However, the capital market condition has deteriorated since we obtained the waiver from the Hong Kong Stock Exchange on public float in 2011. In light of the circumstances, we have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted to us, subject to certain conditions, a waiver from strict compliance with the requirements under Rule 8.08(1) of the Listing Rules to allow a further reduced public float for the H Shares, which shall be the higher of (i) 8% of the total issued Shares with a market capitalization of not less than HK$10 billion; or (ii) such a percentage of H Shares held by the public immediately after completion of the Global Offering, as increased by the H Shares to be issued and to be converted from A Shares upon the exercise of the Over-allotment Option. Furthermore, the H Shares to be allocated to cornerstone investors should be no more than 70% of the size of the Global Offering.

The Company will use its best endeavors to increase its H Shares public float by way of issuing new H Shares within one year from its listing on the Hong Kong Stock Exchange, subject to approvals from the relevant PRC authorities and the then existing market conditions. The Company will confirm the sufficiency of public float in accordance with Rule 13.35 of the Listing Rules in its successive annual reports after listing.

9. WAIVER IN RELATION TO CORNERSTONE INVESTMENT BY SANY INTERNATIONAL DEVELOPMENT LIMITED

According to Rule 9.09 of the Listing Rules, there must be no dealing in the H Shares by any of our connected persons from four clear business days before the expected hearing date until listing is granted.

Sany International Development Limited has entered into a cornerstone investment agreement with us pursuant to which Sany International Development Limited has agreed to subscribe for such number of H Shares (rounded down to the nearest board lot of 1,000 H Shares) as may be purchased with an amount of US$30 million at the Offer Price. See "Our Corporate Investors – Corporate Investors – Sany International Development Limited" in this prospectus for further details of the subscription by Sany International Development Limited.

Sany International Development Limited is an indirect subsidiary of Sany Group Co., Ltd. (三一集團有限公司), which controls 10% of equity interests in Shaoshan Everbright Village Bank, a subsidiary of the Company. Sany International Development Limited will constitute a connected person of the Company upon the listing pursuant to Rule 14A.11 of the Listing Rules.

An application has been made to the Hong Kong Stock Exchange for a waiver from strict compliance with Rule 9.09 of the Listing Rules in relation to the cornerstone investment by Sany International Development Limited on the basis that the cornerstone investment by Sany International Development Limited will not unduly prejudice the interests of the potential investors. Such waiver has been granted by the Hong Kong Stock Exchange on the condition that:

(i) Sany International Development Limited's cornerstone investment will be at the Offer Price and it will be subject to a lock-up period of six months; and

(ii) we will disclose details of Sany International Development Limited's cornerstone investment in this prospectus.

The H Shares held by Sany International Development Limited after the listing of the H Shares will not be counted as part of the public float.

DIRECTORS

Name	Position	Address	Nationality
TANG Shuangning	Chairman of the Board of Directors, Non-executive Director	Fenghuiyuan, Xicheng District, Beijing	Chinese
LUO Zhefu	Vice Chairman of the Board of Directors, Non-executive Director	Flat 502, Gate 3, No. 4 Building, No. 9 West Street, Wanshou Road, Haidian District, Beijing	Chinese
GUO You	Executive Director, President	Flat 808, No. 1 Building, Jinxiuyuan, Xingfucunzhong Road, Chaoyang District, Beijing	Chinese
WU Qing	Executive Director	Room 101, Gate 3, No. 3 Building, No. 68 Xinzhong Street, Dongcheng District, Beijing	Chinese
WU Jian	Non-executive Director	No. 25 Financial Street, Xicheng District, Beijing	Chinese
Narentuya	Non-executive Director	Flat 1-5, No. 11 Building, No. 23 Courtyard, Construction Street, Xincheng District, Hohhot, Inner Mongolia	Chinese
WU Gang	Non-executive Director	Flat 1-402, No. 15 Building, No. 9 Courtyard, Yuyuantan South Road, Haidian District, Beijing	Chinese
WANG Shumin	Non-executive Director	Flat 5, Unit 1, No. 35 Building, Three Sanlihe, Xicheng District, Beijing	Chinese
WANG Zhongxin	Non-executive Director	No. 1, Beiluyuan, Xicheng District, Beijing	Chinese
WU Gaolian	Non-executive Director	No.69, Dongheyan Hutong, Xicheng District, Beijing	Chinese
ZHOU Daojiong	Independent Non-executive Director	Flat 6102, No. 20, Yinzha Hutong, Dongcheng District, Beijing	Chinese
ZHANG Xinze	Independent Non-executive Director	Flat 904, No. 23 Building, Daoxiangyuan, Haidian District, Beijing	Chinese
QIAO Zhimin	Independent Non-executive Director	Flat 1105, No. 1A Building, Chegongzhuang Street, Xicheng District, Beijing	Chinese
XIE Rong	Independent Non-executive Director	Room 602, No. 10, Lane 289, Ouyang Road, Hongkou District, Shanghai	Chinese
FOK Oi Ling Catherine[(1)]	Independent Non-executive Director	Flat F, 18/F, Sorrento Tower 2, 1 Austin Road, Kowloon, Hong Kong	Chinese (Hong Kong)
WANG Wei[(2)]	Independent Non-executive Director	No. 405, No. 15 North of Xila Hutong, Dongcheng District, Beijing	Chinese

(1) The appointment of Ms. FOK Oi Ling Catherine is subject to the approval of the CBRC.

(2) Mr. WANG Wei has tendered his resignation due to work commitment. According to the relevant requirement under the PRC law, one-third of the Board shall comprise independent Directors. Therefore, the resignation of Mr. WANG Wei will take effect upon the appointment of Ms. FOK Oi Ling Catherine having been approved by the CBRC.

SUPERVISORS

Name	Position	Address	Nationality
CAI Haoyi	Chairman of the Board of Supervisors, Shareholder Representative Supervisor	Flat 2 – 602, No. 1 Building, No. 3, Shaojiu Hutong, Dongcheng District, Beijing	Chinese
MU Huijun	Vice Chairman of the Board of Supervisors, Employee Representative Supervisor	Flat 2 – 202, No. 1 Building, No. 3 Shaojiu Hutong, Dongcheng District, Beijing	Chinese
CHEN Shuang	Shareholder Representative Supervisor	Room 602, No. 12, Lane 333, Fangdian Road, Pudong New Area, Shanghai	Chinese
WANG Pingsheng	Shareholder Representative Supervisor	No. 11, Financial Street, Xicheng District, Beijing	Chinese
ZHANG Chuanju	Shareholder Representative Supervisor	No. 273 Xizhimennei Avenue, Xicheng District, Beijing	Chinese
WU Junhao	Shareholder Representative Supervisor	Flat 1502, No. 63, Lane 353 Ningxia Road, Putuo District, Shanghai	Chinese
YU Erniu	External Supervisor	Flat 1501, No. 6 Building, No. 11A Courtyard, Wanshoulu West Street, Haidian District, Beijing	Chinese
James Parks STENT	External Supervisor	5/124 Baan Piya Sathorn, 5 Soi Suan Plu, Sathon District, Bangkok 10120, Thailand	American
CHEN Yu	Employee Representative Supervisor	No. 203, Gate 2, New No. 1 Building, Two Seven Theater Road Dongli, Xicheng District, Beijing	Chinese
YE Donghai	Employee Representative Supervisor	Flat 3 – 502, No. 12 Building, No. 4, Cuiwei Road, Haidian District, Beijing	Chinese
MA Ning	Employee Representative Supervisor	Flat 105, No. 2 Building, Wankexingyuan, Chaoyang District, Beijing	Chinese

PARTIES INVOLVED IN THE GLOBAL OFFERING

Joint Global Coordinators	China International Capital Corporation Hong Kong Securities Limited 29/F, One International Finance Centre 1 Harbour View Street, Central Hong Kong
	UBS AG, Hong Kong Branch 52/F, Two International Finance Centre 8 Finance Street, Central Hong Kong
	Morgan Stanley Asia Limited Level 46, International Commerce Centre 1 Austin Road West Kowloon Hong Kong
	China Everbright Securities (HK) Limited 36th Floor Far East Finance Centre 16 Harcourt Road, Admiralty Hong Kong
Joint Sponsors	China International Capital Corporation Hong Kong Securities Limited 29/F, One International Finance Centre 1 Harbour View Street, Central Hong Kong
	UBS Securities Hong Kong Limited 42/F, One Exchange Square 8 Connaught Place, Central Hong Kong
	Morgan Stanley Asia Limited Level 46, International Commerce Centre 1 Austin Road West Kowloon Hong Kong
	China Everbright Capital Limited 17/F, Far East Finance Centre 16 Harcourt Road, Admiralty Hong Kong
	BNP Paribas Securities (Asia) Limited 59/F - 63/F, Two International Finance Centre 8 Finance Street, Central Hong Kong
	BOCI Asia Limited 26th Floor, Bank of China Tower 1 Garden Road Hong Kong

Joint Bookrunners	China International Capital Corporation Hong Kong Securities Limited 29/F, One International Finance Centre 1 Harbour View Street, Central Hong Kong
	UBS AG, Hong Kong Branch 52/F, Two International Finance Centre 8 Finance Street, Central Hong Kong
	Morgan Stanley Asia Limited *(in relation to the Hong Kong Public Offering)* Level 46, International Commerce Centre 1 Austin Road West Kowloon Hong Kong
	Morgan Stanley & Co. International plc *(in relation to the International Offering)* 25 Cabot Square Canary Wharf London E14 4QA United Kingdom
	China Everbright Securities (HK) Limited 36th Floor Far East Finance Centre 16 Harcourt Road, Admiralty Hong Kong
	BNP Paribas Securities (Asia) Limited 59/F-63/F, Two International Finance Centre 8 Finance Street, Central Hong Kong
	BOCI Asia Limited 26th Floor, Bank of China Tower 1 Garden Road Hong Kong
	ABCI Capital Limited Room 701, 7/F, One Pacific Place 88 Queensway Hong Kong

	Daiwa Capital Markets Hong Kong Limited Level 28, One Pacific Place 88 Queensway Hong Kong
	Haitong International Securities Company Limited 22/F, Li Po Chun Chambers 189 Des Voeux Road, Central Hong Kong
	Essence International Securities (Hong Kong) Limited 39/F, One Exchange Square Central Hong Kong
Co-Lead Managers	China Merchants Securities (HK) Co., Limited 48/F, One Exchange Square Central Hong Kong
	CCB International Capital Limited 12/F, CCB Tower 3 Connaught Road Central, Central Hong Kong
Legal advisors to our Company	*Legal advisor as to Hong Kong law and United States law* Freshfields Bruckhaus Deringer 11th Floor, Two Exchange Square Central Hong Kong
	Legal advisor as to Hong Kong law Li & Partners 22nd Floor, World-Wide House Central Hong Kong
	Legal advisor as to PRC law King & Wood Mallesons 40th Floor, Fortune Plaza, Tower A Chaoyang District Beijing, China

Legal advisors to the Joint Sponsors and the Underwriters	*Legal advisor as to Hong Kong law and United States law* Davis Polk & Wardwell 18th Floor, The Hong Kong Club Building 3A Chater Road, Hong Kong
	Legal advisor as to PRC law Jingtian & Gongcheng, Attorneys At Law 34th Floor, Tower 3, China Central Place 77 Jianguo Road, Chaoyang District Beijing, China
Reporting accountants and independent auditor	KPMG *Certified Public Accountants* 8th Floor, Prince's Building 10 Chater Road Central Hong Kong
Receiving banks	Bank of China (Hong Kong) Limited 1 Garden Road Hong Kong
	Standard Chartered Bank (Hong Kong) Limited 15/F Standard Chartered Tower 388 Kwun Tong Road Hong Kong
	Industrial and Commercial Bank of China (Asia) Limited 33/F, ICBC Tower 3 Garden Road Central Hong Kong
	Bank of Communications Co., Ltd. Hong Kong Branch 20 Pedder Street Central Hong Kong
	Wing Lung Bank Limited 16/F, Wing Lung Bank Building 45 Des Voeux Road Central Central Hong Kong

Registered office	China Everbright Center No. 25 and 25A Taipingqiao Avenue Xicheng District Beijing 100033, China
Principal place of business	China Everbright Center No. 25 and 25A Taipingqiao Avenue Xicheng District Beijing 100033, China
Principal place of business in Hong Kong	Room E, 40/F Far East Finance Centre 16 Harcourt Road Admiralty Hong Kong
Website of the Company	**www.cebbank.com** *(The information on the website does not form part of this prospectus.)*
Company secretary	LU Hong
Assistant to company secretary	LEE Mei Yi (fellow member, Institute of Chartered Secretaries and Administrators; fellow member, Hong Kong Institute of Chartered Secretaries)
Authorized representatives	GUO You Flat 808, No. 1 Building Jinxiuyuan Xingfucunzhong Road Chaoyang District Beijing China
	LU Hong Flat 717, No. 8 Building Fuxingmenwai Avenue Xicheng District Beijing China
Board Committees of Directors	**Strategy Committee** LUO Zhefu (Chairman) GUO You WU Qing Narentuya WU Gang WANG Shumin WANG Zhongxin ZHOU Daojiong WANG Wei(1)

(1) Ms. FOK Oi Ling Catherine will replace Mr. WANG Wei as a member of the Strategy Committee upon her appointment having been approved by the CBRC.

Risk Management Committee
WU Jian (Chairman)
GUO You
WANG Zhongxin
WU Gaolian
QIAO Zhimin

Audit Committee
XIE Rong (Chairman)
WU Jian
Narentuya
ZHANG Xinze
QIAO Zhimin

Nomination Committee
ZHOU Daojiong (Chairman)
WANG Wei(1)
ZHANG Xinze
QIAO Zhimin
XIE Rong

Remuneration Committee
QIAO Zhimin (Chairman)
TANG Shuangning
WU Gang
WANG Shumin
WU Gaolian
ZHOU Daojiong
WANG Wei(2)
ZHANG Xinze
XIE Rong

Related Party Transactions Control Committee
WANG Wei(3) (Chairman)
WU Qing
ZHANG Xinze
QIAO Zhimin
XIE Rong

H Share registrar

Computershare Hong Kong Investor Services Limited
Shops 1712-1716
17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Compliance advisor

China International Capital Corporation
Hong Kong Securities Limited
29/F, One International Finance Centre
1 Harbour View Street
Central
Hong Kong

(1) Ms. FOK Oi Ling Catherine will replace Mr. WANG Wei as a member of the Nomination Committee upon her appointment having been approved by the CBRC.

(2) Ms. FOK Oi Ling Catherine will replace Mr. WANG Wei as a member of the Remuneration Committee upon her appointment having been approved by the CBRC.

(3) Ms. FOK Oi Ling Catherine will replace Mr. WANG Wei as a member of the Related Party Transactions Control Committee upon her appointment having been approved by the CBRC.

This section contains information pertaining to the industry in which we operate. We have extracted and derived such information, in part, from various official or publicly available sources. We believe that the sources of this information are appropriate for such information and have taken reasonable care in compiling and reproducing such information. While we have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading, the information has not been independently verified by us or any of our affiliates or advisors, nor by any of the Underwriters or any of their affiliates or advisors, and no representation is given as to its accuracy. In addition, certain financial data contained in this section, including data relating to us, have been compiled in accordance with PRC GAAP, and differ from our IFRS financial data presented elsewhere in this prospectus.

OVERVIEW

China's economy has grown rapidly over the past three decades as a result of the PRC government's extensive economic reforms. According to the NBSC, China's nominal GDP grew at a CAGR of 14.3% from RMB26.6 trillion to RMB51.9 trillion between 2007 and 2012. According to the World Bank, China was the second largest economy in the world in terms of nominal GDP in 2011. The following table sets forth China's nominal GDP and nominal GDP per capita from 2007 to 2012.

	For the year ended December 31,						CAGR
	2007	2008	2009	2010	2011	2012	
Nominal GDP (in billions of RMB)	26,581	31,405	34,090	40,151	47,310	51,932	14.3%
Nominal GDP per capita (in RMB)	20,169	23,708	25,608	30,015	35,083	38,354	13.7%

Source: NBSC

The rapid growth of China's economy has driven the expansion of its banking industry. From 2007 to 2012, total RMB-denominated loans and RMB-denominated deposits of China's banking institutions increased at CAGRs of 19.2% and 18.7%, respectively. The following table sets forth the total loans and total deposits denominated in RMB and in foreign currencies, for the periods indicated, for banking institutions in China.

	As of December 31,						CAGR
	2007	2008	2009	2010	2011	2012	
Total loans denominated in RMB (in billions of RMB)	26,169	30,339	39,968	47,920	54,795	62,991	19.2%
Total deposits denominated in RMB (in billions of RMB)	38,937	46,620	59,774	71,824	80,937	91,755	18.7%
Total loans denominated in foreign currencies (in billions of US$)	220	244	379	453	539	684	25.4%
Total deposits denominated in foreign currencies (in billions of US$)	160	179	209	229	275	406	20.5%

Source: PBOC

Driven by rising national income, retail deposits from customers have grown rapidly and have become an important source of funding for China's banking industry. From 2007 to 2012, the CAGRs of domestic retail RMB-denominated time deposits and demand deposits were 18.0% and 18.6%, respectively. The following table sets forth the amounts of domestic retail RMB-denominated time deposits and demand deposits from 2007 to 2012.

	As of December 31,						CAGR
	2007	2008	2009	2010	2011	2012	
	(in billions of RMB, except percentages)						
Retail RMB-denominated time deposits	10,829	14,367	16,473	18,404	21,047	24,792	18.0%
Retail RMB-denominated demand deposits	6,746	7,834	9,992	12,434	13,758	15,827	18.6%

Source: PBOC

HISTORY AND DEVELOPMENT

From 1949 through the 1970s, China's banking industry functioned as part of a centrally planned economy. The PBOC served as China's central bank as well as the primary commercial bank for deposit-taking, lending and settlement activities. Since the late 1970s, as part of China's national economic reforms, the banking industry has undergone significant changes. Several of the PBOC's commercial banking functions were separated from the PBOC's central bank functions. The Big Four assumed the role of state-owned specialized banks, while the State Council officially designated the PBOC as China's central bank and as the principal regulator of China's banking system. The Big Four were designated to specialize in agriculture financing, foreign exchange and trade finance, construction and infrastructure financing and urban commercial financing, respectively. The State Council granted the Big Four limited autonomy with respect to their commercial operations and, as China's economic reforms progressed, it permitted them to expand their commercial banking businesses beyond the original specialized focuses.

In the mid-1980s, a number of new commercial banks and non-bank financial institutions were established. Some of these new commercial banks were permitted to offer nationwide commercial banking services, while others were permitted to operate only in local markets. However, during this period, China's banking system continued to be firmly controlled by government development plans and policies, and China's banks did not have independent or commercial operations.

In the mid-1990s, the PRC government accelerated its financial reforms and began to encourage the Big Four to expand their commercial operations. In 1994, the PRC government established three policy banks – China Development Bank, the Export-Import Bank of China and Agricultural Development Bank of China – to assume most of the policy lending functions of the Big Four. Subsequently, the Big Four started to transform into state-owned commercial banks. In 1995, the PRC Commercial Banking Law (中華人民共和國商業銀行法) and the PRC People's Bank of China Law (中華人民共和國中國人民銀行法) were enacted, which further defined the business scope for commercial banks and the functions and authorities of the PBOC as the central bank and the banking industry regulator. In 2003, the CBRC was established as the primary banking industry regulator and assumed most of the regulatory functions of the PBOC.

China's banking industry has been historically characterized by substantial non-performing loans. Since the late 1990s, the PRC government has taken numerous initiatives to improve the asset quality and strengthen the capital base of PRC commercial banks, including issuing special government bonds, acquiring non-performing loans and injecting capital. As a result of these efforts and the rapid growth of the Chinese economy, the asset quality of China's Large Commercial Banks has improved significantly, which lays a foundation for future growth of the PRC banking industry. Furthermore, subsequent to the disposal of non-performing loans and capital injection from Huijin, Bank of Communications, China Construction Bank, Bank of China, Industrial and Commercial Bank of China and Agricultural Bank of China listed their shares on both the Shanghai Stock Exchange and the Hong Kong Stock Exchange.

Meanwhile, many National Joint Stock Commercial Banks have relied on their own resources and considered international practices to improve asset quality and reduce NPL ratio. Most of the National Joint Stock Commercial Banks have improved asset quality through measures such as strengthening credit risk management and writing off non-performing loans. Furthermore, over the past decade, many PRC commercial banks have listed their shares on domestic or overseas stock markets to strengthen their capital bases. For instance, we listed our A Shares on the Shanghai Stock Exchange in August 2010.

CURRENT COMPETITIVE LANDSCAPE

China's banking institutions are generally categorized into Large Commercial Banks, National Joint Stock Commercial Banks, city commercial banks, rural financial institutions, foreign banking institutions and other banking financial institutions, according to CBRC 2012 Annual Report. The following table sets forth certain information of different categories of financial institutions in China as of and for the year ended December 31, 2012.

	As of and for the year ended December 31, 2012						
		Total assets		Shareholders' equity		Net profit	
	Number of legal entity institutions	Total amount	Market share (%)	Total amount	Market share (%)	Total amount	Market share (%)
	(in billions of RMB, except number of institutions and percentages)						
Large Commercial Banks	5	60,040	44.9%	3,952	45.6%	755	49.9%
National Joint Stock Commercial Banks	12	23,527	17.6	1,314	15.2	253	16.7
City commercial banks	144	12,347	9.2	808	9.3	137	9.0
Rural financial institutions(1)	2,411	15,512	11.6	996	11.5	161	10.6
Foreign banking institutions(2)	42	2,380	1.8	256	2.9	16	1.1
Other banking financial institutions(3)	1,133	19,816	14.8	1,345	15.5	190	12.6
Total	**3,747**	**133,622**	**100.0%**	**8,671**	**100.0%**	**1,512**	**100.0%**

Source: CBRC 2012 Annual Report

Notes:

(1) Rural financial institutions refer to rural credit cooperatives, rural commercial banks, rural cooperative banks, village and township banks, loan companies and rural mutual cooperatives. The data of total assets, shareholders' equity and net profit, along with the respective market shares of rural financial institutions in this table only include those of rural credit cooperatives, rural commercial banks and rural cooperative banks.

(2) Foreign banking institutions refer to branches and locally incorporated subsidiaries and joint-venture banks of foreign banks.

(3) Other banking financial institutions refer to policy banks, asset management companies, trust companies, finance companies, financial leasing companies, automobile finance companies, money brokerage firms and Postal Savings Bank of China. The data of total assets, shareholders' equity and net profit, along with the respective market shares of other banking financial institutions in this table only include those of policy banks, trust companies, finance companies, financial leasing companies, automobile finance companies, money brokerage firms and Postal Savings Bank of China.

Large Commercial Banks

Industrial and Commercial Bank of China, China Construction Bank, Bank of China, Agricultural Bank of China and Bank of Communications are the major sources of financing for China's enterprises, institutions and individuals. According to the CBRC 2012 Annual Report, Large Commercial Banks together accounted for 44.9% of the total assets, 45.6% of the total shareholders' equity and 49.9% of the total net profit of all banking institutions in China as of and for the year ended December 31, 2012.

The following table sets forth the total number of domestic branch outlets, total assets, total loans and total deposits of Large Commercial Banks.

	As of December 31, 2012						
	Total number of domestic branch outlets	Total assets		Total loans		Total deposits	
		Amount	% of total	Amount	% of total	Amount	% of total
	(in billions of RMB, except numbers of institutions and percentages)						
Agricultural Bank of China	23,472	13,244	21.1%	6,433	19.8%	10,863	22.3%
Industrial and Commercial Bank of China	17,125	17,542	28.0	8,804	27.0	13,643	28.0
China Construction Bank	14,121	13,973	22.3	7,512	23.1	11,343	23.3
Bank of China	10,664	12,681	20.2	6,865	21.1	9,174	18.8
Bank of Communications	2,701	5,273	8.4	2,947	9.1	3,728	7.6
Total(1)	**68,871**	**62,713**	**100.0%**	**32,561**	**100.0%**	**48,751**	**100.0%**

Source: 2012 annual reports of Large Commercial Banks

Note:

(1) The total assets is a sum of the figures disclosed in the annual reports of the five Large Commercial Banks, and therefore is different from the total assets disclosed by CBRC.

National Joint Stock Commercial Banks

National Joint Stock Commercial Banks play an increasingly important role in China's banking industry. National Joint Stock Commercial Banks are organized as joint stock companies in which equity ownership is distributed between the government and other investors. As of December 31, 2012, 12 National Joint Stock Commercial Banks had been granted licenses to engage in nationwide commercial banking activities in China. As of and for the year ended December 31, 2012, National Joint Stock Commercial Banks together accounted for 17.6% of the total assets, 15.2% of the total shareholders' equity and 16.7% of the total net profit of all banking institutions in China. Three of the 12 National Joint Stock Commercial Banks are Hong Kong and Shanghai dual-listed, four of them are only listed on the Shanghai Stock Exchange and one of them is only listed on the Shenzhen Stock Exchange.

The following table sets forth the total number of domestic branch outlets, total assets, total loans and total deposits of National Joint Stock Commercial Banks.

	As of December 31, 2012						
	Total number of domestic branch outlets	Total assets(1)		Total loans		Total deposits	
		Amount	% of total	Amount	% of total	Amount	% of total
	(in billions of RMB, except numbers of institutions and percentages)						
China Merchants Bank	961	3,408	14.2%	1,904	16.9%	2,532	16.0%
China CITIC Bank	885	2,960	12.3	1,663	14.7	2,255	14.3
Shanghai Pudong Development Bank	824	3,146	13.1	1,545	13.7	2,134	13.5
China Everbright Bank	774	2,279	9.5	997	8.8	1,427	9.0
Industrial Bank	717	3,251	13.5	1,229	10.9	1,813	11.5
China Minsheng Bank	702	3,212	13.4	1,385	12.3	1,926	12.2
China Guangfa Bank	607	1,168	4.9	616	5.5	856	5.4
Huaxia Bank	475	1,489	6.2	720	6.4	1,036	6.6
Ping An Bank	450	1,607	6.7	721	6.4	1,021	6.5
Evergrowing Bank	134	618	2.6	172	1.5	307	1.9
China Zheshang Bank.......	105	394	1.6	182	1.6	267	1.7
China Bohai Bank	78	472	2.0	141	1.3	213	1.4
Total................................	**6,712**	**24,004**	**100.0%**	**11,275**	**100.0%**	**15,788**	**100.0%**

Source: 2012 annual reports of National Joint Stock Commercial Banks.

Note:

(1) The total assets is a sum of the figures disclosed in the annual reports of National Joint Stock Commercial Banks, and therefore is different from the total assets disclosed by CBRC.

City Commercial Banks

City commercial banks are generally permitted to engage in commercial banking activities within their respective designated geographic areas. Some of the city commercial banks have established cross-region branches operating in other cities. As of December 31, 2012, there were 144 city commercial banks in China. As of and for the year ended December 31, 2012, city commercial banks accounted for 9.2% of the total assets, 9.3% of the total shareholders' equity and 9.0% of the total net profit of all banking institutions in China.

Rural Financial Institutions

Rural financial institutions consist mainly of rural credit cooperatives, rural commercial banks, rural cooperative banks, village and township banks, loan companies and rural mutual cooperatives. Compared with Large Commercial Banks and National Joint Stock Commercial Banks, they provide a limited range of banking products and services to enterprises and residents in the county areas, including retail deposits, loans, and settlement services. Since the end of 2006, the CBRC has introduced a series of policies and measures to encourage the establishment of emerging rural financial institutions such as village and township banks, loan companies and rural mutual cooperatives in the county areas. As of and for the year ended December 31, 2012, the total assets, total shareholders' equity and total net profit of rural financial institutions represented 11.6%, 11.5% and 10.6% of the total assets, total shareholders' equity and total net profit of all banking institutions in China, respectively.

Foreign Banking Institutions

Foreign banking institutions include representative offices and branches of foreign-owned and joint-venture banks and locally-incorporated subsidiaries of foreign banks. Foreign banks in China were initially subject to certain restrictions on RMB-denominated businesses in terms of geographic scope and customer segment, which were lifted at the end of 2006. As of December 31, 2012, banks from 49 foreign jurisdictions have established representative offices in China while 42 foreign banks had been incorporated in China. As of and for the year ended December 31, 2012, foreign banking institutions accounted for 1.8% of the total assets, 2.9% of the total shareholders' equity and 1.1% of the total net profit of all banking institutions in China.

Other Banking Financial Institutions

Other banking financial institutions include policy banks, asset management companies, trust companies, finance companies, financial leasing companies, automobile finance companies, money brokerage firms and the Postal Savings Bank of China. As of and for the year ended December 31, 2012, these banking institutions together accounted for 14.8% of the total assets, 15.5% of the total shareholders' equity and 12.6% of the total net profit of all banking institutions in China.

INDUSTRY TRENDS

Enhanced Industry Fundamentals and Improved Overall Strength

Since 2003, with the transformation of state-owned commercial banks into joint stock commercial banks, the reform and development of China's banking industry has been progressing at a significant speed. Since then, China's banking sector has witnessed significant improvements in corporate governance, risk management, capital strength and profitability. From 2007 to 2012, according to the 2012 annual report of the CBRC, the total assets of all banking institutions in China increased by RMB80.5 trillion, representing a CAGR of 20.3%, while shareholders' equity increased by RMB5.6 trillion, representing a CAGR of 23.3%. During the same period, the asset quality of all banking institutions in China also improved significantly, as the non-performing loans of commercial banks in China decreased from RMB1,268.4 billion to RMB492.9 billion and their NPL ratio decreased from 6.17% to 0.95%. Non-performing loans of these banks increased from RMB492.9 billion as of December 31, 2012 to RMB539.5 billion as of June 30, 2013 and their NPL ratio increased from 0.95% to 0.96% during the six months ended June 30, 2013. During the global financial crisis in 2008-2009, China's banking sector was not significantly affected. As of December 31, 2012, Industrial and Commercial Bank of China, China Construction Bank, Bank of China and Agricultural Bank of China were ranked among the world's largest banks in terms of total assets.

The following table sets forth the scale and profitability of Chinese banking institutions from 2007 to 2012.

	As of and for the year ended December 31,						CAGR
	2007	2008	2009	2010	2011	2012	
	(in billions of RMB, except percentage)						
Total assets	53,116	63,152	79,515	95,305	113,287	133,622	20.3%
Shareholders' equity	3,040	3,790	4,444	5,832	7,209	8,671	23.3%
Total loans	27,775	32,013	42,560	50,923	58,189	67,288	19.4%
Total deposits	40,105	47,844	61,201	73,338	82,670	94,310	18.7%
Net profit	447	583	668	899	1,252	1,512	27.6%

Source: CBRC 2012 Annual Report

The following table sets forth the outstanding balance of non-performing loans and the NPL ratio for Chinese commercial banks as of December 31, 2012.

	As of December 31, 2012					
	Large Commercial Banks	National Joint Stock Commercial Banks	City commercial banks	Rural financial institutions	Foreign banking institutions	Total
	(in billions of RMB, except percentages)					
Outstanding balance of non-performing loans	310	80	42	56	5	493
Substandard	121	39	25	30	2	218
Doubtful	146	27	13	24	2	212
Loss	42	14	4	2	1	63
NPL Ratio	**1.0%**	**0.7%**	**0.8%**	**1.8%**	**0.5%**	**1.0%**
Substandard	0.4%	0.4%	0.5%	0.9%	0.2%	0.4%
Doubtful	0.5%	0.2%	0.2%	0.8%	0.2%	0.4%
Loss	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%

Source: CBRC 2012 Annual Report

Growing Market Share of National Joint Stock Commercial Banks

Large Commercial Banks have historically represented a substantial portion of the total assets of banking institutions in China. National Joint Stock Commercial Banks, however, have been increasing their market share in recent years. Total assets of National Joint Stock Commercial Banks as a percentage of the total assets of banking institutions in China have grown in recent years, from 13.7% as of December 31, 2007 to 17.6% as of December 31, 2012. These National Joint Stock Commercial Banks generally focus on developing business in more developed regions and have gained market share by providing innovative products and high-quality customer service. As compared to Large Commercial Banks, we believe that they are more adaptive to changing market conditions and customers' needs and, compared to other regional banking institutions, they enjoy certain competitive advantages such as national distribution networks, larger capital bases, access to more resources, more diverse product and service offerings and advanced technology infrastructures. We expect that National Joint Stock Commercial Banks will continue to gain market share in the near future.

The following table sets forth the growing market share of banking institutions by total assets from 2007 to 2012.

	As of December 31,					
	2007	2008	2009	2010	2011	2012
	(in percentages)					
Large Commercial Banks	53.7%	51.6%	51.3%	49.2%	47.3%	44.9%
National Joint Stock Commercial Banks	13.7	14.0	14.9	15.6	16.2	17.6
City commercial banks	6.3	6.5	7.1	8.2	8.8	9.2
Others	26.4	27.9	26.7	26.9	27.6	28.2
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: CBRC 2012 Annual Report

Interest Rate Liberalization, Financial Disintermediation and Further Expansion of Fee- and Commission-based Business

Interest rates on deposits and loans were historically set by and subject to restrictions established by the PBOC. In recent years, as part of the overall reform of the banking system, the PBOC has implemented a series of initiatives to gradually liberalize interest rates by lifting restrictions on inter-bank market interest rates, bond market interest rates, interest rates of foreign currency deposits and removing the interest rate ceiling and floor of RMB-denominated loans and the interest rate floor of RMB-denominated deposits. As a result, the scope within which China's commercial banks have been able to set interest rates for RMB-denominated deposits and loans has gradually become broader. See "Supervision and Regulation – Pricing of Products and Services – Interest Rates for Loans and Deposits". In early 2007, the SHIBOR announced by the National Inter-bank Funding Center officially commenced operation and a market interest rate system based on SHIBOR is taking shape gradually. In 2011, the Chinese government has initiated a gradual reform of market-based interest rate regime aimed at strengthening the construction of a benchmark interest rate system of financial market in the "12th Five-Year Plan." In July 2013, PBOC removed the lower limit for the benchmark interest rate on loans. We expect the continuing interest rate liberalization to facilitate the ability of China's banks to develop and market innovative products and services and adopt risk-based pricing on credit products.

As a result of interest rate liberalization and financial disintermediation, Chinese commercial banks' businesses are being transformed, leading banks to increase their efforts to provide diversified financial products and services, especially fee- and commission-based products and services such as investment banking, wealth management and alternative investment services. According to the CBRC, net fee and commission income accounted for approximately 13.7% of the total operating income of PRC banks in 2012. This percentage is expected to increase as PRC banks continue to expand their fee- and commission-based products and service offerings to meet the increasingly sophisticated customer demand.

Increasing Demand for Retail Banking Products and Services

Due to rising household income, lifestyle changes and increasing consumption levels, residential mortgage loans, credit cards and other consumer finance products as well as wealth management services have become major growth drivers for Chinese commercial banks. Retail banking is presented with significant growth opportunities associated with increasing consumer demand for more diversified banking products and services. The following table sets forth China's per capita GDP and total domestic individual loan data for the periods indicated.

	As of and for the year ended December 31,						CAGR
	2007	2008	2009	2010	2011	2012	
Nominal GDP per capita (in RMB)	20,169	23,708	25,608	30,015	35,083	38,354	13.7%
Total domestic individual loans(1) (in billions of RMB)	5,065	5,706	8,179	11,254	13,601	16,130	26.1%
Total domestic individual loans as percentage of total domestic loans(2)....	19.4%	18.8%	20.5%	23.5%	24.9%	25.7%	

Source: NBSC, PBOC

Notes:

(1) Consists of consumption loans and operating loans

(2) Total domestic loans are different from total loans denominated in RMB for 2010, 2011 and 2012, as the latter also included overseas loans based on PBOC data.

We believe the personal wealth in China will continue to increase and drive demand for retail banking products, including retail loans, bank debit and credit cards and wealth management services.

Personal Consumption Loans

As of December 31, 2012, the balance of personal consumption loans totaled RMB10.44 trillion, representing an increase of RMB1.56 trillion, or 17.6%, from December 31, 2011. As of December 31, 2011, the balance of personal consumption loans totaled RMB8.87 trillion, representing an increase of RMB1.37 trillion, or 18.2%, from December 31, 2010.

Bank Debit and Credit Cards

Bank cards are increasingly accepted as an alternative to cash payment. In recent years, the issuance and transaction value of debit and credit cards have been increasing due to the change in consumption habits, improvements in the function of bank cards and the enhancement of the national payment infrastructure. This drives the rapid increase in fee income. According to the PBOC, as of December 31, 2012, there were 3.53 billion bank cards in China, representing a 19.8% growth from December 31, 2011.

Wealth Management Services

In recent years, a new market for wealth management services has emerged as a result of the rapid increase in household wealth. Commercial banks have started to offer customized and professional wealth management services to mid- to high-end customers, such as asset allocation, diversified wealth management and corporate finance advisory services. Following the establishment of private banking businesses by several foreign banks, domestic commercial banks have also set up their own private banking divisions and begun to increase their market penetration in private banking services.

Increasing Focus on SME Banking

Historically, SME banking activities were primarily the focus of city commercial banks and rural financial institutions. However, as a result of the liberalization of interest rates and the increasing availability of alternative financing sources, the bargaining power over loans of large corporate borrowers has grown. Large Commercial Banks and National Joint Stock Commercial Banks have increased their focus on SME banking to diversify their corporate banking business.

According to data from the Development Research Center of the State Council, there were a total of close to 50 million registered SMEs in China as of December 31, 2011, which accounted for more than 98% of all registered companies and contributed to approximately 60% of China's GDP. However, the financing needs of SMEs have not been fully met. According to the PBOC, as of December 31, 2011, China's SMEs held outstanding domestic bank loans in a principal amount of approximately RMB21.8 trillion, accounting for only approximately 39.7% of all bank loans outstanding in China.

As a result of continued government initiatives to improve access to finance for SMEs, the growth of SME loans continues to outpace growth in overall bank loans. As of December 31, 2011, the amount of outstanding SME loans increased by 18.6% from December 31, 2010 while the amount of overall bank loans increased by 15.8%. Among SME loans, loans to small enterprises grew by 25.8%, approximately 10 percentage points higher than overall bank loans.

In the past few years, the Chinese government has taken significant initiatives to promote the financing channels available to SMEs. In September 2009, the State Council issued the Opinions of the State Council on Further Promoting the Development of Small and Medium Enterprises (國務院關於進一步促進中小企業發展的若干意見), which requires state-owned commercial banks and joint stock commercial banks to establish specialized business segments providing financial services for small enterprises and to strengthen credit guarantee services provided to SMEs. In June 2010, the PBOC, CBRC, CSRC and CIRC jointly issued the Opinions on Further Improving Financial Services for Small and Medium Enterprises (進一步做好中小企業金融服務工作的若干意見), which promotes the innovation of financial products and credit models that are tailored for the specific demands of SMEs and encourages the establishment of village and township banks and loan companies in rural areas. In May 2011, the CBRC issued the Notice of China Banking Regulatory Commission on Supporting Commercial Banks in Further Improving Financial Services for Small Enterprises (關於支持商業銀行進一步改進小企業金融服務的通知), which requires commercial banks to increase their lending to small enterprises with the goal that growth in small enterprise loans will not be slower than growth in overall bank loans.

Expanding Beyond Traditional Commercial Banking Business and Engaging in Diversified Operations

In addition to growing traditional banking products and services, the PRC financial services industry has in recent years expanded financial product and service offerings in areas such as financial leasing, fund management and insurance. As of June 30, 2013, 11 Chinese commercial banks had jointly invested in or established financial leasing subsidiaries and 13 Chinese commercial banks had obtained permission to invest in the establishment of fund management subsidiaries.

Historically, commercial banks in China were prohibited from investing in domestic insurance companies. In November 2009, the CBRC promulgated the Pilot Administrative Measures for Commercial Banks to Make Equity Investments in Insurance Companies (商業銀行投資保險公司股權試點管理辦法), permitting commercial banks to invest in the insurance industry. As of June 30, 2013, nine Chinese commercial banks had been approved to invest in domestic insurance companies.

In recent years, cooperation between banks and trust companies has become increasingly close in various fields such as the distribution and sale of wealth management products and the provision of custody services for trust assets. According to statistics provided by the China Trustee Association, the total amount of funds outstanding of bank-trust cooperative businesses (銀信合作) has reached RMB2.03 trillion, accounting for 27.2% of total trust assets as of December 31, 2012.

E-banking Playing Increasingly Important Role in the Banking Sector

The evolution of self-service banking and the establishment of integrated bank teller systems enable banks to develop new types of self-service banking products and services through electronic systems. By integrating their physical and electronic networks and services, banks have begun to offer sophisticated and innovative products to traditional customers with ease.

The introduction of information technologies such as internet banking and phone banking has opened broad new channels to expand banking businesses, and paved the way for convenient banking services with global reach. According to data from the China Financial Certification Authority (中國金融認證中心), in 2012 approximately 56% of retail banking transactions and 66% of corporate banking transactions in China were completed through electronic banking channels, which allowed for ease of access to banking products and services, increased customer reliance on electronic banking, and greater coverage by banks.

Recent Regulatory Guidance in the Financial Industry

On July 1, 2013, the General Office of the State Council issued the Guidance Letter Regarding Financial Support for Promoting Economic Restructuring and Transformation (關於金融支持經濟結構調整和轉型升級的指導意見) (the "Guidance Letter"). To stabilize growth, promote economic restructuring and advance reforms in China, the Guidance Letter has put forward the following ten key measures:

- To implement a prudent monetary policy to keep the money and credit supply at a reasonable level;
- To guide and promote reforms in key industries and areas;
- To support the development of micro- and small-sized enterprises by integrating financial resources in different sectors;
- To strengthen credit support to farming and rural development;
- To accelerate the development of a multi-level capital market;
- To further promote consumer financial services to boost domestic consumption;
- To encourage Chinese enterprises to pursue overseas development;
- To further leverage the guarantee function of insurance;
- To open more areas for private investment in the financial sector; and
- To strictly guard against financial risks.

Among other things, a distinct feature of the Guidance Letter is the encouragement of private investment in the financial industry and establishment of privately-owned financial institutions, including banks, financial leasing companies and consumer finance companies, thereby providing wide coverage and differentiated and efficient financial services for the real economy. Moreover, financial support will be encouraged for the advanced manufacturing and information sectors, strategic emerging industries as well as the labor intensive industries

PRC BANKING SUPERVISION AND REGULATION

Overview

The PRC banking industry is highly regulated. The principal regulatory authorities in the PRC banking industry include the CBRC and the PBOC. The CBRC is responsible for supervising and regulating banking institutions and the PBOC, as the central bank of the PRC, is responsible for formulating and implementing monetary policies. We are also subject to regulation by the MOF. The principal laws relating to the PRC banking industry are the PRC Commercial Banking Law (中華人民共和國商業銀行法), the PRC People's Bank of China Law (中華人民共和國中國人民銀行法) and the PRC Banking Supervision and Regulatory Law (中華人民共和國銀行業監督管理法) and the rules and regulations promulgated thereunder.

History and Development of the Regulatory Framework

Established on December 1, 1948, the PBOC was initially the primary regulator of the financial industry in the PRC. In January 1986, the State Council promulgated the Interim Regulation of the PRC on the Supervision of Banks (中華人民共和國銀行管理暫行條例), which explicitly provided, for the first time, that the PBOC was the central bank of the PRC and the regulatory authority for the PRC financial industry.

The current regulatory framework of the PRC banking industry began to emerge in 1995 with the enactment of the PRC People's Bank of China Law (中華人民共和國中國人民銀行法) and the PRC Commercial Banking Law (中華人民共和國商業銀行法). The PRC People's Bank of China Law (中華人民共和國中國人民銀行法), which was enacted in March 1995, provided for the scope of responsibilities and the organizational structure of the PBOC and authorized the PBOC to administer Renminbi, implement monetary policies and regulate and supervise the PRC banking industry. The PRC Commercial Banking Law (中華人民共和國商業銀行法) was promulgated in May 1995 and laid down the fundamental principles of operations for PRC commercial banks.

Since then, the regulatory regime of the PRC banking industry has undergone further significant reform and development. The CBRC was established in April 2003 and took over from the PBOC its role as the primary regulator of the PRC banking industry. The CBRC was mandated to implement reforms, minimize overall risks, promote stable development and enhance the international competitiveness of the PRC banking industry. In December 2003, the PRC Commercial Banking Law (中華人民共和國商業銀行法) and the PRC People's Bank of China Law (中華人民共和國中國人民銀行法) were amended. The PRC Banking Supervision and Regulatory Law (中華人民共和國銀行業監督管理法) came into effect on February 1, 2004, and sets out the regulatory functions and responsibilities of the CBRC.

Principal Regulators

CBRC

Functions and Powers

The CBRC is the principal regulatory authority responsible for the supervision and regulation of banking institutions operating in the PRC, including commercial banks, urban credit cooperatives, rural credit cooperatives, other deposit-taking financial institutions and policy banks, as well as certain non-banking financial institutions, such as financial asset management companies, trust and investment companies, financial companies, financial leasing companies and other financial institutions, whose establishments are subject to the CBRC's approval. The CBRC is also responsible for the supervision and regulation of the entities established by domestic financial institutions outside the PRC and the overseas operations of the above-mentioned banking and non-banking financial institutions. According to the PRC Banking Supervision and Regulatory Law (中華人民共和國銀行業監督管理法) and relevant regulations, the CBRC's primary regulatory responsibilities include:

- formulating and promulgating rules and regulations governing banking institutions and their activities;
- examining and approving the establishment, change and termination of banking institutions and their scope of business, as well as granting banking licenses to commercial banks and their branches;
- regulating the business activities of banking institutions, including their products and services;
- approving and overseeing qualification requirements for directors and senior management of banking institutions;
- setting prudential guidelines and standards for risk management, internal control, capital adequacy, asset quality, allowance for impairment losses, risk concentration, related party transactions and asset liquidity requirements for banking institutions;
- conducting on-site examinations and off-site surveillance of the business activities and risk levels of banking institutions;
- imposing corrective and punitive measures for violations of applicable banking regulations; and
- drafting and publishing statistics and financial reports of national banking institutions.

Examination and Supervision

The CBRC, through its head office in Beijing and branches throughout the PRC, monitors the operations of banks and their branches through on-site examinations and off-site surveillance. On-site examinations generally include inspections of a bank's business premises, interviews with employees, senior management and directors with respect to significant issues relating to the bank's operations and risk management, as well as a review of relevant documents and materials kept by the bank. Off-site surveillance generally involves the review of various business reports, financial statements and other reports regularly submitted by banks to the CBRC.

If a banking institution is not in compliance with an applicable banking regulation, the CBRC is authorized to impose corrective and punitive measures, including fines, suspension of certain business activities, stop on approving new operations, restrictions on dividends and other forms of distributions and asset transfers, compulsory transfer of equity interests by the controlling shareholder or restrictions on the rights of relevant shareholders, replacement of the directors and senior managerial personnel or restrictions on their rights and suspension of opening of new branches. In extreme cases or when a banking institution fails to take corrective actions within the period specified by the CBRC, the CBRC may order it to suspend operations and revoke its financial operating license. In the event of crisis or bankruptcy of a banking institution, the CBRC may assume management control over, or arrange for the restruction of, such banking institution.

PBOC and Inter-departmental Coordination Joint Meeting for Financial Supervision

As the central bank of the PRC, the PBOC is responsible for formulating and implementing monetary policies and maintaining the stability of the PRC financial markets. According to the PRC People's Bank of China Law (中華人民共和國中國人民銀行法) and relevant regulations, the PBOC is empowered to:

- promulgate and implement orders and regulations in relation to its duties;
- formulate and implement monetary policy in accordance with the laws;
- issue Renminbi and administer its circulation;
- regulate the inter-bank money market and the inter-bank bond market;
- implement foreign exchange controls and regulate the inter-bank foreign exchange market;
- regulate the gold market;
- hold, administer and manage state reserves of foreign exchange and gold;
- manage the national treasury;
- safeguard the normal operation of payment and clearing systems;
- guide and orchestrate the financial industry in its anti-money laundering activities and take responsibility for monitoring capital in respect of anti-money laundering;
- take responsibility for financial industry statistics, surveys, analyses and forecasts;
- participate in international financial activities in its capacity as the central bank of the PRC; and
- undertake other duties as prescribed by the State Council.

On August 15, 2013, the State Council issued the Reply of the State Council on the Establishment of the Inter-departmental Coordination Joint Meeting System for Financial Supervision (國務院關於同意建立金融監管協調部際聯席會議制度的批復), which aims to build up such system. The PBOC shall take the lead at the joint meetings, with the CBRC, the CSRC, the CIRC and the SAFE being the major members. The NDRC and the MOF may be invited to attend the joint meetings, if necessary.

MOF

As a ministry under the State Council, the MOF is empowered to perform its duties in respect of state finance, taxation and state-owned assets management. The MOF mainly regulates the performance review and compensation systems for senior management of state-controlled banks as well as state-owned assets appraisal. Since the China Accounting Standards for Business Enterprises (企業會計準則), which were issued by the MOF, came into effect on January 1, 2007, the MOF is also responsible for monitoring their implementation in the banking industry. The MOF's primary responsibilities include:

- drafting regulations in respect of fiscal, finance and accounting management, enacting rules, organizing international negotiations regarding foreign-related finance and debt and agreeing on the form of relevant agreements and accords;
- managing state-owned financial assets, participating in drafting rules in relation to state-owned assets management and administering assets appraisal; and
- monitoring and inspecting the implementation of financial and tax rules and policies, reporting critical issues in fiscal income and expenses management and managing supervising commissioners' offices.

Other Regulatory Authorities

In addition to the above regulators, commercial banks in the PRC are also subject to supervision and regulation by other regulatory authorities, including, but not limited to, the SAFE, the CSRC, the CIRC, the NAO, the SAT and the SAIC.

Licensing Requirements

Basic Requirements

The PRC Commercial Banking Law (中華人民共和國商業銀行法) and the Measures for Implementation of Administrative Licensing Matters Concerning Chinese-funded Commercial Banks (中資商業銀行行政許可事項實施辦法), effective from February 1, 2006 and amended on December 28, 2006 and October 15, 2013, set out the permitted scope of business, licensing standards and other requirements in respect of commercial banks. The establishment of a commercial bank requires the CBRC's approval and issuance of an operating license. The conditions include, but are not limited to, the following:

- the articles of association of the proposed commercial bank comply with the relevant requirements of the PRC Commercial Banking Law (中華人民共和國商業銀行法) and the PRC Company Law (中華人民共和國公司法);
- the minimum registered capital requirements under the PRC Commercial Banking Law (中華人民共和國商業銀行法) are RMB1,000 million for national commercial banks, RMB100 million for city commercial banks and RMB50 million for rural commercial banks;
- the directors and the senior management of the proposed commercial bank possess the requisite professional knowledge, working experience and qualifications;
- the organizational structure and management system of the proposed commercial bank are properly established;
- the business premises and security measures of the proposed commercial bank, as well as other business related facilities, comply with the relevant requirements; and
- the commercial bank to be established has set up a sound information technology structure which (i) matches, and is necessary to support, its business operations, (ii) is safe, (iii) complies with the relevant laws and regulations and (iv) possesses the technologies and measures to ensure its effectiveness and safety.

Significant Changes

The commercial banks are required to obtain the CBRC's approval to undertake significant changes, including, but not limited to, the following:

- change of name;
- change of registered capital;
- change of location of head office or branch;
- change of form of organization;
- change of business scope;
- any change of shareholders holding 5% or more of the bank's total capital or shares;
- amendment to the articles of association;
- merger or division; and
- dissolution and liquidation.

Establishment of Branches

Domestic Branches

A commercial bank must apply to the CBRC or its local offices for approval and issuance of a business license and banking license to establish a domestic branch. To obtain such business license, the branch must have sufficient operating funds commensurate with its business scale and must meet other operating requirements.

Overseas Branches

The establishment of overseas branches by a PRC commercial bank is subject to the CBRC's approval and must also comply with all applicable regulations in the relevant foreign jurisdictions. The commercial bank making such application must comply with the following conditions:

- it has a clear strategy for overseas development;
- it has sound consolidated management capabilities;
- in principle, the balance of the equity investment should not exceed 50% of its net assets (on a consolidated basis);
- it has been profitable for the past three consecutive fiscal years;
- its total assets exceed RMB100 billion at the end of the year prior to the application;
- it owns a team of professional staff suitable for its overseas operational environment;
- it has established a good corporate governance system, as well as sound and effective internal control measures and its business line management and risk management capabilities are suitable for its overseas business development;
- its major indicators for prudent controls and management comply with regulatory requirements; and
- it satisfies other prudent conditions required by the CBRC.

Scope of Business

Under the PRC Commercial Banking Law (中華人民共和國商業銀行法), commercial banks in the PRC are permitted to engage in any or all of the following activities:

- taking deposits from the public;
- making short-term, medium-term and long-term loans;
- handling domestic and overseas payment settlements;
- bill acceptance and discounting;
- issuing financial bonds;
- acting as agents to issue, honor and underwrite government bonds;
- trading government bonds and financial institution bonds;
- engaging in inter-bank lending;
- engaging in foreign exchange trading as principals or as agents;
- engaging in bank card business;
- providing letters of credit and guarantee services;
- collecting and making payment as agents and acting as insurance agents;
- providing safe deposit box services; and
- other businesses approved by the banking regulatory authorities under the State Council.

Commercial banks in the PRC are required to stipulate their scope of business in their articles of association and submit their articles of association to the CBRC for approval. Subject to approval by the PBOC and the SAFE, commercial banks can engage in settlement and sales of foreign exchange.

Regulation of Principal Commercial Banking Activities

Lending

To control risks relating to credit extension, PRC banking laws and regulations require that commercial banks should, among other things: (i) establish a strict and uniform credit risk management system; (ii) establish standard operating procedures for each step in the extension of credit, including conducting due diligence investigations before granting credit facilities, monitoring borrowers' repayment ability and preparing credit assessment reports on a regular basis; and (iii) make arrangements to appoint qualified risk management personnel.

The CBRC has also issued guidelines and measures to control risks in connection with related party loans. See "– PRC Banking Supervision and Regulation – Corporate Governance and Internal Control – Transactions with Related Parties."

On July 23, 2009, the CBRC issued the Interim Measures for the Administration of Fixed Asset Loans (固定資產貸款管理暫行辦法) to ensure the flow of credit to critical projects that are vital to the national interest and people's livelihood, increase economy efficiency, prevent credit risk, optimize lending structure, improve the lending management quality of banking institutions, avoid systematic risk in the banking industry and enhance the risk management capabilities of banking institutions.

In addition, the CBRC has issued regulations concerning loans and credit granted to specific industries and customers to control the credit risk of PRC commercial banks. These regulations mainly include:

- the Guidelines on the Management of Risks of Credit Granted by Commercial Banks to Group borrowers (商業銀行集團客戶授信業務風險管理指引), which requires commercial banks to establish a risk management system for credit granted to group-borrowers and file the system with the CBRC. Where a single group-borrower of a commercial bank is deemed to be beyond its capacity for risks, the commercial bank shall adopt measures, including syndicated loans, joint loans and loan transfers, to diversify risks. According to the requirements for prudent supervision, the CBRC may lower the ratio of credit exposure to a single group-borrower;
- the Guidelines on the Management of Risks of Real Estate Credit Granted by Commercial Banks (商業銀行房地產貸款風險管理指引) requires commercial banks to establish real estate credit review and approval standards as well as a risk management and internal control system in connection with market risk, legal risk and operational risk to real estate credit. Commercial banks are not allowed to issue any type of loans to borrowers for real estate projects without the state-owned land use right certificate and other relevant permissions. The CBRC conducts periodic inspections of the implementation of the guidelines;
- the Automobile Loan Management Measures (汽車貸款管理辦法) requires commercial banks to establish credit rating and monitoring systems in connection with automobile loans. The measures also set out certain conditions for automobile loan applications. In addition, the amount of automobile loans shall not exceed 80% of the price of vehicles for self-use purpose, 70% of the price of vehicles for commercial purpose and 50% of the price of second-hand vehicles. Commercial banks shall also require borrowers to give security interests to the bank over their vehicles or other assets to obtain automobile loans;

- the Interim Measures for the Administration of Working Capital Loans (流動資金貸款管理暫行辦法), which requires commercial banks to establish effective internal control and risk management systems to monitor the use of working capital loans and get full access to customer information. Commercial banks shall take reasonable and prudent measures to assess the actual demands of clients and ensure the amount of loans granted shall not exceed actual demands of clients. Commercial banks shall set out definitive and legitimate purposes for working capital loans. Such working capital loans shall not be used for fixed assets investment or equity investment or for fields or purposes prohibited by laws;
- the Guidelines on the Management of Risks of Merger and Acquisition Credit Granted by Commercial Banks (商業銀行併購貸款風險管理指引), which requires commercial banks to establish an operation flow and internal control system pursuant to the guidelines and launch their implementation following reporting to the CBRC. Commercial banks are allowed to operate a merger and acquisition credit business if they meet the following requirements: (i) a sound risk management system and an effective internal control system are established; (ii) allowance adequacy ratio for loan impairment is not less than 100%; (iii) capital adequacy ratio is not less than 10%; (iv) the balance of general reserve is not less than 1% of the balance of loans for the same period; and (v) a professional team for due diligence and risk evaluation is formed. The guidelines also set out certain requirements for risk evaluation and control in relation to merger and acquisition, including overall strategic risk, legal and compliance risk, consolidation risk, operational risk and financial risk;
- the Interim Measures for the Administration of Personal Loans (個人貸款管理暫行辦法), which requires commercial banks to establish an effective full process management mechanism and risk limit management system in connection with retail loans. The measures also set out certain conditions for retail loan applications. The use of retail loans should comply with the relevant laws and policies. Commercial banks must specify the purpose for retail loans;
- the Guidelines on Project Financing Business (項目融資業務指引), which requires banking institutions to establish a sound operation flow and risk management mechanism for project financing. Banking institutions shall fully identify and evaluate risks in association with the project construction period and operation period, including policy risk, financing risk, completion risk, product market risk, over-budget risk, raw material risk, operational risk, exchange rate risk, environmental risk and other related risks. Banking institutions shall also focus on borrowers' repayment capability to evaluate risks taking into consideration technical and financial feasibility as well as repayment sources. In addition, banking institutions shall require borrowers to set up a designated account to receive all revenues from projects, monitor the account and take actions in case of unusual movements;
- the Guiding Opinions of the PBOC, the CBRC, the CSRC and the CIRC on Further Supporting the Restruction and Revitalization of Key Industries and Curbing Over-production in Certain Industries through Financial Services (中國人民銀行、銀監會、證監會、保監會關於進一步做好金融服務支持重點產業調整振興和抑制部分行業產能過剩的指導意見), which requires that the banking financial institutions to take initiatives to comply with the national industrial policies and financial control requirements and that credit granting shall reflect the principle of "differential treatments with encouragement and discouragement" in the spirit of the Notice of the State Council on Ratifying and Forwarding Several Opinions of the National Development and Reform Commission and Other Ministries on Curbing Over-production and Redundant Construction in Certain Industries and Guiding Sound Development of Industries (國務院批轉發展改革委等部門關於抑制部分行業產能過剩和重複建設引導產業健康發展若干意見的通知). For the enterprises and projects which meet the requirements of the plans for restructuring and revitalizing key industries, comply with market access conditions and conform to

the principles of bank credit, the timely and efficient supply of credit funds shall be ensured. The banking financial institutions shall not provide any form of credit support for projects which do not conform to the plans for restructuring and revitalizing key industries or the requirements of the relevant industrial policies and which fail to go through examination or verification for approval under the prescribed procedures, especially those with obsolete production capacity that the state has expressly ordered to eliminate, those that are examined and approved in violation of laws and regulations and those that are constructed before approval or when awaiting approval, and shall take appropriate and effective measures to protect the safety of bank credit assets. For projects in industries with over-capacity, the banking financial institutions shall strictly examine them before approving any loans;

- the Notice of the PBOC and CBRC on Issues Concerning the Improvement of Differential Housing Credit Policies (中國人民銀行、中國銀行業監督管理委員會關於完善差別化住房信貸政策有關問題的通知), which requires all commercial banks to suspend granting housing loans for resident families to purchase the third set or more sets of housing; to suspend the granting of housing loans to non-residents who cannot provide proof of local taxation or social insurance contributions for more than one year. In terms of loans to buy commercial residential housing, the minimum down payment ratio is adjusted to 30%; in terms of loans to buy the second set of housing per family, the notice stipulates that the down payment shall not be less than 50% of the total price and the interest rate shall not be less than 110% of the benchmark interest rate. In addition, according to the Notice of the State Council on Firmly Curbing Excessive Rise of Housing Prices in Some Cities (關於堅決遏制部分城市房價過快上漲的通知) promulgated by the State Council, commercial banks are required to strengthen the pre-grant examination and post-disbursement management of loans to real estate development enterprises. For those real estate development enterprises which have idle lands and churning of lands, commercial banks shall not grant loans for new development projects;

- the Notice of the General Office of the CBRC on Issues concerning the Improvement of Housing Financial Services and the Reinforcement of Risk Management (中國銀監會辦公廳關於做好住房金融服務加強風險管理的通知) issued on March 2011, which requires that, for personal housing loans granted after the date of the issuance of the Notice of the General Office of the State Council on Issues concerning Further Enforcing the Regulation and Control of Real Estate Market (國務院辦公廳關於進一步做好房地產市場調控工作有關問題的通知), all financial institutions in the banking industry shall strictly implement the credit policy that the down payment ratio for the second set of housing of any family shall not be less than 60% and the interest rate shall not be less than 110% of the benchmark lending rate. On February 26, 2013, the State Council released the Circular on the Continuation of Property Market Control (國務院辦公廳關於繼續做好房地產市場調控工作的通知), requiring that banking and financial institutions strictly follow the policies regarding down payment and lending rates for first-time homebuyers and tighten the credit policies for second-time homebuyers. Relevant ministries should closely cooperate to verify the original value of taxable houses by tracking historical sales data and to impose a 20 percent tax on profit generated from certain residential property transactions; and

- the Notice on Implementing Several Matters relating to the Circular of the State Council on Relevant Issues Concerning Strengthening the Administration of Local Government Financing Vehicles (關於貫徹《國務院關於加強地方政府融資平台公司管理有關問題的通知》相關事項的通知), the Guiding Opinions of the CBRC on Strengthening the Risk Management of Loans to Financing Vehicles (中國銀監會關於加強融資平台貸款風險管理的指導意見), the Notice of Further Implementation of Risk Control and Management of Local Government Financing Vehicles in 2011 (關於切實做好2011年地方政府融資平台貸款風險監管工作的通知), the

Guiding Opinions of the CBRC on Strengthening the Risk Control and Management of Loans to Local Financing Vehicles in 2012 (中國銀監會關於加強2012年地方政府融資平台貸款風險監管的指導意見), which require that banking financial institutions strictly implement the pre-loan investigation, examination at granting and post-disbursement inspection systems for loans to LGFVs, prudently grant loans to LGFVs and apply accurate classifications and implement dynamic adjustment in respect of such loans so as to reflect and assess accurately the risk profile of such loans. Banking financial institutions shall also give overall considerations to the debt burdens of local government and the potential risks and expected losses of loans to LGFVs. The allowance for impairment losses shall be provided reasonably and the risk weighting in calculating capital adequacy shall be determined by full coverage, basic coverage, semi-coverage and non-coverage of such loans. On April 9, 2013, the CBRC issued the Guiding Opinions of the CBRC on Strengthening the Risk Control and Management of Loans to Local Financing Vehicles in 2013 (中國銀監會關於加強2013年地方政府融資平台貸款風險監管的指導意見), which require each bank to restrict the total amounts of LGFVs and not to expand the scale of LGFVs. It also requires the proportion of LGFVs with cash flow coverage ratio lower than 100% and asset-liability ratio higher than 80% not to exceed that of the previous year.

- The CBRC issued the Guiding Opinions on Further Improving Financial Services for Micro-enterprises (關於進一步做好小微企業金融服務工作的指導意見) on August 29, 2013, which require financial institutions in the banking industry to actively adjust credit structure, separately list annual credit plans for micro-enterprises, distribute reasonable tasks to each branch, optimize performance assessment mechanism. Such tasks shall be promoted and implemented by chief responsible persons layer upon layer. At the same time, financial institutions in the banking industry shall fully support micro-enterprises by circulation and securitization of credit assets and invest revitalized capital mainly in micro-enterprises.

We have adopted certain rules and measures to comply with the above regulations. We also enhanced our risk management and internal control capabilities in respect of loans and credit granted to certain specific industries and customers.

Foreign Exchange Business

Commercial banks are required to obtain approvals from the PBOC and the SAFE to conduct foreign exchange businesses. Under the PRC's anti-money laundering laws and regulations, PRC financial institutions are required to report to the SAFE any large or suspicious foreign exchange transactions.

Securities and Asset Management Businesses

Commercial banks in the PRC are generally prohibited from trading and underwriting equity securities. Commercial banks in the PRC are permitted to:

- underwrite and deal in PRC government bonds, financial institution bonds and commercial bonds issued by qualified non-financial institutions;
- act as agents in transactions involving securities, including bonds issued by the PRC government, financial institutions and other corporate entities;
- provide institutional and individual investors with comprehensive asset management advisory services;
- act as financial advisors in connection with large infrastructure projects, mergers and acquisitions transactions and bankruptcy restructuring; and
- act as custodians for funds, including securities investment funds and enterprise annuity funds.

According to the Measures for the Administration of Enterprise Annuity Fund (企業年金基金監督管理辦法) promulgated jointly by the Ministry of Human Resources and Social Security, the CBRC, the CSRC and the CIRC on February 23, 2004, amended on February 12, 2011 and effective on May 1, 2011, commercial banks are required to file with the CBRC to act as a custodian for enterprise annuity funds. Under the Administrative Measures on the Securities Investment Fund Custodianship Business (證券投資基金託管業務管理辦法) promulgated jointly by the CSRC and the CBRC on April 2, 2013, a commercial bank may obtain the qualifications to engage in the fund custodian business if approved by the CSRC and the CBRC. Such approval requires, among others, that the commercial bank holds net assets of not less than RMB2,000 million for each of the previous three fiscal years and its capital adequacy ratio and other risk control indexes fulfill the relevant regulatory requirements. Once engaged in the fund custody business, the fund custodian must ensure the separation of its custodian business from its other businesses, as well as the independence of its fund custody assets from the assets of other funds. The CSRC and the CBRC are jointly responsible for reviewing and approving the qualifications and the supervision and administration of fund custodian business activities undertaken by commercial banks. In addition, the candidates promoted as senior managers of the commercial banks' fund custody department must fulfill certain regulatory requirements.

Insurance

Commercial banks in the PRC are not permitted to underwrite insurance policies, but are permitted to act as agents to sell insurance products through their distribution networks. Commercial banks that conduct agency sales of insurance products are required to comply with applicable rules issued by the CIRC. Pursuant to the Interim Measures on the Administration of Ancillary Agency Insurance Business (保險兼業代理管理暫行辦法) promulgated by the CIRC on August 4, 2000, commercial banks are required to obtain licenses from the CIRC before conducting insurance agency business. Pursuant to the Notice Regarding Standardization of Insurance Agency Business Conducted by Banks (關於規範銀行代理保險業務的通知) issued jointly by the CIRC and the CBRC on June 15, 2006, such licenses are required for all tier-one branches of commercial banks conducting such business.

On February 18, 2009, the General Office of CBRC issued the Notice Regarding Further Standardization of Insurance Agency Business Conducted by Banks (中國銀監會辦公廳關於進一步規範銀行代理保險業務管理的通知), requiring commercial banks to (i) establish due diligence and post-performance evaluation systems and to carefully select the cooperating insurance companies and insurance products sold by agents; (ii) regulate their sales practices and prohibit misleading sales and inappropriate advertising; (iii) standardize the bank-insurance cooperation agreement and strengthen the regulation of selling expenses; (iv) establish a complaint handling system to properly handle complaints, so as to ensure the insurance agency businesses of commercial banks are standardized and to maintain orderly financial markets.

On January 13, 2010, the CIRC and the CBRC jointly promulgated the Notice on Strengthening Restructuring and Improving the Healthy Development of Banks' Life Insurance Agency Services (關於加強銀行代理壽險業務結構調整促進銀行代理壽險業務健康發展的通知), which enhanced supervision over life insurance agency licenses. The notice requires all commercial banks to obtain an insurance agency license issued by the CIRC before engaging in life insurance agency business through their outlets.

On November 1, 2010, the CBRC issued the Notice on Further Strengthening the Sales Compliance and Risk Management of the Bancassurance Business of Commercial Banks (關於進一步加強商業銀行代理保險業務合規銷售與風險管理的通知), which emphasizes that commercial banks that operate the bancassurance business shall follow the principles of openness, equality and fairness and fully protect the interests of clients. The notice also requires that each outlet of the commercial banks shall establish thresholds on the selection and access of insurance companies and in principle, each outlet of a commercial bank may only cooperate with no more than three insurance companies. In addition, this notice has also clearly provided for the functions and obligations between commercial banks and insurance companies when conducting bancassurance business.

On March 7, 2011, the CIRC and the CBRC jointly issued the Guidelines on the Supervision and Regulation of Insurance Agency Business Conducted by Commercial Banks (商業銀行代理保險業務監管指引), which include comprehensive and systematic provision requirements regarding the bancassurance business. According to the guidelines, all commercial banks shall obtain a license issued by the CIRC before engaging in an insurance agency business through their outlets and prevent commercial bribery, misleading sales, unfair price competition and other illegal activities.

Personal Wealth Management Services

On September 24, 2005, the CBRC issued the Provisional Administrative Measures on the Personal Wealth Management Business of Commercial Banks (商業銀行個人理財業務管理暫行辦法). Under these measures, commercial banks are required to obtain CBRC approval to provide guaranteed investment return wealth management plans, new investment products with guaranteed investment return aimed at conducting personal wealth management business and other personal wealth management businesses which require CBRC approval, whereas in respect of certain remaining wealth management services, they are only required to submit a report to the CBRC. Commercial banks are also subject to certain restrictions on offering products under personal wealth management plans. In addition, under the Guidelines on Risk Management Regarding Personal Wealth Management Services of Commercial Banks (商業銀行個人理財業務風險管理指引) issued by the CBRC on September 24, 2005, commercial banks are required to establish an auditing and reporting system in respect of their wealth management services and to report any material risk management problems to the relevant authorities. Thereafter, the CBRC issued a series of regulations in an effort to further improve the reporting mechanism and risk control for personal wealth management services provided by commercial banks. Moreover, in August 2011, the CBRC issued the Administrative Measures on the Sales of Wealth Management Products of Commercial Banks (商業銀行理財產品銷售管理辦法) to further standardize and regulate the sales of wealth management products, which required prudent operation and timely disclosure of the wealth management business in order to fully protect the interests of consumers.

Further, with respect to domestic personal wealth management business, the PBOC, the CBRC and the SAFE jointly promulgated the Provisional Measures for Overseas Wealth Management by Commercial Banks (商業銀行開辦代客境外理財業務管理暫行辦法), which came into effect on April 17, 2006 and permitted duly licensed commercial banks to make overseas investments using funds from investors in pre-approved financial products on behalf of domestic institutions and individuals.

Investment Operations of Wealth Management

On March 25, 2013, the CBRC issued the Notice on Regulating Commercial Bank Wealth Management Business Investment Operation-related Issues (中國銀監會關於規範商業銀行理財業務投資運作有關問題的通知), which regulates the investment operations of commercial banks' wealth management businesses. The key measures of the notice include requiring commercial banks to match each financial product with its investment asset and the investment balance of funds from the wealth management accounts in non-standard debt instruments shall, at any time, be limited to the lower of 35% of the wealth management product's balance or 4% of the total assets presented in the commercial bank's previous year's audit report.

Electronic Banking

On January 26, 2006, the CBRC issued the Administrative Measures Regulating Electronic Banking Business (電子銀行業務管理辦法) and Security Evaluation Guidelines on Electronic Banking (電子銀行安全評估指引) in an effort to enhance risk management and security standards in this sector. All banking institutions applying to establish an electronic banking business are required to have sound risk management and internal control systems and should not have had any major incidents relating to their primary information management and operations processing systems in the year prior to the application for electronic banking business. In addition, all banking institutions conducting electronic banking business must adopt security measures to ensure information confidentiality and prevent the unauthorized use of electronic banking accounts.

Proprietary Investments

In general, commercial banks in the PRC are prohibited from making domestic investments other than in debt instruments issued by the PRC government and financial institutions, short-term commercial paper, medium-term notes and corporate bonds issued by qualified non-financial institutions, as well as certain derivative products. Unless approved by the PRC government, commercial banks in the PRC are prohibited from engaging in trust investment and securities businesses, investing in real property (other than for their own use), or investing in non-banking financial institutions and enterprises.

Derivatives

On January 5, 2011, the CBRC issued the Measures for Administration of Derivatives Transactions of Financial Institutions in the Banking Industry (銀行業金融機構衍生產品交易業務管理辦法), which set out, among other things, detailed regulations for market access and risk management for the derivatives business conducted by financial institutions. In accordance with the measures, commercial banks in the PRC seeking to conduct derivatives business must meet relevant eligibility requirements and obtain prior approval from the CBRC. Such measures also provide that commercial banks engaged in derivative product transactions relating to foreign exchange, stock and commodities, as well as in exchange-traded derivatives transactions, shall have the derivative product transaction qualification approved by the CBRC and shall abide by foreign exchange administrative rules and other relevant provisions.

Support for, and Encouragement of, Financial Innovation by PRC Commercial Banks

On December 5, 2006, the CBRC promulgated the Guidelines on Financial Innovation of Commercial Banks (商業銀行金融創新指引), the purpose of which is to encourage PRC commercial banks to engage prudently in financial innovation-related activities, including developing new businesses and products, improving existing businesses and products, expanding their scope of business, improving cost efficiency and profitability and reducing their reliance on the lending business for profits. To facilitate financial innovation by PRC commercial banks, the CBRC has indicated that it will streamline the examination and approval procedures for new products and increase the efficiency of the examination and approval process.

Pricing of Products and Services

Interest Rates for Loans and Deposits

In the past, interest rates for RMB-denominated loans and deposits were set by the PBOC. In accordance with the PRC Commercial Banking Law, each commercial bank is required to determine its loan rate in accordance with the minimum limit of loan rate and its deposit rate in accordance with the maximum limit of deposit rate set by the PBOC. In recent years, the PBOC has gradually liberalized its regulation of interest rates, allowing banks more discretion to determine the interest rates for RMB-denominated loans and deposits. The following table sets forth, for the periods indicated, the permitted range of interest rates for RMB-denominated loans and deposits.

	Loans Since July 20, 2013(1)	Deposits Since June 8, 2012(2)
Maximum interest rates	No cap (up to 230% of the PBOC benchmark interest rate for rural and urban credit cooperatives)	110% of the PBOC benchmark interest rate, except for negotiated deposits
Minimum interest rates	No minimum	No minimum

Notes:

(1) From March 17, 2005 to August 18, 2006, interest rates for residential mortgage loans were regulated in the same way as most other types of loans. From August 19, 2006 to October 26, 2008, the minimum interest rates for personal commercial residential mortgage loans were 85% of the PBOC loan benchmark interest rate. Since October 27, 2008, the minimum interest rates for personal commercial residential mortgage loans have changed to 70% of the PBOC loan benchmark interest rate. Since April 17, 2010, the minimum interest rates for the mortgage loans of the second residential property purchased by a PRC family have been changed to 110% of the PBOC loan benchmark interest rate. Since July 20, 2013, the PBOC removed the lower limit for new loans provided by commercial banks, except for new residential mortgage loans, which remains at 70% of the PBOC benchmark lending rate.

(2) Beginning on October 29, 2004, commercial banks in the PRC are permitted to set their own interest rates on RMB deposits so long as such interest rates are not higher than the relevant PBOC benchmark interest rates. However, these restrictions do not apply to interest rates on negotiated deposits, which are deposits by domestic insurance companies in amounts of RMB30 million or more or deposits by the provincial social security agencies in amounts of RMB500 million or more, both with a term longer than five years.

From August 19, 2006 to July 6, 2012, the PBOC adjusted the benchmark interest rate for RMB-denominated loans and the benchmark interest rate for RMB-denominated deposits on 19 and 18 separate occasions, respectively. Since then and as of the Latest Practicable Date, the PBOC has not adjusted the benchmark interest rate for RMB-denominated loans and the benchmark interest rate for RMB-denominated deposits.

The following table sets forth the PBOC benchmark interest rates for RMB-denominated loans since August 19, 2006.

Date of adjustment	Six months or less	Six months to one year (inclusive of one year)	One to three years (inclusive of three years)	Three to five years (inclusive of five years)	More than five years	Residential Mortgage Loans		Housing Provident Fund Loans	
						Five years or less	More than five years	Five years or less	More than five years
	(Interest rate per annum %)								
August 19, 2006	5.58	6.12	6.30	6.48	6.84	6.48	6.84	4.14	4.59
March 18, 2007	5.67	6.39	6.57	6.75	7.11	6.75	7.11	4.32	4.77
May 19, 2007	5.85	6.57	6.75	6.93	7.20	6.93	7.20	4.41	4.86
July 21, 2007	6.03	6.84	7.02	7.20	7.38	7.20	7.38	4.50	4.95
August 22, 2007	6.21	7.02	7.20	7.38	7.56	7.38	7.56	4.59	5.04
September 15, 2007	6.48	7.29	7.47	7.65	7.83	7.65	7.83	4.77	5.22
December 21, 2007	6.57	7.47	7.56	7.74	7.83	7.74	7.83	4.77	5.22
September 16, 2008	6.21	7.20	7.29	7.56	7.74	7.56	7.74	4.59	5.13
October 9, 2008	6.12	6.93	7.02	7.29	7.47	7.29	7.47	4.32	4.86
October 30, 2008	6.03	6.66	6.75	7.02	7.20	7.02	7.20	4.05	4.59
November 27, 2008	5.04	5.58	5.67	5.94	6.12	5.94	6.12	3.51	4.05
December 23, 2008	4.86	5.31	5.40	5.76	5.94	5.76	5.94	3.33	3.87
October 20, 2010	5.10	5.56	5.60	5.96	6.14	5.96	6.14	3.50	4.05
December 26, 2010	5.35	5.81	5.85	6.22	6.40	6.22	6.40	3.75	4.30
February 9, 2011	5.60	6.06	6.10	6.45	6.60	6.45	6.60	4.00	4.50
April 6, 2011	5.85	6.31	6.40	6.65	6.80	6.65	6.80	4.20	4.70
July 7, 2011	6.10	6.56	6.65	6.90	7.05	6.90	7.05	4.45	4.90
June 8, 2012	5.85	6.31	6.40	6.65	6.80	6.65	6.80	4.20	4.70
July 6, 2012	5.60	6.00	6.15	6.40	6.55	6.40	6.55	4.00	4.50

The following table sets forth the PBOC benchmark interest rates for RMB-denominated deposits since August 19, 2006.

Date of adjustment	Demand deposits	Time deposits					
		Three months	Six months	One year	Two years	Three years	Five years
	(Interest rate per annum %)						
August 19, 2006	0.72	1.80	2.25	2.52	3.06	3.69	4.14
March 18, 2007	0.72	1.98	2.43	2.79	3.33	3.96	4.41
May 19, 2007	0.72	2.07	2.61	3.06	3.69	4.41	4.95
July 21, 2007	0.81	2.34	2.88	3.33	3.96	4.68	5.22
August 22, 2007	0.81	2.61	3.15	3.60	4.23	4.95	5.49
September 15, 2007	0.81	2.88	3.42	3.87	4.50	5.22	5.76
December 21, 2007	0.72	3.33	3.78	4.14	4.68	5.40	5.85
October 9, 2008	0.72	3.15	3.51	3.87	4.41	5.13	5.58
October 30, 2008	0.72	2.88	3.24	3.60	4.14	4.77	5.13
November 27, 2008	0.36	1.98	2.25	2.52	3.06	3.60	3.87
December 23, 2008	0.36	1.71	1.98	2.25	2.79	3.33	3.60
October 20, 2010	0.36	1.91	2.20	2.50	3.25	3.85	4.20
December 26, 2010	0.36	2.25	2.50	2.75	3.55	4.15	4.55
February 9, 2011	0.40	2.60	2.80	3.00	3.90	4.50	5.00
April 6, 2011	0.50	2.85	3.05	3.25	4.15	4.75	5.25
July 7, 2011	0.50	3.10	3.30	3.50	4.40	5.00	5.50
June 8, 2012	0.40	2.85	3.05	3.25	4.10	4.65	5.10
July 6, 2012	0.35	2.60	2.80	3.00	3.75	4.25	4.75

The PBOC generally does not regulate interest rates for foreign currency-denominated loans or deposits, except for U.S. dollar-, Hong Kong dollar-, Japanese Yen- and Euro-denominated deposits of less than US$3 million (or the equivalent) and with a term of one year or less. For these small sized short-term foreign currency deposits, the maximum interest rates may not exceed the PBOC benchmark interest rates.

Under the Notice of Further Promoting Interest Rate Liberalization Reform (中國人民銀行關於進一步推進利率市場化改革的通知) issued by the PBOC, commercial banks may determine the discount rates for their discounted bills beginning July 20, 2013.

Pricing for Fee- and Commission-based Products and Services

Under the Tentative Administrative Measures on Pricing of Commercial Banking Services (商業銀行服務價格管理暫行辦法) jointly promulgated by the CBRC and the NDRC on June 26, 2003 and effective on October 1, 2003, services which are subject to governmental pricing guidelines include basic RMB settlement services, such as bank drafts, bank acceptance drafts, promissory notes, checks, remittances and entrusted collection and other services specified by the CBRC and the NDRC. Fees for other products and services are determined based on market conditions. Commercial banks are also required to report to the CBRC at least 15 business days prior to the implementation of any new fee schedules and to post such fee schedules at their business premises at least ten business days prior to such implementation. On March 9, 2011, the CBRC, the PBOC and the NDRC jointly issued the Circular on the Exemption of Certain Service Charges of Banking Financial Institutions (關於銀行業金融機構免除部分服務收費的通知), which requires the banking financial institutions to waive several items of bank service fees from July 1, 2011.

On January 20, 2012, the CBRC issued the Circular on Supervision of the Non-Compliance Operation of the Banking and Financial Institutions (關於整治銀行業金融機構不規範經營的通知), which aims to address unreasonable conditions and fees related to loan issuance by financial institutions. On November 19, 2012, the PBOC issued the Notice on Effectively Implementing the Adjustment to the Criteria of Bank Card Transaction Charges (關於切實做好銀行卡刷卡手續費標準調整實施工作的通知) (Yinfa [2012] No. 263), which became effective on February 25, 2013 and aims to encourage the long-term growth of the bank card industry. The notice lowered the standard rate for bank card transaction charges, which effectively reduces the overall transaction costs for merchants in bank card transactions.

On February 25, 2013, the NDRC reduced certain credit card transaction fees that had been in place for the past nine years in order to alleviate fee burdens on certain transactions and expand convenience of and access to credit cards for the general public. Credit card charges on transactions such as meals, leisure activities, utilities, and general living and consumption were reduced. At the same time, credit card charges for real estate and automobile transactions were raised from 1% to 1.25%, with fee caps set at RMB80. On August 30, 2013, the CBRC published and implemented the Banking Consumer Protection Guidelines (銀行業消費者權益保護工作指引), which strengthens and improves consumer protection, proposes a system of requirements for consumer protection and provides for regulatory authorities to adopt consumer protection oversight responsibilities.

Required Deposit Reserve

Commercial banks are required to maintain a percentage of their total deposits as reserves with the PBOC to ensure they have sufficient liquidity to meet customer withdrawals. As of the Latest Practicable Date, we were required to maintain a deposit reserve of not less than 18.0% of our total RMB deposits according to the relevant requirements of the PBOC.

The following table sets forth the historical data for the RMB required deposit reserve ratio applicable to us for recent years, which we have complied with. There has been no adjustment to the required deposit reserve ratio from May 19, 2012 up to the Latest Practicable Date.

Date of adjustment	RMB required deposit reserve ratio
	(%)
January 25, 2008	15.5
March 25, 2008	16.0
April 25, 2008	16.5
May 20, 2008	17.0
June 15, 2008	17.5
June 25, 2008	18.0
July 25, 2008	17.5
September 25, 2008	16.5
October 15, 2008	16.0
December 5, 2008	14.0
December 25, 2008	13.5
January 18, 2010	14.0
February 25, 2010	14.5
May 10, 2010	15.0
November 15, 2010	15.5
November 16, 2010	16.0
November 29, 2010	16.5
December 20, 2010	17.0
January 20, 2011	17.5
February 15, 2011	17.0
February 24, 2011	17.5
March 25, 2011	18.0
April 21, 2011	18.5
May 18, 2011	19.0
June 20, 2011	19.5
December 5, 2011	19.0
February 24, 2012	18.5
May 18, 2012	18.0

Supervision Over Capital Adequacy

Capital Adequacy Guidelines

Prior to March 1, 2004, commercial banks were required to maintain a minimum capital adequacy ratio of 8% and a minimum core capital adequacy ratio of 4%, calculated based on the following formula under PRC GAAP:

$$\text{Capital adequacy ratio} = \frac{\text{Capital} - \text{Capital deductions}}{\text{On- and off-balance sheet risk-weighted assets}} \times 100\%$$

$$\text{Core capital adequacy ratio} = \frac{\text{Core capital} - \text{Core capital deductions}}{\text{On- and off-balance sheet risk-weighted assets}} \times 100\%$$

On February 23, 2004, the CBRC promulgated the Capital Adequacy Regulations (商業銀行資本充足率管理辦法), which became effective on March 1, 2004 and were amended on July 3, 2007. The Capital Adequacy Regulations have been superseded by the Rules Governing Capital Management of Commercial Banks (Provisional) (商業銀行資本管理辦法(試行)) which became effective on January 1, 2013. We were subject to the Capital Adequacy Regulations prior to January 1, 2013. While the Capital Adequacy Regulations did not change the pre-existing requirements of an 8% capital adequacy ratio and a 4% core capital adequacy ratio, they amended the risk weighting for various assets, adjusted the capital structure and included a capital charge for market risk in the calculation of capital adequacy ratios. In addition, the Capital Adequacy Regulations require commercial banks to make adequate allowance for various impairment losses, including those associated with loans, before calculating their capital adequacy ratios. These changes resulted in a more stringent capital adequacy requirement.

In accordance with the Capital Adequacy Regulations (商業銀行資本充足率管理辦法), the capital adequacy ratio and core capital adequacy ratio are calculated based on the following formulae under PRC GAAP:

$$\text{Capital adequacy ratio} = \frac{\text{Capital} - \text{Capital deductions}}{\text{Risk-weighted assets} + 12.5 \times \text{Capital charge for market risk}} \times 100\%$$

$$\text{Core capital adequacy ratio} = \frac{\text{Core capital} - \text{Core capital deductions}}{\text{Risk-weighted assets} + 12.5 \times \text{Capital charge for market risk}} \times 100\%$$

Components of Capital

Regulatory capital is composed of core capital and supplementary capital after subtracting relevant capital deductions. Supplementary capital may not exceed core capital. Core capital includes the following:

- Paid-in capital or common shares;
- Capital reserve;
- Surplus reserve;
- General reserve;
- Retained earnings; and
- Minority interests.

Supplementary capital includes the following:

- Up to 70% of the revaluation reserve;
- The general allowance for impairment losses under the CBRC's requirements. See "– PRC Banking Supervision and Regulation – Loan Classification, Allowance and Write-offs – Loan Classification" and "– PRC Banking Supervision and Regulation – Loan Classification, Allowance and Write-offs – Loan Allowance;"
- Preferred shares;
- Convertible bonds;
- Long-term subordinated debt, which may not exceed 25% of core capital for National Joint Stock Commercial Banks;
- Hybrid capital bonds; and

- Changes in fair value (the positive change – but no more than 50% – to the fair value of available-for-sale bonds that have been calculated as part of the owners' equity interests may be calculated into supplementary capital, and the negative change to the fair value shall be deducted in full from the supplementary capital. When a commercial bank calculates the capital adequacy ratio, it shall include the fair value of available-for-sale bonds in the capital reserve that is transferred from the core capital into the supplementary capital).

Capital deductions consist of the following:

- Goodwill;
- Equity investments in non-consolidated financial institutions; and
- Capital investments in real estate not used for the bank's own operations and capital investments in enterprises.

Core capital deductions consist of the following:

- Goodwill;
- 50% of equity investments in non-consolidated financial institutions; and
- 50% of capital investments in real estate not used for the bank's own operations and capital investments in enterprises.

Risk-weighted Assets

The Capital Adequacy Regulations (商業銀行資本充足率管理辦法) provide that, for on-balance sheet items, risk-weighted assets should be calculated by deducting any allowance for impairment losses and then multiplying the amount by their corresponding risk weighting (after taking into account risk-mitigating factors). For off-balance sheet items, including foreign exchange contracts, interest rate contracts and other derivative contracts, the nominal principal amount should be first converted to balance sheet credit equivalent amounts by multiplying such amount by a credit conversion factor. In addition, the risk weighting of assets secured by certain types of pledges or guarantees are allocated to the risk weighting applicable to the pledges or guarantors. Partially pledged or guaranteed loans receive such lower risk weighting only on the portion of the loan that is pledged or guaranteed. The following table sets forth risk weightings for different assets.

Risk Weighting	Assets
0%	• cash on hand
	• gold
	• claims on PRC incorporated commercial banks with an original maturity of four months or less
	• claims on the PRC central government or deposits at the PBOC
	• claims on the PBOC
	• claims on PRC policy banks
	• bonds issued by PRC financial asset management companies for the purpose of acquiring non-performing loans from state-owned banks
	• claims on non-PRC central governments or central banks in countries or regions where the sovereign or region is rated AA- or above(1)
	• claims on multilateral development banks

Risk Weighting	Assets
20%	• claims on PRC incorporated commercial banks with an original maturity of more than four months
	• claims on non-PRC commercial banks and securities companies incorporated in other countries or regions where the sovereign or region is rated AA- or above[(1)]
50%	• personal residential mortgages
	• claims on PRC public-sector entities invested by the PRC central government
	• claims on non-PRC public-sector entities invested by governments of countries or regions where the sovereign or region is rated AA- or above[(1)]
100%	• all other assets

Note:

(1) These ratings refer to credit ratings of Standard & Poor's or the equivalent thereof.

Market Risk Capital

Market risk capital refers to the capital that a bank is required to maintain for the market risk relating to its assets. Market risk refers to the risk of losses in on- and off-balance sheet asset value arising from movements in market prices and includes risks relating to interest rate-influenced financial instruments and securities under trading books, commercial banking exchange rate risk and commodity risk. Domestic banks with total trading book positions greater than the lower of 10% of the bank's total on- and off-balance sheet assets and RMB8,500 million are required to make provisions for market risk capital.

The Latest Regulatory Standards of the CBRC on Capital Management of Commercial Banks

On June 7, 2012, the CBRC issued the Rules Governing Capital Management of Commercial Banks (Provisional) (商業銀行資本管理辦法(試行)), which came into effect on January 1, 2013. This regulation uses the new capital regulatory frameworks adopted by other countries as reference and follows the progression strategy set forth by Basel II and Basel III for the purpose of establishing a regulatory system for capital adequacy ratios. Specifically, this regulation establishes a unified and comprehensive regulatory system on capital adequacy ratio, provides a clear and strict definition of the term "capital," expands the scope of capital risk coverage, emphasizes on the scientific classification of commercial banks, capital adequacy level and differentiated regulatory measures, and sets out transitional periods for commercial banks to meet the new regulatory standards of capital adequacy ratio.

Pursuant to this regulation, commercial banks should use the following formula in calculating their capital adequacy ratios:

$$\text{Core tier-one capital adequacy ratio} = \frac{\text{Core tier-one capital} - \text{Corresponding capital deduction}}{\text{Risk-weighted assets}} \times 100\%$$

$$\text{Tier-one capital adequacy ratio} = \frac{\text{Tier-one capital} - \text{Corresponding capital deduction}}{\text{Risk-weighted assets}} \times 100\%$$

$$\text{Capital adequacy ratio} = \frac{\text{Total capital} - \text{Corresponding capital deduction}}{\text{Risk-weighted assets}} \times 100\%$$

The following table sets forth the annual capital adequacy ratio requirements under the Notification on Matters Related to the Implementation of the Rules Governing Capital Management of Commercial Banks (Provisional) in Transitional Period (關於實施《商業銀行資本管理辦法(試行)》過渡期安排相關事項的通知) released by the CBRC during the transitional period.

		As of December 31,					
Type of Bank	Core Indicators	2013	2014	2015	2016	2017	2018
Systemically Important Banks	Core tier I capital adequacy ratio	6.5%	6.9%	7.3%	7.7%	8.1%	8.5%
	Tier I capital adequacy ratio	7.5%	7.9%	8.3%	8.7%	9.1%	9.5%
	Capital adequacy ratio	9.5%	9.9%	10.3%	10.7%	11.1%	11.5%
Other Banks	Core tier I capital adequacy ratio	5.5%	5.9%	6.3%	6.7%	7.1%	7.5%
	Tier I capital adequacy ratio	6.5%	6.9%	7.3%	7.7%	8.1%	8.5%
	Capital adequacy ratio	8.5%	8.9%	9.3%	9.7%	10.1%	10.5%

Regulatory Requirements on Capital Adequacy Ratio

The regulatory requirements on the capital adequacy ratio of commercial banks set forth the minimum requirements for capital, capital conservation buffer, countercyclical buffer, additional capital for domestic systemically important banks and the second pillar capital.

The commercial banks' capital adequacy ratio at each level should meet the following minimum requirements:

(i) Core tier-one capital adequacy ratio not less than 5%.

(ii) Tier-one capital adequacy ratio not less than 6%.

(iii) Capital adequacy ratio not less than 8%.

Commercial banks should establish the capital conservation buffer above the minimum capital requirements. Capital conservation buffer is required to be 2.5% of the risk-weighted assets, which should be satisfied by core tier-one capital. Under certain circumstances, the PRC regulators may require commercial banks to establish a countercyclical buffer above both the minimum capital requirements and the minimum requirements for capital conservation buffer. Counter-cyclical buffer could be between zero and 2.5% of the risk-weighted assets, which should be satisfied by core tier-one capital.

Domestic systemically important banks are required to build up additional capital of 1% of their risk-weighted assets to be satisfied by core tier-one capital. If a domestic bank is recognized as a global systemically important bank, the applicable additional capital requirements should not be lower than those set forth by the Basel Committee. As of the Latest Practicable Date, the PRC regulators did not publish any criteria or list of "systemically important banks."

In addition, CBRC has the discretion to impose more prudent capital requirements within the framework of the second pillar capital to ensure the full coverage of risks, including:

(i) specific capital requirements for certain asset portfolios based on risk assessment of the asset portfolio; and

(ii) specific capital requirements for an individual bank based on the results of regulatory inspection conducted on that bank.

Capital composition

Total capital of a commercial bank includes core tier-one capital, additional tier-one capital and tier-two capital.

Core tier-one capital includes:

- Paid-in capital or ordinary shares;
- Capital reserve;
- Surplus reserve;
- General reserve;
- Retained earnings; and
- Applicable portions of capital from minority shareholders.

Additional tier-one capital includes:

- Additional tier-one capital instruments and their premiums; and
- Applicable portions of capital from minority shareholders.

Tier-two capital includes:

- Tier-two capital instruments and their premiums;
- Over-provision for impaired loans; and
- Applicable portions of capital from minority shareholders.

In calculating the capital adequacy ratio, a commercial bank should deduct the following items in full from the core tier-one capital:

- Goodwill;
- Other intangible assets (other than land use rights);
- Net deferred-tax assets arising from operating losses;
- Inadequate provision for impaired loans;
- Profit from sales of asset securitization;
- Defined beneficial pension assets, net;
- Direct or indirect holding of its own shares;
- For the cash flow reserve arising from hedging with items not measured at fair value on the balance sheet, it should be deducted if it is positive or added if it is negative; and
- Unrealized profit or loss arising from changes in the fair value of the liabilities of the commercial bank due to the changes in its credit risks.

Capital instruments of all levels held under agreement between commercial banks or the capital investment of all levels considered as "watered capital" by the CBRC should be deducted from the corresponding levels of regulatory capital. Additional tier-one and tier-two capital instruments issued by commercial banks held directly or indirectly by themselves should be deducted from the corresponding regulatory capital.

With respect to the small amount minority capital investments held by commercial banks in unconsolidated financial institutions, the amount of the investment that exceeds 10% of the commercial bank's net core tier-one capital should be deducted from the regulatory capital of all levels. With respect to the large amount minority capital investment by a commercial bank in unconsolidated financial institutions, the amount of the investment that exceeds 10% of its net core tier-one capital should be deducted from its core tier-one capital. Additional tier-one capital investment and tier-two capital investment should be deducted in full from the capital of the corresponding tier.

Except for the net deferred tax assets arising from the operating loss, other net deferred tax assets relying on their future operating profit which exceeds 10% of the commercial bank's net core tier-one capital should be deducted from its core tier-one capital.

The sum of (i) a large amount of minority capital investment by a commercial bank in financial institutions and (ii) the corresponding net deferred tax assets that have not been deducted from the core tier-one capital of the commercial bank should not exceed 15% of its net core tier-one capital.

Risk-weighted assets

The risk-weighted assets of commercial banks include credit risk-weighted assets, market risk-weighted assets and operating risk-weighted assets.

Commercial banks may adopt either the weight method or internal rating method to measure credit risk-weighted assets. Under the weight method, credit risk-weighted assets are the sum of credit risk-weighted assets on the bank's account balance sheet and credit risk-weighted assets off the bank's balance sheet. Specifically, the on-balance sheet credit risk-weighted assets should be calculated by multiplying the carrying value of the assets net of their corresponding provisions for impairment losses by the corresponding risk weightings of those assets. The off-balance sheet credit risk-weighted assets should be calculated by multiplying the nominal value of the off-balance sheet items by their corresponding credit conversion factors to arrive at an amount as the carrying amount of on-balance sheet assets, which will be used to calculate the credit risk-weighted assets following the abovementioned steps. Under the internal rating method, commercial banks should measure the risk-weighted assets exposed to non-default risks and default risks separately: (i) the calculation of the risk-weighted assets exposed to non-default non-retail risks is based on the probability of default, loss rate, exposure to default risk, relevance and effective period exposed by a single credit risk asset; (ii) the calculation of the risk-weighted assets exposed to non-default retail risks is based on the probability of default, default loss rate, exposure to default risk and exposure by a single pool of credit risk assets; and (iii) the calculation of the risk-weighted assets exposed to default risks is based on the default loss rate, expected loss rate and exposure to default risk.

Market risk-weighted assets of commercial banks shall be 12.5 times of the capital requirement for market risks, i.e. market risk-weighted assets = capital requirement for market risks × 12.5. The measurement of market risk capital should cover the interest rate risks and stock price risks in the commercial banks' trading books as well as all the exchange rate risks and commodity risks. Commercial banks may use either the standard method or the internal model method to measure capital requirement for market risks.

Operating risk-weighted assets shall be 12.5 times of the capital requirement for operating risks, i.e. operating risk-weighted assets = capital requirement for operating risks × 12.5. Commercial banks may use the index method, the standard method or the advanced measurement method to measure capital requirement for operating risks.

Timeline of compliance

The Rules Governing Capital Management of Commercial Banks (Provisional) (商業銀行資本管理辦法(試行)) provides that commercial banks should meet the regulatory requirements on capital adequacy ratio set forth in this regulation by the end of 2018, and well-positioned commercial banks are encouraged to meet the requirement ahead of schedule.

To ensure the implementation of the Rules Governing Capital Management of Commercial Banks (Provisional) (商業銀行資本管理辦法(試行)), the CBRC released the Notification on Matters Related to the Implementation of the Rules Governing Capital Management of Commercial Banks (Provisional) in Transitional Period (關於實施《商業銀行資本管理辦法(試行)》過渡期安排相關事項的通知) on November 30, 2012. The notification required commercial banks to meet the minimum capital and, in addition, the domestic systemically important banks to meet the additional capital requirement before January 1, 2013. During the transitional period, the reserve capital requirement (2.5%) shall be gradually introduced and commercial banks should meet the annual capital adequacy ratio requirement. In addition, the regulator will provide the timeline for compliance if it requires the commercial banks to establish a countercyclical buffer or sets out the requirements for the second pillar capital of certain banks. Commercial banks subject to these additional requirements should make efforts to meet such timeline.

Issuance of Subordinated Debt and Subordinated Bonds

Since June 17, 2004, PRC commercial banks have been permitted to issue bonds with the repayment of principal and interest subordinated to the banks' other liabilities but senior to the banks' equity capital, according to the Measures for Administration on Issuance of Subordinated Bonds of Commercial Banks (商業銀行次級債券發行管理辦法) jointly issued by the PBOC and the CBRC. The issuance of subordinated debt by PRC commercial banks is subject to the approval of the CBRC. PRC commercial banks may, upon approval by the CBRC, include such subordinated bonds in the banks' supplementary capital. Subordinated bonds can be issued either in a public offering in the inter-bank bond market or in a private placement. PRC commercial banks may not hold an aggregate amount of subordinated debt issued by other banks in excess of 20% of their core capital. The PBOC regulates the issuance and trading of subordinated bonds in the inter-bank bond market.

On December 12, 2005, the CBRC issued the Notice Regarding the Issuance of Hybrid Capital Bonds by Commercial Banks for the Replenishment of Supplementary Capital (關於商業銀行發行混合資本債券補充附屬資本有關問題的通知), permitting eligible commercial banks to issue hybrid capital bonds in the inter-bank market and include such bonds in their supplementary capital. The introduction of hybrid capital bonds in the PRC opened a new channel for commercial banks to replenish their supplementary capital and improve their capital adequacy ratio. On September 5, 2006, the PBOC issued the "PBOC Announcement (2006) No.11 – Notice Regarding the Issuance of Hybrid Capital Bonds by Commercial Banks", which set out the definition of hybrid capital bonds and the regulations on reporting and distribution.

On October 18, 2009, the CBRC issued the Notice on Improving the Mechanism for Capital Replenishment of Commercial Banks (關於完善商業銀行資本補充機制的通知), which requires major commercial banks (including China Development Bank, Large Commercial Banks and National Joint Stock Commercial Banks) and other banks to maintain a core capital adequacy ratio of no less than 7% and 5%, respectively, if they seek to issue long-term subordinated debt for the replenishment of supplementary capital. The major commercial banks and other banks should not issue long-term subordinated debt which constitutes more than 25% and 30% of their respective core capital, respectively. In the calculation of the capital adequacy ratio, after October 18, 2009, banks should deduct fully any long-term subordinated debt issued by other banks which they acquired after July 1, 2009.

The Rules Governing Capital Management of Commercial Banks (Provisional) (商業銀行資本管理辦法(試行)) issued by the CBRC on June 7, 2012 re-defines the term "capital." The term "regulatory capital" was defined in the Capital Adequacy Regulations to include core capital and supplementary capital and the definition of such term has been adjusted by the Rules Governing Capital Management of Commercial Banks (Provisional) (商業銀行資本管理辦法(試行)) to include core tier-one capital, additional tier-one capital and tier-two capital. In addition, the new regulation specifies the requisite criteria of tier-two capital instrument which is different from the original definition and requirements of the subordinated debt and subordinated bond. Under this regulation, non-qualified tier-two capital instruments issued prior to September 12, 2010 can be included into regulatory capital before January 1, 2013, but should be reduced by 10% per annum starting from January 1, 2013 and may not be included into regulatory capital starting from January 1, 2022. For tier-two capital instruments issued by commercial banks during the period from September 12, 2010 to January 1, 2013, if they do not carry discounting or share conversion terms but meet other requisite criteria of relevant capital instruments, they can be included into regulatory capital prior to January 1, 2013, but should be reduced by 10% per annum starting from January 1, 2013 and may not be included into regulatory capital starting from January 1, 2022.

On November 29, 2012, the CBRC issued the Guidance on the Innovation of Capital Instruments by Commercial Banks (關於商業銀行資本工具創新的指導意見), accordingly to which additional tier-one and tier-two capital instruments issued by a commercial bank after January 1, 2013 must contain a provision that requires such instruments to either be written off or converted into common stock upon the occurrence of a triggering event. An additional tier-one instrument triggering event occurs when the core tier-one capital adequacy ratio of the commercial bank falls to 5.125% or below; and a tier-two instrument triggering event occurs upon the earlier of: (i) the CBRC decides that a write-off or an equity conversion is necessary, without which the commercial bank would become non-viable; or (ii) the relevant authority or authorities decide to make a public sector injection of capital, or equivalent support, without which the commercial bank would have become non-viable.

Pursuant to the Guidance on the Issuance of Corporate Bonds for Capital Supplement of Commercial Banks (關於商業銀行發行公司債券補充資本的指導意見) jointly issued by the CSRC and the CBRC on October 30, 2013 which came into effect on November 6, 2013, any listed bank or pre-IPO bank planning to issue corporate bonds with write-off terms for capital supplement shall design suitable terms in connection with such bonds, form a practicable plan for the issuance of such bonds and submit a confirmation to the CBRC regarding the capital nature of such bonds, all of which must be conducted in accordance with the relevant laws and regulations. In addition, the issuance of such bonds shall also be subject to a supervisory notice by the CBRC.

Issuance of micro-enterprise bonds

In October 2011, the CBRC issued the Supplementary Notice on Supporting Commercial Banks to Further Improve the Financing Services Offered to Micro-enterprises (中國銀監會關於支持商業銀行進一步改進小型微型企業金融服務的補充通知), allowing banks to issue bonds for the purpose of micro-enterprise lending as one of the supportive measures to help micro-enterprises obtain financing.

On March 21, 2013, the CBRC issued the Opinions on Enhancing Financial Services for Micro-enterprises (中國銀監會關於深化小微企業金融服務的意見), which requires commercial banks to further improve financial services for micro-enterprises. In particular, it encourages small and medium-sized banks to proactively adjust their credit portfolios and focus on supporting the development of micro-enterprises and regional economy. The General Office of the State Council of the PRC issued the Guidelines on Financial Support for the Adjustment, Transformation and Upgrading of Economic Structure (國務院辦公廳關於金融支持經濟結構調整和轉型升級的指導意見) on July 1, 2013 and the Opinions on Providing Financial Support to Micro-enterprises (國務院辦公廳關於金融支持小微企業發展的實施意見) on August 8, 2013, which encourage financial institutions to provide comprehensive financial services to support the development of micro-enterprises.

Supervision on capital adequacy level by the CBRC

The CBRC supervises and examines the capital adequacy levels of commercial banks to ensure that their capital could fully cover a variety of potential risks through measures such as off-site supervision and on-site examinations. Further, a commercial bank should submit a report to the CBRC setting out its capital adequacy ratios before and after consolidation of its accounts. Capital adequacy ratios based on the consolidated statements should be reported every half year whereas capital adequacy ratios based on the unconsolidated statements should be reported every quarter.

Pursuant to the Rules Governing Capital Management of Commercial Banks (Provisional) (商業銀行資本管理辦法(試行)), the CBRC classifies commercial banks into four categories according to their capital adequacy status:

(i) Category 1: capital adequacy ratio, tier-one capital adequacy ratio and core tier-one capital adequacy ratio all meet the relevant capital requirements of this regulation.

(ii) Category 2: capital adequacy ratio, tier-one capital adequacy ratio and core tier-one capital adequacy ratio fail to meet the capital requirements of the second pillar but meet other levels of capital requirements.

(iii) Category 3: capital adequacy ratio, tier-one capital adequacy ratio and core tier-one capital adequacy ratio meet the minimum capital requirements but have not yet met other levels of capital requirements.

(iv) Category 4: any one of the capital adequacy ratio, tier-one capital adequacy ratio and core tier-one capital adequacy ratio fails to meet the relevant minimum capital requirements.

For category 1 commercial banks, the CBRC supports business development in a prudent manner and may take the following preventive measures to prevent rapid deterioration of the capital adequacy of such commercial banks:

- requiring the commercial bank to strengthen its analysis, forecasts and explanations regarding declines in its capital adequacy ratio;
- requiring the commercial bank to formulate a feasible plan on the management of its capital adequacy ratio; and
- requiring the commercial bank to improve its risk control abilities.

For category 2 commercial banks, in addition to the above measures, the CBRC may take the following regulatory measures:

- conducting a meeting with the board and senior management of the commercial bank to discuss prudential management;
- issuing a supervisory notice which shall cover, among others, existing problems with capital management of the commercial bank and suggested rectifications and timelines for compliance;
- requiring the commercial bank to implement a feasible capital replenishment plan and a compliance plan with target timelines;
- increasing the frequency of inspection on capital adequacy of the commercial bank; and
- requiring the commercial bank to adopt risk-mitigation measures for specific risks.

For category 3 commercial banks, in addition to the above measures, the CBRC may take the following regulatory measures:

- restricting the distribution of dividends and other forms of distributions by the commercial bank;
- restricting any kind of incentive schemes offered to directors and senior management of the commercial bank;
- restricting the commercial bank to make equity investments or repurchase capital instruments;
- restricting significant capital expenditures of the commercial bank; and
- requiring the commercial bank to control the expansion of risk assets.

For category 4 commercial banks, in addition to the above measures, the CBRC may take the following regulatory measures:

- requiring the commercial bank to substantially reduce the amount of risk assets;
- ordering the commercial bank to suspend all businesses involving high risk assets;
- restricting or forbidding the establishment of new branches or the launching of new businesses;
- compulsorily discounting the tier-two capital instruments or converting the tier-two capital instruments into ordinary shares;
- ordering the commercial bank to change its directors and senior management or restrict their rights and authorities; and
- taking over the commercial bank or procuring restructuring of the commercial bank until it is being revoked.

In addition, the CBRC will consider other external factors and take other necessary measures to address the issues faced by category 4 commercial banks.

Basel Accords

The Basel Capital Accord, or Basel I, was introduced by the Basel Committee on Banking Supervision, or the Basel Committee, in 1988. Basel I is an international accord seeking to achieve unification of capital measurement and capital standards of commercial banks, which clearly sets 8% as the minimum requirement on capital adequacy ratio. Since 1998, the Basel Committee has issued certain proposals for the New Basel Capital Accord or Basel II, to replace Basel I. Basel II retains the key elements of Basel I, including the general requirement for banks to hold total capital equivalent to at least 8% of their risk-weighted assets, aiming at intrinsically and extrinsically consolidating the capital regulatory framework in all respects, including (i) establishment of the “three pillars” framework, the first pillar being “minimum capital standard,” the second pillar being “supervision and regulation by regulatory authorities” and the third pillar being “information disclosure;” and (ii) introducing material changes to the calculation of capital adequacy and adopting simple to complicated and diversified approaches.

The CBRC promulgated and amended the Capital Adequacy Regulations (商業銀行資本充足率管理辦法) on February 23, 2004 and July 3, 2007, respectively. The CBRC has advised that the Capital Adequacy Regulations are based on Basel I while taking into consideration certain aspects of Basel II. On February 28, 2007, the CBRC issued the Guidelines on Implementation of the New Capital Accord in PRC Banking Industry (中國銀行業實施新資本協議指導意見), which require large commercial banks that have set up active operational entities in other countries or regions (including Hong Kong and Macau) and have a significant international business to implement Basel II by the end of 2010 or upon the CBRC’s approval, and in any event no later than the end of 2013. To facilitate preparations for the implementation of Basel II, the CBRC adopted the first series of supervision guidelines in respect of implementation of Basel II in September 2008, including the Guidelines on Classification of Commercial Banking Book Credit Risk Exposure (商業銀行賬戶信用風險暴露分類指引), the Guidelines on Supervision of Commercial Bank Internal Rating Based System for Credit Risk (商業銀行信用風險內部評級體系監管指引), the Guidelines on Computation of Commercial Bank Specialized Loan Regulatory Capital (商業銀行專業貸款監管資本計量指引), the Guidelines on Computation of Commercial Bank Credit Risk Cushion Regulatory Capital (商業銀行信用風險緩釋監管資本計量指引) and the Guidelines on Computation of Commercial Bank Operational Risk Regulatory Capital (商業銀行操作風險監管資本計量指引). In March 2009, China officially joined the Basel Committee and participated in the establishment of international standards for banking supervision, which is conducive to the upgrading of supervision techniques and supervision levels in China's banking industry.

Since November 2009, the CBRC has issued the following five regulatory guidelines to implement Basel II: the Guidelines on Disclosure of Capital Adequacy Ratio (商業銀行資本充足率信息披露指引), the Guidelines on Verification of Advanced Approaches for Capital Measurement (商業銀行資本計量高級方法驗證指引), the Guidelines on Risk Management of Banking Book Interest Rates of Commercial Banks (商業銀行銀行賬戶利率風險管理指引), the Guidelines on Supervision and Review on Capital Adequacy Ratio (商業銀行資本充足率監督檢查指引) and the Guidelines on Measurement of Risk Exposure Relating to Assets Securitization (商業銀行資產證券化風險暴露監管資本計量指引). These five regulatory guidelines facilitate the implementation of Basel II, among which, the Guidelines on Risk Management of Banking Book Interest Rates of Commercial Banks (商業銀行銀行賬戶利率風險管理指引) also apply to those banks which are not yet implementing Basel II.

In December 2010, the Basel Committee formally released the latest version of capital accord (or Basel III), which reflects the new regulatory thoughts of organic integration between micro-prudential regulation and macro-prudential regulation. Thus, new international banking regulatory benchmarks are established according to the overall requirements of focus on both capital regulation and liquidity regulation, synchronous increase of capital amount and improvement of capital quality, parallel of capital adequacy and leverage and consideration of both long-term impact and short-term effects.

On April 27, 2011, the CBRC issued new guidelines setting more stringent capital adequacy, leverage, liquidity and loan loss provisioning requirements for Chinese banks in accordance with the reform of China's banking industry and regulatory practice and in light of the implications of Basel III.

- *Capital adequacy and leverage requirements*. The new guidelines reclassified the existing two-tier regulatory capital framework into three tiers, namely, the core tier-one ratio, tier-one ratio and capital adequacy ratio, which shall be no less than 5% (0.5% higher than the requirements of Basel III), 6% and 8% respectively. In addition, the guidelines introduced an additional 2.5% capital conservation buffer and the regulators may require a 0-2.5% countercyclical buffer under certain circumstances. The guidelines also require domestic systemically important banks – those which are considered fundamental to the well-being of the domestic banking industry as a whole – to maintain another 1% for additional capital. In summary, domestic systemically important banks are required to maintain the core tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio of no less than 8.5%, 9.5% and 11.5% respectively, and the non-systemically important banks of no less than 7.5%, 8.5% and 10.5% respectively. A leverage ratio – the ratio of tier-one capital to adjusted on-and-off-balance sheet exposure – has also been introduced and the minimum requirement is set at no less than 4%, 1% higher than the requirements of Basel III.

- *Liquidity requirements*. Chinese banks are required to maintain a liquidity coverage ratio and a net stable funding ratio of no less than 100% by the end of 2013 and 2016, respectively.
- *Loan loss provisioning requirements*. The total allowance to total gross loans ratio is required to be no less than 2.5% while provision coverage ratio (namely the allowance for non-performing loans) is required to be no less than 150%. The guidelines require domestic systemically important banks to comply with the foregoing requirements by the end of 2013, and require non-systemically important banks to comply with the foregoing requirements either by the end of 2016 or by the end of 2018 subject to the banks' profitability and the allowance they need to charge to reach the new requirements.

We aim to comply with the requirements set forth as above within the applicable timeframe set out by the new guidelines and rules.

The methodologies of computation of our capital adequacy ratios may differ under Basel II and Basel III from our current practice, which may result in changes in our capital adequacy ratios. See "Risk Factors – Risks Relating to Our Business – We may face difficulties in meeting regulatory requirements relating to capital adequacy in the future."

Loan Classification, Allowance and Write-offs

Loan Classification

Commercial banks in the PRC are currently required to classify loans under a five-category loan classification system based on the estimated likelihood of repayment of principal and interest according to the Guidelines of Risk-based Classification of Loans (貸款風險分類指引). The five categories are "normal," "special mention," "substandard," "doubtful" and "loss" and a loan classified as substandard, doubtful or loss is considered to be non-performing. The primary factors for evaluating the likelihood of repayment include the borrower's cash flow, financial condition and credit history.

Loan Allowance

According to the Guidelines of Risk-based Classification of Loans (貸款風險分類指引), commercial banks are required to make full loan loss provisions on a timely basis and write off loan losses on the basis of classifications of loans and in accordance with the relevant regulations.

According to the Guidelines on Loan Loss Provisions (貸款損失準備計提指引), allowance for impairment losses consists of general allowance, specific allowance and special allowance. General allowance refers to the allowance for all unidentified but possible losses, which are made based on certain percentages of the balance of total outstanding loans; specific allowance refers to the allowance made for specific losses in connection with an individual loan based on its categorization under the guiding principles; and special allowance refers to the allowance made for the risks specifically related to certain countries, regions, industries, or types of loans.

Commercial banks are required to make provisions for impairment losses on a quarterly basis and to have a general allowance of not less than 1% of the total loans outstanding as of December 31 of each year. The guidelines further provide for the level of specific provisions as a percentage of the outstanding amount of loans for each loan category: 2% for special mention loans; 20%-30% for substandard loans; 40%-60% for doubtful loans; and 100% for loss loans. Commercial banks may make special provisions in accordance with special risk factors (including risks in association with certain industries and countries), probability of losses and historical experience.

Pursuant to the Administrative Measures Regarding Loan Loss Provisions at Commercial Banks (商業銀行貸款損失準備管理辦法) issued by CBRC on July 27, 2011 and which took effect on January 1, 2012, CBRC will set the target loan provision ratio and provision coverage ratio for assessment of the adequacy of loan loss provisions at commercial banks. The benchmark loan provision ratio is 2.5% and the benchmark for provision coverage ratio is 150%. The higher of the two benchmarks will be the regulatory benchmark for loan provisions at commercial banks. Systemically important banks should pass the benchmark by the end of 2013, and non-systemically important banks should pass the benchmark by the end of 2016. Those who do not pass the benchmark before the end of 2016 should formulate a plan to do so and report to the banking supervisory authority and must pass by the end of 2018.

CBRC Supervision of Loan Classification and Loan Allowance

Commercial banks are required to formulate detailed internal procedures that clearly define the responsibilities of each relevant department with respect to loan classification, approval, review and related matters. In addition, since 2002, commercial banks have been required to submit quarterly and annual reports to the CBRC on the classification of their loan portfolios and their allowance for loan losses. Based on the review of these reports, the CBRC may require commercial banks to explain significant changes in loan classification and loan loss allowance levels and may carry out further inspections. Beginning in 2012, commercial banks should, on a monthly basis, provide information on their loan loss provisions to the banking regulatory authorities, including the balance of provisions at the beginning and the end of the period, the amount provided, reversed and written off, the loan provision ratio and the provisions coverage ratio at the beginning and the end of the period.

Loan Write-offs

Under the regulations issued by the CBRC and the MOF, commercial banks are required to establish a strict examination and approval process to write off loan losses. In order to be written off, a loan needs to meet the standards set by the MOF. Losses realized upon writing off loans are deductible for tax purposes but such deduction is subject to the review and approval of the tax authorities as to whether the loans written off were in compliance with the MOF's standards.

Bulk Transfer of Non-performing Assets

Pursuant to the Measures of the Management of Bulk Transfer of Financial Enterprises' Nonperforming Assets (金融企業不良資產批量轉讓管理辦法) jointly issued by the MOF and the CBRC on January 18, 2012, financial enterprises may transfer non-performing assets, including credit assets and non-credit assets generated from their business operations. Such transferrable assets include loans in the substandard, doubtful and loss categories recognized according to statutory processes and standards; written-off book assets; assets for the offsetting of debt and other non-performing assets.

Allowance and Statutory General Reserve for Impairment Losses

On March 30, 2012, the MOF promulgated the Administrative Measures for the Loan Provisioning of the Financial Enterprises (金融企業準備金計提管理辦法), which came into effect on July 1, 2012 and superseded the Administrative Measures for the Provisioning for Non-performing Assets of Financial Enterprises (金融企業呆賬準備提取管理辦法) promulgated on May 17, 2005. The new measures provide that the statutory general reserve to cover potential impairment losses shall not be less than 1.5% of the remaining amount of each financial institution's risk-bearing assets at the balance sheet date. For those who adopt the standard method to calculate the statutory general reserve, the standard risk coefficients of the credit assets in each classification are temporarily set to be 1.5% for normal loans, 3% for special mention loans, 30% for substandard loans, 60% for doubtful loans and 100% for loss loans. In addition, financial institutions that could not meet this requirement in 2012 were required to take necessary steps to ensure that they could meet such requirement by the end of 2017.

Other Operational and Risk Management Ratios

The Core Indicators for the Risk Management of Commercial Banks (for Trial Implementation) ("Core Indicators (Provisional)") (商業銀行風險監管核心指標(試行)) promulgated by the CBRC became effective on January 1, 2006.

The following table sets forth the required ratios as provided in the Core Indicators (Provisional) (商業銀行風險監管核心指標(試行)) and our Bank's ratios for the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, calculated under PRC GAAP.

				Ratios of our Bank (%)			
				As of December 31,			As of June 30,
Risk level	Primary indicators	Secondary Indicators	Requirement (%)	2010	2011	2012	2013
Risk Level							
Liquidity risk	Liquidity ratio[1]	RMB	≥25	45.63	37.67	51.25	27.63
		foreign currency		95.81	70.94	45.88	43.94
	Core liabilities ratio[2]		≥60	52.78	53.92	50.45	53.08
	Liquidity gap ratio[3]		≥(10)	15.28	11.64	(2.57)	1.73
Credit risk	Non-performing asset ratio[4]		≤4	0.39	0.31	0.36	0.38
		NPL[5] ratio	≤5	0.75	0.64	0.74	0.80
	Credit exposure to a single group-borrower[6]		≤15	12.12	12.62	7.53	7.48
		Loan exposure to a single-borrower[7]	≤10	4.12	5.58	4.40	4.16
	Overall credit exposure to related parties[8]		≤50	0.44	0.61	0.34	3.06
Market risk	Cumulative foreign currency exposure ratio[9]		≤20	2.53	10.78	10.61	0.94
Risk Cushion							
Profitability	Cost-to-income ratio[10]		≤45	35.44	31.95	29.97	27.71
	Return on assets[11]		≥0.6	0.95	1.12	1.18	1.26
	Return on capital[12]		≥11	20.99	20.44	22.54	24.59
Allowance adequacy	Allowance adequacy ratio for asset impairment[13]		>100	376.75	487.42	537.99	542.86
		Allowance adequacy ratio for loan impairment[14]	>100	401.17	518.89	595.98	586.18
Capital adequacy	Capital adequacy ratio		≥8	11.02[15]	10.57[15]	10.99[15]	10.55[16]
			≥8.5[17]	–	–	–	9.67[18]
		Core capital adequacy ratio[19]	≥4	8.15	7.89	8.00	8.34[20]
		Tier-one capital adequacy ratio[21]	≥6.5[22]	–	–	–	7.77
		Core tier-one capital adequacy ratio[23]	≥5.5[24]	–	–	–	7.77

Notes:

Calculated as follows:

(1) Liquidity ratio = current assets/current liabilities x 100%. Current assets include cash, gold, surplus deposit reserve, net placement, and deposits with banks and financial institutions with maturities of one month or less, interest receivable and other receivables due within one month, qualified loans with maturities of one month or less, investment in debt securities with maturities of one month or less, debt securities that can be liquidated in the international secondary market at any time and other liquid assets with maturities of one month or less (excluding the non-performing portion of such assets). Current liabilities include demand deposits (excluding policy deposits), time deposits with remaining maturities of one month or less (excluding policy deposits), net placements and deposits from banks and financial institutions due within one month, issued debt securities with maturities of one month or less, interest payable and other payables due within one month, borrowings from the PBOC due within one month and other liabilities due within one month.

(2) Core liabilities ratio = amount of core liabilities/amount of total liabilities x 100%. Core liabilities refer to the combined amount of time deposit with remaining maturities of three months or longer, issued debt securities and 50% of demand deposits. Total liabilities refer to total liabilities on the balance sheet prepared under PRC GAAP.

(3) Liquidity gap ratio = liquidity gap/amount of on- or off-balance sheet assets with maturities of 90 days or less x 100%. Liquidity gap refers to the amount of on- or off-balance sheet assets with maturities of 90 days or less minus the amount of on- or off-balance sheet liabilities.

(4) Non-performing asset ratio = amount of non-performing assets subject to credit risk/amount of assets subject to credit risk x 100%. Non-performing assets include non-performing loans and other assets categorized as non-performing. The categorization of non-loan assets is in accordance with relevant CBRC regulations.

(5) NPL ratio = amount of non-performing loans/amount of total loans x 100%. Non-performing loans refer to loans in the substandard, doubtful and loss categories according to the PBOC and CBRC's five category loan classification system.

(6) Credit exposure to a single group-borrower = total credit granted to the largest single group-borrower/net capital x 100%. Largest group-borrower refers to the single group-borrower granted the highest credit limit at the end of the period.

(7) Loan exposure to a single-borrower = total loans to the largest single-borrower/net capital x 100%. Largest single-borrower refers to the borrower with the highest amount of loans outstanding at the end of the period.

(8) Overall credit exposure to related parties = total granted credit limit to all related parties/net capital x 100%. Related parties refer to parties defined in the Related Party Transactions Measures. Total granted credit limit to all related parties refers to total credit limit granted to such parties minus cash deposit guarantees and collateral in the form of bank deposits and PRC government bonds.

(9) Cumulative foreign currency exposure ratio = amount of cumulative foreign currency exposure/net capital x 100%. Cumulative foreign currency exposure refers to exchange rate sensitive foreign currency assets subtracted by exchange rate sensitive foreign currency liabilities.

(10) Cost-to-income ratio = operating and management expenses/operating income x 100%, prepared under PRC GAAP.

(11) Return on assets = net profit/average balance of total assets for the period x 100%.

(12) Return on capital = net profit/average balance of shareholders' equity for the period x 100%.

(13) Allowance adequacy ratio for asset impairment = actual amount of allowance for assets subject to credit risk/required amount of allowance for assets subject to credit risk x 100%.

(14) Allowance adequacy ratio for loan impairment = actual amount of allowance for loans/required amount of allowance for loans x 100%. The required amount of allowance for loans is calculated based on the methodology under the PBOC guidelines as described under "– Loan Classification, Allowance and Write-offs – Loan Allowance."

(15) Capital adequacy ratio (as of December 31, 2010, 2011 and 2012) = (capital – capital deductions)/(risk-weighted assets + 12.5 x capital charge for market risk), calculated in accordance with the Capital Adequacy Regulations (資本充足率管理辦法).

(16) Effective on January 1, 2013, the Rules Governing Capital Management of Commercial Banks (Provisional) (商業銀行資本管理辦法(試行)) required a new formula for calculating the capital adequacy ratio. The capital adequacy ratio as of June 30, 2013, calculated in accordance with the superseded Capital Adequacy Regulations (資本充足率管理辦法), was no longer a regulatory requirement and is presented here for illustrative purposes only.

(17) According to the Notification on Matters Related to the Implementation of the Rules Governing Capital Management of Commercial Banks (Provisional) (關於實施《商業銀行資本管理辦法(試行)》過渡期安排相關事項的通知), the capital adequacy requirement is set at 8.5% as of December 31, 2013. The requirement increases by 0.4 percentage point each year until 2018. As of December 31, 2018, the capital adequacy ratio is required to be 10.5%.

(18) Capital adequacy ratio (as of June 30, 2013) = (total capital – corresponding capital deduction)/(risk-weighted assets), calculated in accordance with the Rules Governing Capital Management of Commercial Banks (Provisional) (商業銀行資本管理辦法(試行)), which became effective on January 1, 2013.

(19) Core capital adequacy ratio (as of December 31, 2010, 2011 and 2012) = (core capital – core capital deductions)/(risk-weighted assets + 12.5 x capital charge for market risk), calculated in accordance with the Capital Adequacy Regulations (資本充足率管理辦法).

(20) Effective on January 1, 2013, core capital adequacy ratio was no longer a regulatory requirement under the Rules Governing Capital Management of Commercial Banks (Provisional) (商業銀行資本管理辦法(試行)). The core capital adequacy ratio as of June 30, 2013, calculated in accordance with the superseded Capital Adequacy Regulations (資本充足率管理辦法), is presented here for illustrative purposes only.

(21) Tier-one capital adequacy ratio = (tier-one capital – corresponding capital deduction)/(risk-weighted assets).

(22) According to the Notification on Matters Related to the Implementation of the Rules Governing Capital Management of Commercial Banks (Provisional) in Transitional Period (關於實施《商業銀行資本管理辦法(試行)》過渡期安排相關事項的通知), the tier-one capital adequacy requirement is set at 6.5% as of December 31, 2013. The requirement increases by 0.4 percentage point each year until 2018. As of December 31, 2018, the tier-one capital adequacy ratio is required to be 8.5%.

(23) Core tier-one capital adequacy ratio = (core tier-one capital – corresponding capital deduction)/(risk-weighted assets).

(24) According to the Notification on Matters Related to the Implementation of the Rules Governing Capital Management of Commercial Banks (Provisional) in Transitional Period (關於實施《商業銀行資本管理辦法(試行)》過渡期安排相關事項的通知), the core tier-one capital adequacy requirement is set at 5.5% as of December 31, 2013. The requirement increases by 0.4 percentage point each year until 2018. As of December 31, 2018, the core tier-one capital adequacy ratio is required to be 7.5%.

Core liabilities ratio indicates a bank's liquidity position by measuring the amount of liabilities that is not expected to be settled in the near term, and represents the proportion of relatively stable funding sources for the bank. As of December 31, 2010, 2011, 2012 and June 30, 2013, our core liabilities ratio was 52.78%, 53.92%, 50.45% and 53.08%, respectively, which did not satisfy the core liabilities ratio requirement under the Core Indicators (Provisional) (商業銀行風險監管核心指標(試行)). Such non-compliance was mainly because our time deposits with remaining maturities of more than three months (inclusive) represented a relatively small portion of our funding resources, and inter-bank deposits represented a relatively large portion of our funding resources as of these dates. In order to comply with the core liabilities ratio requirement, we aim to further improve our customer base, obtain more stable funding sources, enhance our asset-liability management and closely monitor the key indicators relating to our core liabilities ratio. According to the Core Indicators (Provisional) (商業銀行風險監管核心指標(試行)), the CBRC may issue risk alerts to commercial banks based on the analysis of the data they have provided. However, we have been advised by our PRC legal advisor, King & Wood Mallesons, that the Core Indicators (Provisional) (商業銀行風險監管核心指標(試行)) do not stipulate any penalties for non-compliance. In accordance with the Core Indicators (Provisional) (商業銀行風險監管核心指標(試行)), the core liabilities ratio, together with other regulatory ratios, serve only as indicators of risk identification, monitoring and alertness of commercial banks, and do not form a direct basis for any regulatory penalties or other sanctions. Furthermore, failure to meet the core liabilities ratio does not necessarily result in any immediate, significant liquidity risk. As of the Latest Practicable Date, we have not been notified of any potential penalties or been subject to any actual penalties for non-compliance with the core liabilities ratio set out in the Core Indicators (Provisional) (商業銀行風險監管核心指標(試行)) and we do not expect any material adverse impact on us from such non-compliance. We have been advised by our PRC legal advisor, King & Wood Mallesons, that such non-compliance does not constitute a material impediment for our listing on the Hong Kong Stock Exchange. In addition, the Core Indicators (Provisional) (商業銀行風險監管核心指標(試行)) has also defined several other ratios, including liquidity ratio, core liabilities ratio, liquidity gap ratio and non-performing assets ratio, though no regulatory provisions have been adopted thereon. The CBRC may formulate regulatory provisions with respect to such ratios in the future.

In addition to the above, we did not, on certain occasions, meet certain requirements of the PRC banking regulators with respect to the required 75% loan-to-deposit ratio. On January 10, 2009, the CBRC issued the "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), which permitted certain banks that meet capital adequacy requirements and have good coverage ratios to exceed the 75% loan-to-deposit ratio. As of December 31, 2009, our loan-to-deposit ratio was 78.15%. In the CBRC's annual inspection report for 2010, the CBRC also pointed out that, as of July 2010, our loan-to-deposit ratio was 77.35%. While we believe that we meet the eligibility requirements of the CBRC notice discussed above, we have adopted remedial actions to improve our loan-to-deposit ratio and have reported such actions to the CBRC. As of the Latest Practicable Date, we have not been notified by the CBRC that the above CBRC notice is not applicable to us, nor have we been notified of any potential penalties or become subject to any actual penalties for exceeding the 75% requirement. As of June 30, 2013, our loan-to-deposit ratio was 70.28%, which complied with the CBRC required 75% loan-to-deposit ratio. See "Business – Legal and Regulatory – Regulatory Reviews and Proceedings – Findings of Regulatory Examinations – CBRC" for more information about non-compliance with respect to regulatory ratios.

Corporate Governance and Internal Control

Corporate Governance

The PRC Company Law (中華人民共和國公司法), the PRC Commercial Banking Law (中華人民共和國商業銀行法), the Guidelines on the Corporate Governance of Commercial Banks (商業銀行公司治理指引) and other laws, regulations and regulatory documents provide for specific requirements relating to corporate governance. In particular, the Guidelines on the Corporate Governance of Commercial Banks, which was promulgated by the CBRC on July 19, 2013, requires commercial banks to set up a corporate governance structure under the principles of independent operation, effective balance, mutual cooperation and coordinated operation, and to establish a reasonable motivation incentive and control mechanism so as to decide, execute and supervise relevant corporate affairs scientifically and effectively. In addition, the guidelines provide that good corporate governance of a commercial bank shall include, but shall not be limited to, sound organizational structure, clearly defined responsibilities, scientific development strategies and value criterion, positive social responsibilities, effective risk management and internal control, a reasonable motivation incentive and restraint mechanism, as well as a complete information disclosure system.

The Guidelines on System of Independent Directors and External Supervisors of Joint Stock Commercial Banks (股份制商業銀行獨立董事和外部監事制度指引) requires that the board of directors of a commercial bank should have at least two independent directors and the board of supervisors should have at least two external supervisors, and the Guidelines on the Establishment of a System of Independent Directors by Listed Companies (關於在上市公司建立獨立董事制度的指導意見) require that at least one-third of the board members of a PRC listed company should be independent directors.

In addition, the CBRC has also strengthened shareholders' long-term commitments and responsibilities in respect of capital injection, particularly with respect to controlling shareholders of joint stock commercial banks, by requiring them to commit to strictly control of connected transactions by banks and take steps to support their banks to meet the prudent regulatory standards, to abide by participation limitation and to take initiatives to prevent imprudent expansion and conflicts of interest. The CBRC also requires the boards of directors of banking financial institutions to implement their functions and duties in a practical manner and refine the collective decision-making mechanisms; requires the boards of supervisors of banking financial institutions to fully exercise their supervising functions and establish direct channels of communication with directors and senior management; requires the senior management of banking financial institutions to strengthen their control on management procedures, make clear the credit granting process and clarify the due diligence standards and liability prosecution standards at steps such as customer investigation, business acceptance, analysis and assessment, credit granting decision and implementation and credit granting management. Furthermore, according to the Measures for Evaluating the Performance of Directors of Commercial Banks (Provisional) (商業銀行董事履職評價辦法(試行)), commercial banks shall, as required by the relevant laws, rules and regulations, assess the performance of their directors. In addition, under the Supervisory Guidelines on Sound Compensation in

Commercial Banks (商業銀行穩健薪酬監管指引), a commercial bank shall have a compensation system which is beneficial for realizing its strategic goals and enhancing its competitiveness, is suitable for fostering talents and controlling risk and shall serve as a major integral part of corporate governance for purposes of giving full play to the orienting role of compensation in commercial banks' corporate governance and in the management and control of risks, establishing a sound, scientific and effective corporate governance mechanism and promoting the sound operation and sustainable development of the banking sector.

Internal Control

Under the Internal Control Guidelines for Commercial Banks (商業銀行內部控制指引) issued by the CBRC in 2007, commercial banks are required to establish internal control to ensure effective risk management for their business activities. PRC commercial banks are also required to establish a risk management department that formulates and implements risk management policies and procedures. In addition, PRC banks are required to establish an internal audit department that can independently supervise and evaluate all aspects of their operations.

On June 27, 2006, the CBRC issued the Guidelines on Internal Audit for Banking 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 establish an audit committee of the board with at least three members, a majority of whom must be non-executive directors. Banks are also required to have an internal audit department with employees who meet certain qualifications and in principle represent no less than 1% of the bank's total number of employees. As of the Latest Practicable Date, our total internal audit staff had not yet reached this 1% requirement. While our PRC legal advisor, King & Wood Mallesons, had advised us that such guidelines do not specify any penalties or disciplinary measures for non-compliance with this 1% requirement or any timeframe for compliance, we aim to improve our internal audit practices. Our Legal and Compliance Department, Audit Department, Supervision and Security Department are responsible for compliance management and internal control monitoring, internal audit and internal control assessment, case prevention and safety protection of our Bank.

On May 22, 2008, the Basic Rules on Enterprise Internal Control (企業內部控制基本規範) were issued jointly by the MOF, the CBRC, the NAO, the CSRC and the CIRC and became effective on July 1, 2009. The rules require enterprises to establish and implement internal control systems, utilize information technology to strengthen internal control and establish information systems addressing their operational and management needs, among other matters.

Information Disclosure Requirements

On July 3, 2007, the CBRC issued the Measures for the Information Disclosure of Commercial Banks (商業銀行信息披露辦法) which became effective on the same day. Under the measures, a PRC commercial bank is required to publish an audited annual report within four months after the end of each financial year, disclosing its financial position and operational results.

In accordance with the Guidelines on the Corporate Governance of Commercial Banks (商業銀行公司治理指引), the board of directors of a commercial bank shall be responsible for the information disclosure of such bank. The documents required for such disclosure include regular reports, temporary reports and other relevant materials. Commercial banks are required to disclose relevant information in their annual reports and/or on their websites to provide convenient access and to enable their shareholders and stakeholders to obtain the disclosed information on time. Listed commercial banks also need to satisfy other information disclosure requirements promulgated by the securities regulatory authorities.

The Information Disclosure Rules on Companies Publicly Offering Securities No. 26 – Special Disclosure Rules on Commercial Banks (公開發行證券的公司信息披露編報規則第26號 – 商業銀行信息披露特別規定), which was issued by the CSRC on July 25, 2008 and became effective on September 1, 2008, set out guidelines on information disclosure, including financial and risk-related disclosure by commercial banks offering securities to the public. The rules also require commercial banks to publish announcements in relation to events which may have a material impact on their operational capability or profitability.

Apart from the disclosure requirements above, PRC listed commercial banks are also required to comply with the relevant disclosure requirements imposed by the CSRC through the Administrative Measures on Listed Companies Information Disclosure (上市公司信息披露管理辦法) and the relevant stock exchanges.

Transactions with Related Parties

Apart from the general rules regarding related party transactions issued by the CSRC and the relevant stock exchanges, the CBRC promulgated the Administrative Measures for Related Party Transactions between Commercial Banks and their Insiders or Shareholders (商業銀行與內部人和股東關聯交易管理辦法) ("Related Party Transaction Measures") on April 2, 2004, which provided more stringent and detailed requirements on related party transactions of PRC commercial banks. The measures require PRC commercial banks to adhere to the principles of honesty and fairness in conducting related party transactions. PRC commercial banks are not allowed to grant unsecured loans to related parties or grant secured loans to related parties on terms more favorable than those offered to third-party borrowers.

The measures also set out detailed provisions on the definition of a related party, the form and content of a related party transaction and the procedures and principles that must be followed for related party transactions.

Pursuant to the measures, commercial banks must submit to the CBRC, on a quarterly basis, status reports regarding their related party transactions, as well as disclose matters relating to related parties and related party transactions in their financial statements. Furthermore, the board of directors is required to report related party transactions and the implementation of mechanisms for the monitoring and approval of such transactions annually at shareholder meetings. The CBRC has the power to require the rectification of transactions that violate the measures and to impose sanctions on the banks and/or the related parties.

Ownership and Shareholder Restrictions

Regulations on Equity Investment in Banks

Any natural or legal person intending to acquire 5% or more of the total equity interest of a commercial bank is required to obtain prior approval of the CBRC. If any existing shareholder of a commercial bank increases its shareholding to 5% or more without obtaining the CBRC's prior approval, that shareholder will be subject to CBRC sanctions, which include, among others, rescission of the acquisition, disgorgement of profits (if any) for that shareholder and fines.

Under the Measures for the Administration of the Investment and Shareholding in Chinese-funded Financial Institutions by Foreign Financial Institutions (境外金融機構投資入股中資金融機構管理辦法), foreign financial institutions may make equity investments in PRC domestic commercial banks, subject to the CBRC's approval. However, no single foreign financial institution may own 20% or more of the total equity interest of any domestic commercial bank. In addition, if aggregate foreign investment exceeds 25% of the total equity interest in a non-listed PRC domestic commercial bank, such bank will be regulated as a foreign invested bank. A listed PRC domestic commercial bank is regulated as a PRC domestic bank even if the aggregate foreign investment exceeds 25% of its total equity interest.

Restrictions on Shareholders

The Guidelines on the Corporate Governance of Commercial Banks (商業銀行公司治理指引) imposes certain additional requirements on the shareholders of PRC commercial banks. For example:

- shareholders of commercial banks (particularly major shareholders) need to support reasonable capital plans formulated by the bank's board of directors so that the banks can continuously meet relevant regulatory requirements;
- when a commercial bank's capital adequacy ratio fails to meet regulatory requirements, the bank needs to formulate a capital injection plan to meet regulatory requirements within a required period and increase capital through measures such as supplementing core capital. Major shareholders of the bank shall not prevent other shareholders from injecting additional capital or object to the introduction of new qualified shareholders; and
- shareholders of a commercial bank (particularly major shareholders) who have any overdue loans from the bank are restricted from voting at the shareholders' meeting of the bank. Directors appointed by such shareholders are restricted from voting at the bank's board meetings.

In addition, the PRC Company Law (中華人民共和國公司法) and relevant CBRC rules and regulations impose certain restrictions on the ability of a commercial bank's shareholders to pledge their shares. For example, a PRC joint stock commercial bank may not accept its own shares as collateral. Moreover, there are legal limitations on the ability of shareholders in a PRC joint stock commercial bank to pledge to any other party their shares in the bank. According to the Guidelines on the Corporate Governance of Commercial Banks (商業銀行公司治理指引), if a shareholder of a PRC commercial bank pledges its shares in the bank as collateral for itself or for a third party, it must give prior notice to the board of directors of the bank and must strictly follow all relevant rules, regulations and regulatory requirements. Moreover, the shareholder may not create an additional pledge if the balance of the bank's loans to such shareholder exceeds the audited net value of such shareholder's equity in the bank for the immediately preceding year.

Risk Management

Since its establishment, the CBRC has published numerous risk management guidelines and rules to improve risk management of PRC commercial banks, including credit risk management, operational risk management, market risk management, compliance risk management and risk rating system, in addition to guidelines concerning loan and credit to certain specific industries and customers and the implementation of Basel II. See "– Regulation of Principal Commercial Banking Activities – Lending" and "– Supervision over Capital Adequacy – Basel Accords." The CBRC also promulgated the Core Indicators (Provisional) (商業銀行風險監管核心指標(試行)) as a basis of supervising the risk management of PRC commercial banks. The CBRC established requirements for certain ratios relating to risk levels and risk provisions under the Core Indicators (Provisional) (商業銀行風險監管核心指標(試行)) and is expected to establish requirements for certain ratios relating to risk mitigation for the purpose of evaluating and monitoring the risks of PRC commercial banks. See "– PRC Banking Supervision and Regulation – Other Operational and Risk Management Ratios." The CBRC periodically collects data through off-site surveillance to analyze such indicators and evaluate and issue early warnings of the risks on a regular basis.

Market Risk Management

On December 29, 2004, the CBRC promulgated the Guidelines on the Market Risk Management of Commercial Banks (商業銀行市場風險管理指引), which became effective on March 1, 2005, to strengthen the market risk management of PRC commercial banks. These guidelines mainly address (i) the responsibilities of the board of directors and the senior management in supervising market risk management, (ii) the policies and procedures for market risk management, (iii) the detection, quantification, monitoring and control of market risk and (iv) the responsibilities for internal control and external audits.

In addition, on June 7, 2012, the CBRC issued the Rules Governing Capital Management of Commercial Banks (Provisional) (商業銀行資本管理辦法(試行)) which became effective on January 1, 2013. The Measurement Rules on the Standardization for the Market Risk Capital Requirements (Appendix 10) (附件10,市場風險資本要求標準法計量規則) and the Regulatory Requirements on the Internal Models for the Market Risk (Appendix 11) (附件11,市場風險內部模型法監管要求) of this provisional regulation provided the basic standard that commercial banks should meet when using internal models to measure the market risk capital, as well as the examination and approval procedures and the regulatory requirements.

Operational Risk Management

On March 22, 2005, the CBRC issued the Circular on Strengthening Control of Operational Risk (關於加大防範操作風險工作力度的通知) to further strengthen PRC commercial banks' ability to identify, manage and control operational risks. Under this circular, commercial banks are required to establish internal policies and procedures specifically for the management and control of operational risks. A bank's internal audit department and business operations department are required to conduct independent and ad hoc reviews and examinations of the bank's business operations from time to time and ongoing reviews and examinations for business areas involving a greater degree of operational risks. Moreover, a commercial bank's head office is required to assess the implementation of, and compliance with, its internal policies and procedures on operational risks.

In addition, the circular sets out detailed requirements relating to, among other things, establishing a system under which branch officers responsible for business operations are required to rotate on a regular basis, establishing a system to encourage employees to fully comply with applicable laws and regulations and internal rules and policies, improving the regular checking of account balances between PRC commercial banks and their customers, improving the timely checking of the banks' internal accounting, segregating persons responsible for book-keeping from those responsible for account reconciliation and establishing a system to strictly control and manage the use and keeping of chops and specimen signatures, as well as evidential vouchers.

Furthermore, on May 14, 2007, the CBRC issued the Guidelines on Operational Risk Management of Commercial Banks (商業銀行操作風險管理指引) to enhance the risk management abilities of the PRC commercial banks. These guidelines mainly address the supervision and controls of the board of directors, responsibilities of senior management, proper organizational structure and policies and approaches and procedures for operational risk management. Those policies and procedures shall be submitted to the CBRC. If a commercial bank incurs a significant operational incident and fails to adopt effective corrective measures within a required period, the CBRC shall take relevant regulatory measures. On June 7, 2012, the CBRC issued the Rules Governing Capital Management of Commercial Banks (Provisional) (商業銀行資本管理辦法(試行)), which became effective on January 1, 2013 and amended or formulated several measures to calculate credit risk, market risk and operational risk. The Measurement Requirements on the Operational Risk Capital (Appendix 2) (附件2, 操作風險資本計量要求) provided further guidance on the requirements for calculating operational risk-weighted assets.

Liquidity Risk Management

In order to strengthen liquidity risk management and maintain safe and stable operations of commercial banks, the CBRC issued the Guidelines on the Management of Liquidity Risk of Commercial Banks (商業銀行流動性風險管理指引) on September 28, 2009, which required commercial banks to establish a sound governance organization for the management of liquidity risk and specified, among other things, (i) the functions and responsibilities of the board of directors and its specialized committee, the board of supervisors (supervisors) and senior management of the commercial banks in the management of liquidity risk; (ii) the liquidity risk management policy and procedure; (iii) the internal control and management information system; and (iv) liquidity management methods and techniques.

In addition, the CBRC printed and distributed the Notice on Further Strengthening the Supervision of Liquidity Risk of Commercial Banks (關於進一步加強商業銀行流動性風險監管的通知) in February 2010, which introduced the new liquidity risk measuring indexes, such as liquidity coverage ratio and net stable funding ratio, and required commercial banks to strengthen the measurement and management of liquidity risk, optimize the asset-liability allocation, reduce the maturity mismatch and decrease the possibility and impact of a liquidity crisis. Moreover, in December 2010 the CBRC issued the Notice on Printing and Distributing Off-site Supervision Report of Year 2011 (關於印發 2011年非現場監管報表的通知), which improved the reporting system for off-site supervision of liquidity risk in accordance with the newest requirements.

On October 12, 2011, the CBRC published the Rules Governing Liquidity Risk Management of Commercial Banks (Consultation Draft) (商業銀行流動性風險管理辦法(徵求意見稿)), which further elaborated on the general principles of liquidity risk management and supervisory requirements for commercial banks. On October 11, 2013, the CBRC released a draft to solicit public opinions on regulations for liquidity risks faced by commercial banks, which will come into effect on January 1, 2014 (商業銀行流動性風險管理辦法(試行)(徵求意見稿)), requiring commercial banks to be allowed to maintain a liquidity coverage ratio (LCR) lower than 100 percent before 2018 under pressure conditions.

Compliance Risk Management

In order to strengthen the compliance risk management of commercial banks and maintain the safety and stability of the operations of PRC commercial banks, the CBRC promulgated the Guidelines on Compliance Risk Management of Commercial Banks (商業銀行合規風險管理指引) on October 20, 2006. These guidelines have clarified the responsibilities of the board of directors and the senior management of a PRC commercial bank with respect to compliance risk management, standardized the organizational structure for compliance risk management and set out the regulatory mechanisms for a bank's risk management.

Risk Management in Other Aspects

According to the Notice on Formal Operation of the Off-site Supervision Information System (中國銀行業監督管理委員會關於非現場監管資訊系統2007年正式運行的通知), issued by the CBRC on October 20, 2006, the Off-site Supervision Information System established by the CBRC formally entered operation since 2007. Under the Off-site Supervision Information System, banks shall submit to the CBRC statements regarding the basic business situation of the bank and major risks faced, as well as the unique risks and particulars of the bank's business. Depending on risk elements, supervisory requirements and other factors, such statements may be submitted on a monthly, quarterly, semi-annual or annual basis.

In addition to the above, the CBRC promulgated several guidelines in other aspects of risk management such as the Guidelines on Reputation Risk Management of Commercial Banks (商業銀行聲譽風險管理指引), the Guidelines on the Management of Interest Rate Risk in the Banking Account of Commercial Banks (商業銀行銀行賬戶利率風險管理指引), the Guidelines on the Management of Outsourcing Risks of Banking Financial Institutions (銀行業金融機構外包風險管理指引), the Guidelines on the Management of Information Technology Risks of Commercial Banks (商業銀行信息科技風險管理指引) and the Guidelines on the Management of Country Risk by Banking Financial Institutions (銀行業金融機構國別風險管理指引), in order to strengthen the risk management of commercial banks in these fields.

Risk Rating System

PRC commercial banks are subject to evaluation by the CBRC based on a provisional risk rating system. Under this system, the capital adequacy, asset quality, management quality, profitability, liquidity and exposure to market risk of PRC commercial banks are evaluated and scored by the CBRC on a continuous basis. Each bank is classified into one of five risk-rating categories based on its scores. The CBRC's supervisory activities in respect of a bank, including the frequency and scope of its on-site examinations, depend on the bank's risk rating category. Such risk rating also forms the basis for the CBRC's evaluation of a bank's applications for new business licenses and its senior management qualification. These risk ratings are currently not publicly available.

Anti-money Laundering Regulation

The PRC Anti-money Laundering Law (中華人民共和國反洗錢法), which became effective on January 1, 2007, sets out the responsibilities of the relevant financial regulatory authorities regarding anti-money laundering, including participating in the formulation of the rules and regulations regarding anti-money laundering activities of the financial institutions they regulate and requiring financial institutions to establish sound internal control systems regarding anti-money laundering. To facilitate the implementation of the PRC Anti-money Laundering Law (中華人民共和國反洗錢法), the PBOC promulgated the Anti-money Laundering Regulations for Financial Institutions (金融機構反洗錢規定), which became effective on January 1, 2007. According to these regulations, PRC commercial banks are required to establish internal anti-money laundering procedures and either establish an independent anti-money laundering department or designate a relevant department to implement their anti-money laundering procedures. In accordance with the Administrative Measures for Financial Institutions' Reporting of Large Transactions and Suspicious Transactions (金融機構大額交易和可疑交易報告管理辦法) promulgated by the PBOC, which became effective on March 1, 2007, upon the detection of any suspicious transactions or transactions involving large amounts, PRC commercial banks are required to report the transactions to the PBOC or the SAFE, where applicable. Where necessary and pursuant to appropriate judicial proceedings, PRC commercial banks are required to cooperate with government authorities in preventing money laundering activities and freezing assets. PRC commercial banks are required to establish a customer identification system in accordance with the Measures on the Administration of Customer Identity Identification and Materials and Transaction Recording of Financial Institutions (金融機構客戶身份識別和客戶身份資料及交易記錄保存管理辦法) promulgated jointly by the PBOC, the CBRC, the CSRC and the CIRC, which became effective on August 1, 2007. PRC commercial banks are also required to record the identities of all customers and the information relating to each transaction and keep retail transaction documents and books. The PBOC supervises and conducts on-site examinations of PRC commercial banks' compliance with its anti-money laundering laws and regulations and may impose penalties for any violations thereof in accordance with the PRC Anti-money Laundering Law (中華人民共和國反洗錢法).

Other Requirements

Use of Funds

Under the PRC Commercial Banking Law (中華人民共和國商業銀行法), commercial banks are not permitted to engage in trust investment or securities business, invest in real property other than for their own use, or invest in non-banking financial institutions and enterprises, unless otherwise approved by the relevant government authorities. The use of funds by commercial banks is limited to the following:

- short-term, medium-term and long-term loans;
- discounts on negotiable instruments;
- inter-bank loans;
- trading of government bonds;
- trading of bonds from financial institutions;
- investment in banking institutions; and
- other uses as may be approved by the relevant government authorities.

Upon obtaining approvals from the relevant authorities, including the CBRC, commercial banks are permitted to invest in domestic insurance companies, fund management companies and financial leasing companies.

On February 20, 2005, the PBOC, the CBRC and the CSRC jointly promulgated and implemented the Pilot Administrative Measures on Establishment of Funds Management Companies by Commercial Banks (商業銀行設立基金管理公司試點管理辦法), pursuant to which state-owned commercial banks and joint stock commercial banks are allowed to set up or acquire fund management companies after obtaining approvals from the CBRC and the CSRC. In addition, commercial banks shall adopt effective measures to prevent risks associated with capital markets and the banking industry.

In accordance with the Administrative Measures on Financial Leasing Companies (金融租賃公司管理辦法), which were amended by the CBRC in 2007, commercial banks can invest in financial leasing companies where commercial banks are able to meet relevant requirements for capital adequacy, profitability, corporate governance and other matters.

On November 5, 2009, the CBRC enacted the Pilot Administrative Measures on Investment by Commercial Banks in Insurance Companies (商業銀行投資保險公司股權試點管理辦法). These pilot administrative measures require a pilot plan for investment by a commercial bank in a domestic insurance company to be filed with the relevant regulator for the approval of the State Council. Each commercial bank is allowed to invest in one domestic insurance company only. The pilot administrative measures also set out rules for the qualifications of a commercial bank intending to invest in a domestic insurance company and for the target insurance company itself.

PRC SECURITIES LAW AND REGULATIONS

As our A Shares have been listed on the Shanghai Stock Exchange since August 2010, we are subject to the provisions of the PRC Securities Law (Revised) (中華人民共和國證券法(修訂)) and the listing rules of the Shanghai Stock Exchange, which regulate share listing and information disclosure of listed companies, including us, and seek to maintain the orderly operation of the stock market and protect the interests of investors. As a listed company with A Shares listed on the Shanghai Stock Exchange, we are subject to a number of obligations under the listing rules of the Shanghai Stock Exchange, including, but not limited to:

- publishing annual, interim and quarterly reports;
- disclosing all information that may have a material impact upon our share price;
- making announcements in relation to certain corporate matters; and
- appointing a secretary to the board of directors, who is responsible for, among other things, certain corporate governance matters and information disclosure matters.

Furthermore, as a commercial bank listed in the PRC, we are required to disclose in our annual report the financial information prepared according to PRC GAAP.

We are subject to a number of PRC laws governing the securities market. The CSRC is responsible for drafting the rules and regulations on the administration of securities markets, supervising listed companies and managing the public offering of securities by PRC companies and securities transactions, such as prohibiting listed companies from using inside information in any securities transaction. A company with shares dual-listed both in the PRC and abroad is concurrently subject to PRC laws and regulations as well as the regulations of other countries and regions in relation to securities market management and is simultaneously required to disclose important information to both investment communities.

OUR HISTORY

Our predecessor, China Everbright Bank, was a financial enterprise established in 1992 with the approval of the State Council and the PBOC. At that time, we were wholly owned by China Everbright (Group). We obtained a financial institution license from the PBOC on April 29, 1992 and were registered with the SAIC on June 18, 1992. Our registered capital was RMB1,500 million upon establishment.

We were converted into a joint stock limited liability company in 1997. We completed our initial public offering of A Shares and listed our A Shares on the Shanghai Stock Exchange on August 18, 2010 (SH Stock Code: 601818). As of September 30, 2013, we had a registered capital of RMB40,434.79 million. As of the same date, we had 208,600 Shareholders.

We are an innovative, competitive and fast-growing PRC commercial bank that targets mid- to high-end customers. Since we commenced our operations on August 18, 1992 as a national commercial bank, we have provided a comprehensive and competitive range of financial products and services to retail and corporate banking customers, government authorities and financial institutions.

Conversion into a Joint Stock Limited Liability Company

The PBOC approved our conversion into a joint stock limited liability company in 1997. We were incorporated under the name of China Everbright Bank Company Limited with a registered capital of RMB2,800 million. We received a new business license from the SAIC on July 6, 1999. We believe that we were the first state-controlled National Joint Stock Commercial Bank in the PRC to have an international financial organization as one of its shareholders. Upon our conversion into a joint stock limited liability company, we had 131 Promoters including China Everbright (Group), China National Tobacco Corporation Yunnan Company, and Asian Development Bank with China Everbright (Group) holding 51.07% of our Shares and the other 130 Promoters holding the remaining 48.93% of our Shares.

Takeover of the Former China Investment Bank

Upon approval by the PBOC, we entered into an agreement with China Development Bank on March 18, 1999, pursuant to which we took over all the assets, liabilities and owner's equity of the former China Investment Bank, as well as its 137 outlets and 29 branches and sub-branches. As of March 18, 1999, the value of the assets, liabilities and owner's equity transferred to us, which were neither audited nor appraised by independent experts, amounted to approximately RMB65,429 million, RMB62,469 million and RMB2,960 million, respectively. We examined and appraised the assets we took over from the former China Investment Bank and reported the appraisal results to the MOF. According to our five-category classification system, the value of impaired assets of the former China Investment Bank amounted to approximately RMB27,535 million, including approximately RMB25,939 million of non-performing loans. In addition, the value of overdue interest from corporate borrowers of the former China Investment Bank amounted to approximately RMB4,780 million.

Capital Increases and Capital Injection by Huijin and Private Placement

In 1999, we increased our registered capital by converting our capital reserve to paid-in capital. Our Shareholders received 5.4 new Shares for each 10 Shares they held, through which we issued 1,512 million new Shares in total. Upon completion of the conversion, our registered capital increased from RMB2,800 million to RMB4,312 million.

In September 2001, we issued 3,157.9 million new Shares to existing and new Shareholders at a subscription price of RMB1.95 per Share. Upon completion of the capital increase, our registered capital increased from RMB4,312 million to RMB7,469.90 million.

In April 2002, we further increased our registered capital by converting our capital reserve to paid-in capital. Our Shareholders received one new Share for each 10 Shares they held. Upon conversion of our capital reserve to paid-in capital, our registered capital increased from RMB7,469.90 million to RMB8,216.89 million.

In November 2007, we received a capital injection denominated in US dollars from Huijin, which was equivalent to RMB20,000 million. Huijin subscribed for 20 billion new Shares at a subscription price of RMB1.00 per Share. Upon completion of the capital injection, our registered capital increased from RMB8,216.89 million to RMB28,216.89 million.

In August 2009, we completed a private placement in which we issued 5,217.90 million new Shares in aggregate to eight domestic investors at a subscription price of RMB2.20 per Share, increasing our registered capital from RMB28,216.89 million to RMB33,434.79 million.

FINANCIAL RESTRUCTURING

Since 2007, we have completed the following financial restructuring measures upon approval by the State Council: (i) capital injection by Huijin; (ii) release from certain historical related party transactions with China Everbright (Group) and Everbright Finance; and (iii) disposal of impaired assets.

Capital Injection by Huijin

In November 2007, upon approval by the State Council and the CBRC, we received a capital injection denominated in US dollars from Huijin, which was equivalent to RMB20,000 million. Huijin subscribed for 20 billion new Shares at a subscription price of RMB1.00 per Share. Our registered capital accordingly increased to RMB28,216.89 million. As a result, Huijin became our controlling Shareholder with approximately 70.88% of our then total share capital.

See "Relationship with Our Controlling Shareholders and Connected Transactions" for information on Huijin.

Release from Certain Historical Related Party Transactions with China Everbright (Group) and Everbright Finance

Following approval from the State Council, we entered into a credit rights and debt restructuring agreement with China Everbright (Group) and Everbright Finance on July 20, 2007, pursuant to which the parties agreed to waive all overdue interest due to us from China Everbright (Group) on the outstanding loans as of June 30, 2007 and release all guarantees and pledges in relation to such loans in consideration for China Everbright (Group) repaying the principal of such loans within a given time and releasing all the guarantees previously provided by us in relation to the debts of China Everbright (Group). The principal amounts of such loans at that time were RMB1,858,668,700 and US$32,094,132.78, respectively. We also agreed to waive all overdue interest due to us from Everbright Finance on the outstanding loans as of June 30, 2007 on the condition that Everbright Finance repay the principal amounts of such loans within a given time, which were US$148,500,000 and HK$162,000,000, respectively.

In 2007, we recovered all the principal amounts of the loans granted to China Everbright (Group) and the placements granted to Everbright Finance as described above (namely RMB1,858,668,700 and US$32,094,132.78 from China Everbright (Group) and US$148,500,000 and HK$162,000,000 from Everbright Finance, respectively). As of the Latest Practicable Date, all the guarantees we provided in respect to the debts of China Everbright (Group) had been released except for the guarantee for the interest it owed to a state-owned commercial bank in the amount of approximately RMB180 million. Pursuant to the arrangement between China Everbright (Group) and the state-owned commercial bank, the outstanding interest of approximately RMB180 million owed by China Everbright (Group) to the state-owned commercial bank will undergo a "debt-to-equity" swap such that the state-owned commercial bank will become a shareholder of an entity to be established by China Everbright (Group). Accordingly, our guarantee obligation for such outstanding interest will be released when the new entity is established and a separate debt-to-equity swap agreement is entered into between the state-owned commercial bank and China Everbright (Group). As of the Latest Practicable Date, the new entity has not yet been established.

Disposal of Impaired Assets

In April 2008, we disposed of on a non-recourse basis, the impaired assets to China Cinda Asset Management Corporation, China Orient Asset Management Corporation and China Great Wall Asset Management Corporation, all being independent third parties to us, through a public bidding process. As of December 31, 2007, the original principal amount, accrual of provision for assets impairment and net book value of the above impaired assets amounted to RMB14,206 million, RMB12,354 million and RMB1,852 million, respectively. The total consideration we received for the disposal was RMB1,644 million. As of December 31, 2008, we had received the full amount of the consideration from the three asset management companies. We incurred a loss of RMB208 million in the disposal, being the difference between the consideration we received and the net book value of the impaired assets. The loss was reflected in our statement of comprehensive income for the year ended December 31, 2008. The disposal of these impaired assets had no impact on the profit or loss of us in the past years.

A SHARES INITIAL PUBLIC OFFERING AND LISTING

We issued 6,100 million A Shares upon our initial public offering in August 2010 and issued an additional 900 million A Shares upon the exercise of the over-allotment option in September 2010. Our A Shares were listed and commenced trading on the Shanghai Stock Exchange (SH Stock Code: 601818) on August 18, 2010. Upon completion of the A Share Offering (including exercising the over-allotment option), our registered capital increased from RMB33,434.79 million to RMB40,434.79 million. The total proceeds from the A Share Offering (including exercising the over-allotment option) were RMB21,700 million.

PROPOSED RESTRUCTURING

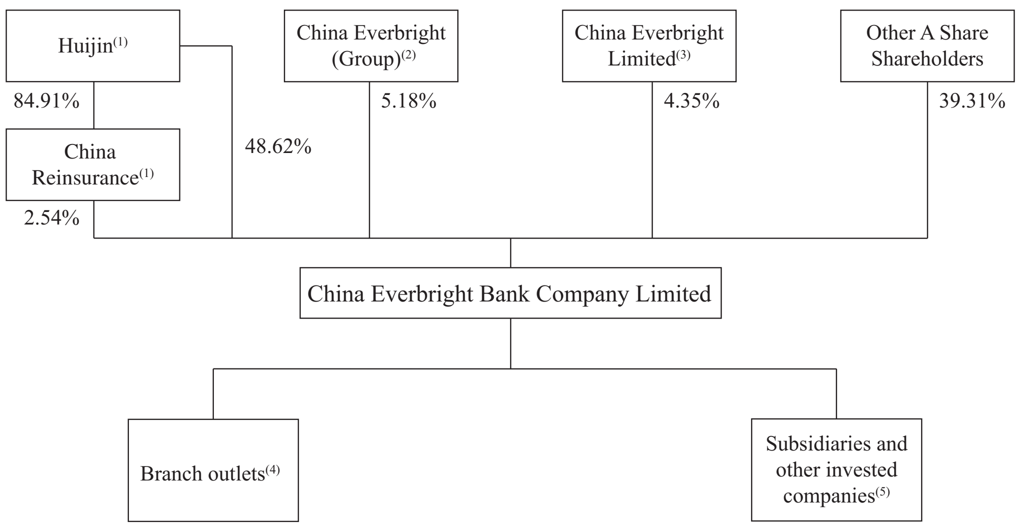
Along with Huijin and China Everbright (Group), we have been advised by relevant PRC authorities that the State Council has agreed in principle that appropriate adjustments should be made in order to facilitate the reorganization of China Everbright (Group), whereby certain equity interests in our Bank will be injected into China Everbright (Group) by Huijin in order to consolidate our accounts with China Everbright (Group) (the "Proposed Restructuring"). The Proposed Restructuring involves changes in shareholdings among our existing shareholders but does not affect the daily operations of our Bank. We made an announcement relating to the Proposed Restructuring on the Shanghai Stock Exchange on January 10, 2013. As a result of the announcement of the Proposed Restructuring, both Huijin and China Everbright (Group) are deemed as our controlling shareholders and are subject to the lock-up requirements under Rule 10.07 of the Listing Rules. For details of the lock-up undertakings of Huijin and China Everbright (Group), see "Underwriting – Underwriting Arrangements and Expenses – Undertakings".

As of the Latest Practicable Date, we have not been notified of any further information on the Proposed Restructuring. We will announce the latest progress of the Proposed Restructuring as soon as practicable upon obtaining further information from the PRC authorities. For details of the waiver application in connection with the Proposed Restructuring, see "Waivers from Strict Compliance with the Listing Rules – Waiver in Relation to Non-Disposal of Shares by Huijin".

OUR SHAREHOLDING AND GROUP STRUCTURE

Prior to the Global Offering

The following chart sets out our shareholding and group structure, to the best knowledge of our Directors, immediately prior to the Global Offering and as of the Latest Practicable Date:



Notes:

(1) As Huijin held 84.91% of the shares of China Reinsurance as of September 30, 2013, the interest held by China Reinsurance in our Bank is deemed to be the interest held by Huijin in our Bank under the provisions of Divisions 2 and 3 of Part XV of the SFO.

(2) China Everbright (Group) is a wholly state-owned company established on November 12, 1990 whose registered capital was wholly contributed by the MOF. China Everbright (Group) is a financial holding group which mainly engages in investment and management of banks, securities companies, insurance companies and other financial enterprises.

(3) China Everbright Limited was established on August 25, 1972 and is a company listed on the Hong Kong Stock Exchange (HK Stock Code: 00165). Its authorized share capital was HK$2,000 million and its issued share capital was HK$1,720,561,712 as of June 30, 2013. China Everbright Limited provides financial services, including direct investment, asset management, brokerage and wealth management, investment banking and asset investment.

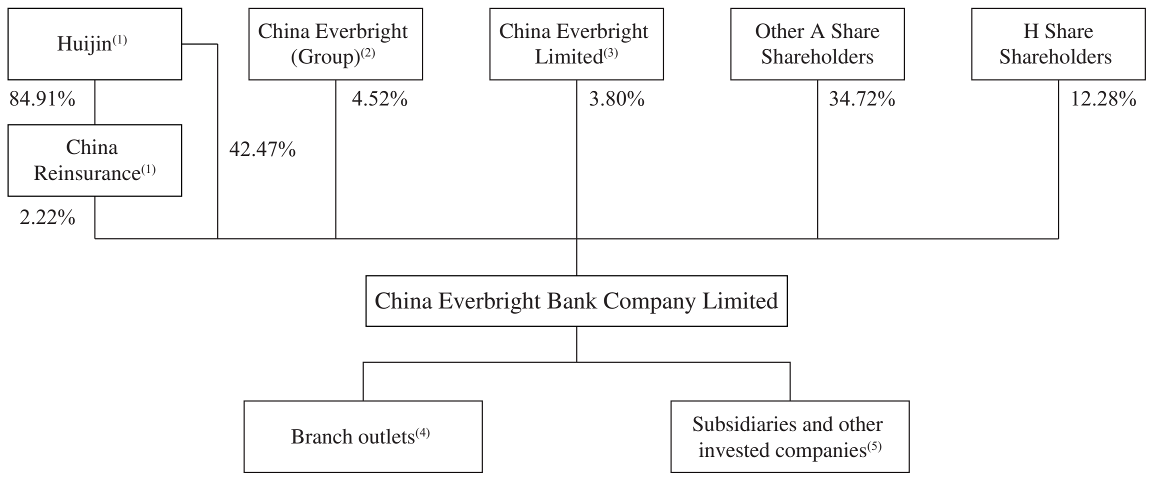
(4) As of June 30, 2013, we had 807 branch outlets, including our Head Office, 37 tier-one branches, 42 tier-two branches and 727 network outlets (including one Hong Kong branch).

(5) As of June 30, 2013, our Bank held 70% of the shares of Shaoshan Everbright Village Bank, 90% of the shares of Everbright Financial Leasing, 70% of the shares of Huai'an Everbright Village Bank and 2.56% of the shares of China UnionPay.

(6) The above shareholders' equity calculations are subject to rounding.

Immediately Following Completion of the Global Offering

The following chart sets out our shareholding and group structure, to the best knowledge of our Directors, immediately following completion of the Global Offering (assuming neither the Offer Size Adjustment Option nor the Over-allotment Option is exercised):



Notes:

(1) As Huijin held 84.91% of the shares of China Reinsurance as of September 30, 2013, the equity interest held by China Reinsurance in our Bank is deemed to be the equity interest held by Huijin in our Bank under the provisions of Divisions 2 and 3 of Part XV of the SFO.

(2) China Everbright (Group) is a wholly state-owned company established on November 12, 1990 whose registered capital was wholly contributed by the MOF. China Everbright (Group) is a financial holding group which mainly engages in investment and management of banks, securities companies, insurance companies and other financial enterprises.

(3) China Everbright Limited was established on August 25, 1972 and is a company listed on the Hong Kong Stock Exchange (HK Stock Code: 00165). Its authorized share capital was HK$2,000 million and its issued share capital was HK$1,720,561,712 as of June 30, 2013. China Everbright Limited provides financial services, including direct investment, asset management, brokerage and wealth management, investment banking and asset investment.

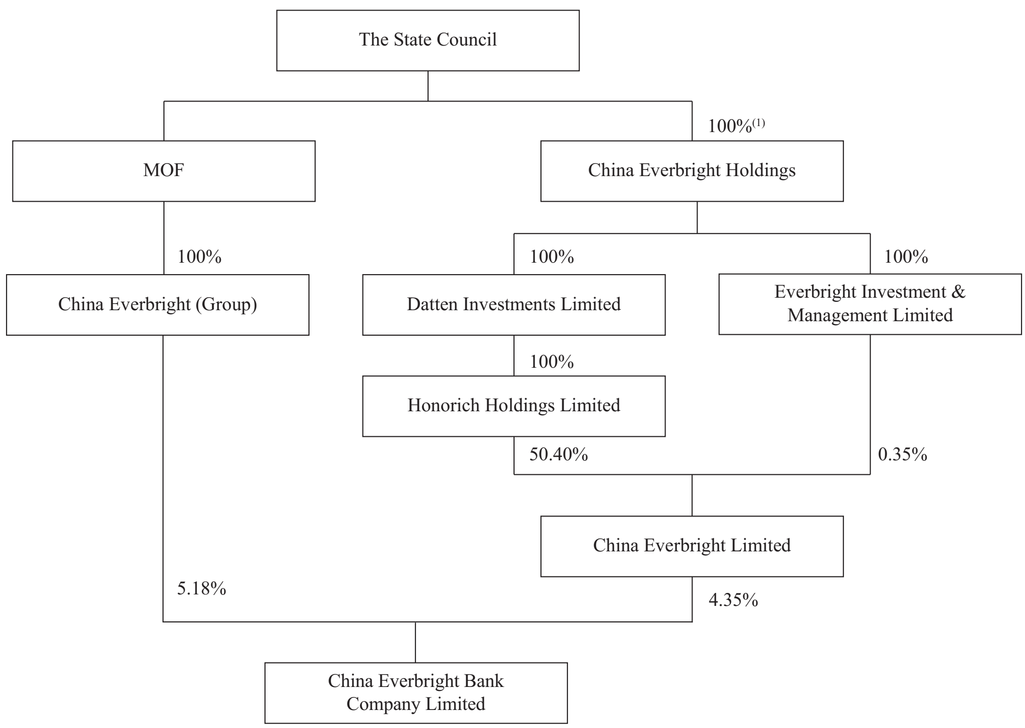
(4) As of June 30, 2013, we had 807 branch outlets, including our Head Office, 37 tier-one branches, 42 tier-two branches and 727 network outlets (including one Hong Kong branch).

(5) As of June 30, 2013, our Bank held 70% of the shares of Shaoshan Everbright Village Bank, 90% of the shares of Everbright Financial Leasing, 70% of the shares of Huai'an Everbright Village Bank and 2.56% of the shares of China UnionPay.

(6) The above shareholders' equity calculations are subject to rounding.

Relationship with China Everbright (Group) and China Everbright Limited

As of September 30, 2013, China Everbright (Group) held 2,093,991,629 Shares of the Bank, representing approximately 5.18% of our total Shares, and was our second largest Shareholder. As of September 30, 2013, China Everbright Limited held 1,757,581,229 Shares of the Bank, representing approximately 4.35% of our total Shares, and was our third largest Shareholder. The following chart sets out the shareholding structures of China Everbright (Group) and China Everbright Limited as of September 30, 2013:



Note:

(1) China Everbright Holdings was funded by the State Council. Mr. TANG Shuangning and Mr. ZANG Qiutao are the nominal shareholders of China Everbright Holdings and hold the entire issued share capital of China Everbright Holdings for the benefit of the State Council.

China Everbright (Group)

China Everbright (Group) is a wholly state-owned company established on November 12, 1990 in China. All of its registered capital was contributed by the MOF. China Everbright (Group) is a financial holding group which mainly engages in investment and management of banks, securities companies, insurance companies and other financial enterprises. In addition to its shareholding in our Bank, China Everbright (Group) is also a shareholder of Everbright Securities and Sun Life Everbright.

We were wholly owned by China Everbright (Group) from our establishment in 1992 to our conversion into a joint stock limited company, and China Everbright (Group) was one of our Promoters when we were converted into a joint stock limited liability company in 1997. See the section "– Our History" above for details.

China Everbright Limited

IHD Holding Ltd. (明輝發展有限公司), the predecessor of China Everbright Limited, was established in Hong Kong on August 25, 1972 and listed on the Hong Kong Stock Exchange in February 1973 (HK Stock Code: 00165). China Everbright Holdings acquired the controlling interest of IHD Holding Ltd. in 1994 and renamed it as China Everbright Limited in 1997. As of December 31, 2012, its authorized share capital was HK$2,000 million and its issued share capital was HK$1,720,561,712. China Everbright Limited provides diversified financial services, including direct investment, asset and fund management, brokerage and wealth management and investment banking. In 1997, China Everbright Limited became our second largest Shareholder, with 20% of our then total share capital when China Everbright (Group) transferred 560 million Shares of the Bank to China Everbright Limited upon approval of the State Council and the PBOC.

China Everbright Holdings indirectly held 50.75% of the shares of China Everbright Limited as of December 31, 2012. China Everbright Holdings was funded by the State Council and was established in Hong Kong in May 1983 as a company with limited liability with a registered capital of HK$500 million. Mr. TANG Shuangning and Mr. ZANG Qiutao are the nominal shareholders of China Everbright Holdings and hold the entire issued share capital of China Everbright Holdings for the benefit of the State Council.

Business Relationship with China Everbright (Group) and China Everbright Limited

We provide commercial banking services to China Everbright (Group) and China Everbright Limited in our ordinary course of business on normal commercial terms, including taking deposits, granting loans, providing guarantees and providing intermediary services. See Note 46 to the Accountants' Report in Appendix I to this prospectus and "Relationship with our Controlling Shareholders and Connected Transactions – Connected Transactions" for details.

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

Management Overlap with China Everbright (Group) and China Everbright Limited

Some of our Directors, Supervisors and senior management members also currently hold positions in China Everbright (Group) and China Everbright Limited, including:

- Mr. TANG Shuangning, our Chairman of the Board of Directors and Non-executive Director, is the chairman of the board of directors of China Everbright (Group) and the chairman of the board of directors of China Everbright Limited;
- Mr. LUO Zhefu, our Vice Chairman of the Board of Directors and Non-executive Director, is an executive director and the general manager of China Everbright (Group);
- Mr. GUO You, our Executive Director and President, is the vice chairman of the board of directors of China Everbright (Group); and
- Mr. CHEN Shuang, our Shareholder representative Supervisor, is an executive director and chief executive officer of China Everbright Limited.

Our Directors, Supervisors and senior management members manage and operate the Bank and its business strictly in accordance with the relevant laws and regulations and our Articles of Association, including the provisions on their obligations to act in good faith and in the best interests of the Bank.

Our Subsidiaries

Shaoshan Everbright Village Bank

Upon approval by the CBRC Hunan Office, we established Shaoshan Everbright Village Bank with Sany Group Co., Ltd. (三一集團有限公司), Changsha Tongcheng Holding Co., Ltd. (長沙通程控股股份有限公司), Hunan Poly Real Estate Development Co., Ltd. (湖南保利房地產開發有限公司) and Shaoshan City Construction Investment Company Limited (韶山市城市建設投資有限責任公司) on September 24, 2009. The registered capital of Shaoshan Everbright Village Bank was RMB50 million. As of September 30, 2013, we held 70% of the equity interest of Shaoshan Everbright Village Bank.

Shaoshan Everbright Village Bank commenced its operations on October 28, 2009. Its scope of business includes taking deposits, granting short-term, medium-term and long-term loans, domestic settlement, bill acceptance and discounting, inter-bank placing, bank cards, agency issue, agency acceptance, underwriting of government bonds, agency collection and payment, insurance agency and other businesses as approved by the CBRC.

Everbright Financial Leasing

Following approval by the CBRC, we established the Everbright Financial Leasing with Wuhan New Harbor Construction and Investment Development Group Co., Ltd. (武漢新港建設投資開發集團有限公司) and Wuhan Rail Transit Construction Co., Ltd. (武漢市軌道交通建設公司) on May 19, 2010. The registered capital of Everbright Financial Leasing was RMB800 million. As of September 30, 2013, we held 90% of the equity interest of Everbright Financial Leasing.

Everbright Financial Leasing commenced its operations on June 18, 2010. Its scope of business includes financial leasing, taking fixed-term (one year or longer) deposits from non-bank shareholders, taking lease deposits, transferring lease payment receivables to commercial banks, issuing financial bonds upon regulatory approval, borrowing and lending among financial leasing companies, borrowing from financial institutions, overseas foreign currency loans, sales and disposals of residual leased objects, economic consulting and other businesses as approved by the CBRC.

Huai'an Everbright Village Bank

Upon approval by the CBRC Jiangsu Office and the CBRC Huai'an Office, we established Huai'an Everbright Village Bank with Jiangsu Golden Fox Garment Co., Ltd. (江蘇金狐狸服飾有限公司), Huai'an Shuanglong Weiye Technology Co., Ltd. (淮安市雙龍偉業科技有限公司), Jiangsu Taihua Pharmaceutical Company Limited (江蘇泰華醫藥有限責任公司) and Nanjing Mengdu Tobacco Packing Co., Ltd. (南京夢都煙草包裝有限公司) on February 1, 2013. The registered capital of Huai'an Everbright Village Bank was RMB100 million. As of September 30, 2013, we held 70% of the equity interest of Huai'an Everbright Village Bank.

Huai'an Everbright Village Bank commenced its operations on May 14, 2013. Its scope of business includes taking deposits, granting short-term, medium-term and long-term loans, domestic settlement, bill acceptance and discounting, inter-bank placing, debit cards, agency issue, agency acceptance, underwriting of government bonds, agency collection and payment, insurance agency and other businesses as approved by the CBRC.

OPERATIONAL REFORM

In recent years, we have continued to improve our management and operations and have become more market-oriented and closer to international standards of best practice. We have implemented substantive reform and improvement measures in areas including organizational structure, business process, risk management, financial management, human resources management and information technology. Our operational reform is reflected in the following fields:

Organizational Structure

To improve our management and operation capabilities, enhance our overall efficiency, implement our operational strategies and develop our business, we have continued to reform our operational structure with an aim to increase the market share of our major products and services by:

- implementing a vertical management system consisting of credit approval, personnel management, risk management, financial management and internal audit;
- strengthening the specialized management of front, middle and back offices and building operating centers at both our Head Office and branches, continuing to take steps to develop centralized operation systems for both our corporate and retail banking businesses and for our disbursement centers, bills centers and other functional centers, in order to enhance the ability of middle and back offices to support the business development of the front offices and the ability and efficiency of our Head Office and branches to support our basic branch level;
- strengthening the centralized and specialized operations of our corporate banking business, setting up specialized marketing departments focusing on mainstream businesses and products while taking into account the characteristics of regional markets, strengthening the organization of marketing activities, planning and product development of the corporate banking business and forming a coordinated operational structure between our Head Office and branches and between our direct marketing departments and marketing support departments; and
- establishing a marketing model in which customer relationship managers, risk managers and product managers of our corporate banking business work in parallel with one another and systematically promote our marketing activities; building a comprehensive operation system which includes marketing organization, risk control, product research and development and client management of the corporate banking business. We plan to gradually improve our "four in one" innovation management mechanism, which consists of consultancy, supervision, reward and evaluation.

Business Process

To facilitate the centralized operations of our business and improve our capabilities in specialized marketing, risk control and allocation of resources, we have continued to improve our business processes by:

- forming and strengthening the management of distinct business lines, developing new business areas and enhancing their core competitiveness;
- restructuring our organizational structure, reforming our retail banking business processes, building a vertical and centralized management system for retail credit business and realizing the separation of risk management and business operations in relation to the personal credit business. We have set up retail loan business centers at the branch level. Phase I of our retail credit risk management system was put into operation, which can be applied through the entire retail credit management process including loan application, online approval, loan granting and

post-disbursement management. Taking into account our customers' needs, we selected the locations of our outlets in a systematic manner and deployed the outlets appropriately. We also optimized our business process, standardized our services and strengthened our marketing efforts in order for our sub-branches to act as the sales centers and customer service centers of our retail banking business and to provide more convenient, specialized and individualized services to our customers;

- steadily pushing forward the centralized operation of our corporate banking business by centralizing the lending and processing of our corporate banking business, strengthening the centralized management and organization of marketing activities, implementing centralized deployment and control of resources, establishing a clear cost sharing and calculation mechanism for different businesses, reinforcing cross-selling efforts, realizing centralized management of operational risks, intensifying business operations, effectively improving our abilities in relation to specialized marketing, risk control, market identification, resource and output deployment for our corporate banking business, achieving operational risk control, improving operational and cost efficiencies and preliminary formation of a centralized operation management model consisting of clearing, settlement, disbursement, bills and other major operations;
- implementing a market-oriented allocation of capital, assets and liabilities across our Bank, establishing the "market-oriented fund operation platform" (市場化資金運作平台), preliminarily forming an internal financial market within our Bank and interconnecting such businesses with our treasury business, bill business and inter-bank business in order to enhance the treasury management efficiency of our Bank; and
- continually optimizing our operation processes. Our centralized core business system provides a good basis for the constant optimization of business operation processes. Based on the requirements of branches and operating departments, our Head Office has enhanced and reformed the operation process of the core business system to integrate our operations and to use such system to strictly control operational risks.

Risk Management

Following the basic framework and core philosophies of Basel II and III, we have continued to improve our overall risk management system by:

- forming an overall risk management organizational structure under the leadership of the Board of Directors with a clear division of duties and responsibilities to ensure independent risk management, implementing an organizational structure featuring vertical management of credit risk, centralized management of market risk and hierarchical management of operational risk and compliance risk and appointing chief risk officers to our branches and major business line departments of our Head Office;
- setting up and implementing procedures and measures in relation to the identification, assessment, measurement, monitoring, reporting and control of various risks and using such tools as operational risk and control self-assessment (RCSA) to optimize procedures and improve efficiency;
- establishing a uniform overall risk policy system covering credit risk, market risk, operational risk, concentration risk, reputation risk, strategy risk, liquidity risk and compliance risk and implementing a standard policy management procedure featuring hierarchical management, experts' participation, regular review and constant improvement;

- formulating a master plan for the establishment of a comprehensive risk management system and gradually building a technical support system for the effective measurement, analysis and management of credit risk, market risk and operational risk. We have completed a corporate credit and inter-bank credit management system which integrates the functions of credit application and approval, group customer management, credit extension and disbursement management, post-disbursement management, early warning, loan classification and statistical analysis. We have also completed the personal loan management system, market risk management system, operational risk management system and other systems. At the same time, we have established an internal credit rating system based on the AIRB (Advanced Internal Rating-Based method) standard of the New Basel Capital Accord, and a strategy support system for risk management and capital management focusing on risk appetite by means of economic capital and portfolio management; and
- promoting a proactive risk management culture of "creating value through effective risk management," setting up the risk strategy, risk appetite and risk tolerance level of the entire Bank, gradually implementing economic capital management, promoting our risk management philosophy and enhancing risk awareness through specialized training, competence certification and risk management performance assessment.

Financial Management

In recent years, we have taken the following measures to improve our financial management:

- introducing an advanced SAP system to establish a unique financial and accounting system based on independent general ledgers and a management accounting system incorporating key factors such as cost calculation and allocation and funds transfer pricing that provides centralized financial management (including centralized management of expense reimbursements, capital expenditures and financial data and information), management of the accounts for financial budgeting and accounting by different products, business lines in accordance with the management accounting requirements and a data support platform for business development and financial management;
- developing business budgeting and financial budgeting for different products and business lines in our management accounting system and establishing a comprehensive budget system based on products, internal fund transfer pricing and cost allocation method, which applies to all branches and business lines;
- starting to set economic profit as a key performance indicator in appraising our operations and management, promoting a comprehensive value management system and performance appraisal mechanism with a focus on economic profit; and
- gradually adjusting the organizational structure of our financial management and implementing a vertical management system placing branch heads in charge of financial related matters and general managers in charge of the planning and finance departments of branches. Meanwhile, we have strengthened the training of financial management personnel and implemented a qualification examination system applicable to these personnel, with a view to increasing the level of their professional skills.

Human Resources Management

We have taken or are taking various measures to improve our human resources management, including:

- initiating strategic planning and optimizing human resources allocation to improve the standard of our human resources management and provide sufficient human resources to facilitate the development of our businesses and improvement of our operations;
- deepening the reform of our employment system, formalizing and expanding career development paths for our employees, and improving the planning and management of training programs and the skills of our employees;
- creating a human resources management information platform shared by the entire Bank to enhance the efficiency of human resources management, and develop a refined and standardized management; and
- developing a centralized, standardized and systematic management of recruitment and staffing in our Bank that provides a foundation to further improve the overall quality of our employees.

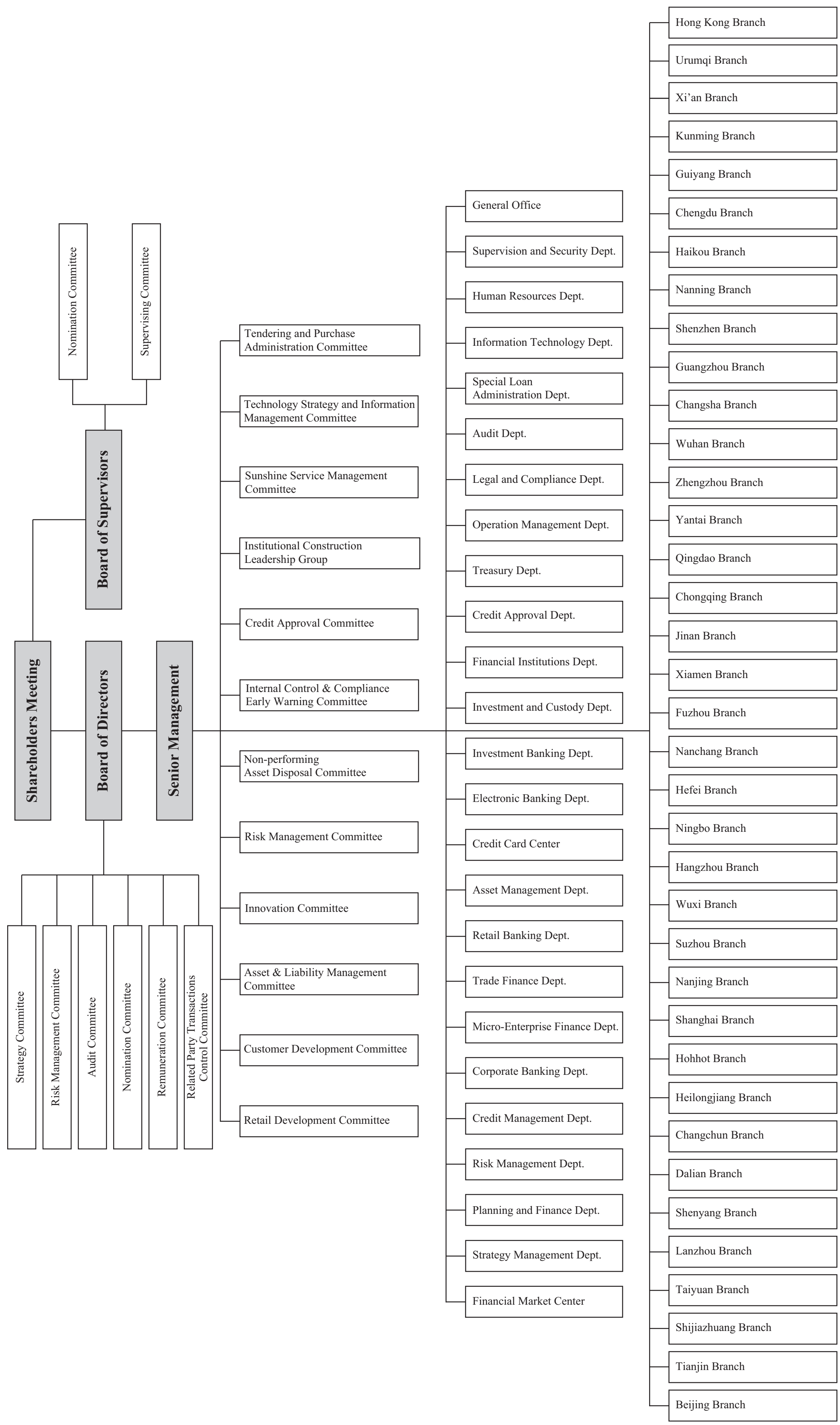
Information Technology

We consider information technology to be a key driver for establishing our Bank as one of the most innovative commercial banks in China, and have thus adopted the following policies and measures:

- adhering to the principle of excellence in information technology to achieve our objectives of safety in operations, outstanding service and value creation;
- enhancing our business support and expansion capabilities through construction and operation of a comprehensive information technology system;
- enhancing our information security and risk management with respect to our outsourced projects through establishing a comprehensive technology-based risk management system so as to maintain information technology risks at a reasonable level;
- adhering to international rules and standards to establish a comprehensive quality management system comprised of process quality, product quality and service quality;
- establishing and optimizing organization of and policies for technological innovation and developing a healthy culture that promotes innovation to effectively support our product and service model innovation;
- proactively managing data and providing data services through construction and operation of our database system so as to achieve the goal of value creation through effective utilization of business data; and
- establishing and optimizing our infrastructure and disaster recovery system to ensure our overall business operations and expansion.

OUR ORGANIZATIONAL STRUCTURE

The following chart sets forth our Bank's organizational structure as of the Latest Practicable Date:



OVERVIEW

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

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

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

- **Retail Banking:**

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

- **Corporate Banking:**

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

- **Treasury Operations:**

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

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

OUR COMPETITIVE STRENGTHS

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

Business transformation and strengthened capital management.

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

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

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

Optimized credit structure and enhanced profitability.

Our overall credit structure improved substantially with balances of retail loans and SME loans as a percentage of total loans increasing from 24.9%[1] and 14.4%, respectively, as of December 31, 2010, to 32.7%[1] and 20.9%, respectively, as of June 30, 2013. Meanwhile, large corporate loans[2] as a percentage of total loans decreased from 58.9% to 45.3% during the same period. As a result, our capital efficiency and profitability increased significantly. As of June 30, 2013, the aggregate balance of SME loans and micro-enterprise personal loans over which we have pricing power amounted to RMB364.3 billion, accounting for 33.0% of our total loans (as compared to 31.5% of our total loans as of December 31, 2012 and 25.7% of our total loans as of December 31, 2011, respectively). The average yield of our total loans increased by 163 basis points from 5.03% in 2010 to 6.66% in 2012, and decreased to 6.19% for the six months ended June 30, 2013, which was a smaller decline than industry peers during the same period.

1 Excluding fixed-mortgages.

2 Excluding discounted bills and loans to SMEs.

Our operational efficiency also increased continuously and our cost-to-income ratio[3] decreased from 35.5% in 2010 to 30.2% in 2012 and further to 27.9% for the six months ended June 30, 2013, among the lowest in the industry. Our return on average total assets[4] increased by 23 basis points from 0.95% in 2010 to 1.18% in 2012, and further increased by 8 basis points to 1.26% for the six months ended June 30, 2013. Our return on risk-weighted assets[5] increased by 35 basis points from 1.36% in 2010 to 1.71% in 2012, and further increased by 14 basis points to 1.85% for the six months ended June 30, 2013.

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

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

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

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

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

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

3 Excluding business tax and surcharges.

4 Calculated on an annualized basis.

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

6 Excluding fixed-mortgages.

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

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

Our micro-enterprise business achieved rapid growth.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Investment banking

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

Asset management

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

Custodian business

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

Inter-bank business

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

Our strong relationship with China Everbright (Group)

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

Advanced IT platform and industry-leading E-banking innovation

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

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

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

Our electronic banking achieved healthy and rapid growth.

As of June 30, 2013, the number of our retail internet banking and mobile banking customers was approximately 8.8 million and 5.3 million, respectively, representing an increase of 81.7% and 277.8%, respectively, as compared to June 30, 2012. The bank counter-replacement ratio[1] in respect of our retail electronic banking channels rose from 73.8% in 2010 to 86.3% in 2012 and further to 89.0% for the six months ended June 30, 2013. The bank counter-replacement ratio in respect of our corporate electronic banking channels rose from 24.0% in 2010 to 39.0% in 2012 and further to 68.8% for the six months ended June 30, 2013.

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

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

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

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

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

Building a comprehensive and effective risk management system.

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

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

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

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

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

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

We executed prudent provisioning policies.

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

Experienced and visionary management and high-quality employees

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

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

OUR STRATEGIES

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

Accelerate our Strategic Transformation

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

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

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

Develop our SME and micro-enterprise financial services.

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

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

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

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

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

Strive to develop our electronic banking business.

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

To achieve the above goals, we will:

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

Strengthen and optimize our physical network.

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

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

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

Achieve Sustainable Development

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

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

Strengthen advantages in our core banking business.

- Strengthen business development in our corporate banking business.

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

- Actively develop our retail banking business.

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

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

- Continue to solidify our liability business.

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

Enhance capital planning and management.

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

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

Achieve prudent risk controls.

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

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

Foster a flourishing corporate culture.

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

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

AWARDS, RECOGNITIONS AND HONORS

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

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

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

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

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

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

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

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

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

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

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

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

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

OUR PRINCIPAL BUSINESSES

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

	For the year ended December 31,						For the six months ended June 30,			
	2010		2011		2012		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
							(unaudited)			
	(in millions of RMB, except percentages)									
Corporate banking	25,553	71.5%	32,060	69.4%	40,510	67.5%	20,320	66.5%	21,283	62.9%
Retail banking	8,200	23.0	12,079	26.1	15,989	26.6	7,960	26.1	9,884	29.2
Treasury operations	1,928	5.4	1,990	4.3	3,452	5.7	2,198	7.2	2,615	7.7
Other operations[(1)]	47	0.1	69	0.2	119	0.2	53	0.2	56	0.2
Total	**35,728**	**100.0%**	**46,198**	**100.0%**	**60,070**	**100.0%**	**30,531**	**100.00%**	**33,838**	**100.0%**

Note:

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

Corporate Banking

We provide a broad range of corporate banking products and services to government agencies, financial institutions and corporations. Corporate banking constitutes our primary source of income and consists primarily of corporate loans, discounted bills and corporate deposits, as well as fee- and commission-based products and services such as agency services for public finance, tariff payment and guarantee services, remittance and settlement services, acceptance and guarantee services, assets custody services, cash management, investment banking and financial advisory services. As of December 31, 2010, 2011 and 2012 and June 30, 2013, our corporate loans balance (including discounted bills) accounted for 75.1%, 73.7%, 69.6% and 67.3% of our total loans, respectively, and our deposits attributable to our corporate customers[1] accounted for 84.3%, 80.8%, 78.0% and 76.6% of our total deposits from customers, respectively. Operating income from corporate banking accounted for 71.5%, 69.4%, 67.5% and 62.9% of our total operating income as of December 31, 2010, 2011 and 2012 and June 30, 2013, respectively.

Customer Base

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

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

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

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

Major Products and Services

Corporate Loans

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

Supply Chain Finance

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

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

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

(全程通) active customers[1]. For the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, the transaction volume for our "Full Link" (全程通) service amounted to approximately RMB113.5 billion, RMB149.5 billion, RMB161.6 billion and RMB85.9 billion, respectively.

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

SME Business

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

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

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

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

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

Trade Finance

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

Discounted Bills

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

Deposits Attributable to Our Corporate Customers

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

Fee- and Commission-based Products and Services

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

Agency Services for Public Finance

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

Tariff Payment and Guarantee Services

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

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

Remittance and Settlement Services

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

Acceptance and Guarantee Services

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

Custody Services

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

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

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

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

Cash Management Services

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

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

Investment Banking and Financial Advisory Services

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

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

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

Marketing

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

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

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

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

Retail Banking

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

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

Customer Base

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

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

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

Major Products and Services

Retail Loans

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

Residential and Commercial Mortgage Loans

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

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

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

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

Micro-enterprise Business

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

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

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

Micro-enterprise Equipment Loans

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

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

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

Personal Consumption Loans

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

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

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

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

Bank Cards

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

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

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

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

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

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

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

Debit Card Services

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

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

Credit Card Services

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

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

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

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

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

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

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

Retail Deposits

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

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

Fee- and Commission-based Products and Services

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

Personal Wealth Management Services

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

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

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

Bancassurance

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

Third-party Depository Customers

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

Fund Agency Services

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

International Travel Financial Services

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

Agency Trading of Gold

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

Marketing

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

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

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

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

Treasury Operations

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

Money Market Activities

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

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

Investment Portfolio Management

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

Proprietary Trading Activities

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

Proprietary Investment Activities

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

Treasury Transactions on Behalf of Customers

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

Electronic Banking

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

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

Mobile Banking

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

Internet Banking

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

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

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

Phone Banking

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

Self-service Banking

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

PRODUCTS AND SERVICES PRICING POLICY

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

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

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

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

DISTRIBUTION CHANNELS

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

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

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

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

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

Notes:

(1) Includes our Head Office.

(2) Does not include one Hong Kong branch.

INFORMATION TECHNOLOGY

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

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

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

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

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

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

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

COMPETITION

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

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

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

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

EMPLOYEES

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

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

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

Note:

(1) Consist primarily of administrative and supporting departments.

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

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

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

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

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

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

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

As of June 30, 2013, we had also engaged 4,371 independent contract workers by signing contracting agreements with third-party human resources agencies. In accordance with the temporary supplemental or replaceable employment policy stipulated under the PRC Labour Contract Law (中華人民共和國勞動合同法), these independent contract workers generally hold non-key positions with us, such as credit card sales assistants, on-site managerial assistants and account managerial assistants. Such independent contract workers enter into labor contracts with the relevant third-party human resources agencies instead of with us. According to the contracting agreements with the third-party human resources agencies, we are obliged to make salary payments, social insurance contributions and other related payments for the independent contract workers by payment to the third-party human resources agencies in advance. The third-party human resources agencies are responsible for the payment of salaries to the independent contract workers and social insurance contributions for the independent contract workers to the relevant governmental authorities. According to the legal opinion of our PRC legal advisor, King & Wood Mallesons, although we are under no statutory obligation to make social insurance contributions in relation to these independent contract workers under PRC law, if the third-party human resources agencies fail to do so, we may be jointly liable for any claims brought by them. However, in such case we would be entitled to seek indemnification from the third-party human resources agencies.

PROPERTIES

Owned Properties

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

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

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

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

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

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

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

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

Leased Properties

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

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

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

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

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

MAJOR INTANGIBLE ASSETS

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

Trademarks

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

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

Domain Names

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

CORPORATE SOCIAL RESPONSIBILITY

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

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

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

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

CORPORATE GOVERNANCE

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

LEGAL AND REGULATORY

Licensing Requirements

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

Legal Proceedings

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

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

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

Regulatory Reviews and Proceedings

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

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

Administrative Proceedings

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

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

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

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

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

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

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

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

Findings of Regulatory Examinations

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

CBRC

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

Key recommendations	Key remedial actions taken
Improving the effectiveness of corporate governance.	
• Regulating the operation of the Board of Directors, the Board of Supervisors and each of the special committees.	• We have completed the re-election of the Board of Supervisors, and have been striving to regulate its operation. We have established and have been constantly improving our risk management organizational matrix under the guidance of our Board of Directors.
• Enhancing internal control.	• We have (i) improved process management for internal control; (ii) strengthened internal supervision over all levels of our institutions; (iii) increased the efficiency and effectiveness of our internal audit; and (iv) strengthened the control of ethical and operational risks among our staff.
• Strengthening human resource management.	• We monitor and ensure that compulsory vacation policies are implemented in accordance with the regulatory requirements, and are gradually recruiting additional legal compliance and audit professionals. We have also clearly outlined our staff expansion plan and expected manpower demand in our strategic planning process.
• Improving capital management.	• We have developed a capital management sub-strategy with a strategic goal of "Strengthening Capital Planning and Management", so as to further optimize our organizational structure and implementation mechanism for capital management and to improve the efficiency of capital utilization.
Strengthening credit risk management.	
• Deepening our reform on credit risk management.	• We have established the Credit Management Department in our headquarter, which is mainly responsible for review and approval of new loans, post-extension management, risk warning, etc. Such a measure has been gradually implemented at our branches, so as to further enhance the expertise and independence of our credit risk management.

Key recommendations	Key remedial actions taken
• Enhance monitoring of credit asset quality.	• We have strengthened our monitoring of the control and resolution of non-performing loans. We have enhanced risk screening procedures in key areas and strengthened the collection and resolution of non-performing loans. Risk classification management and prudent provisioning policies were also emphasized, and accordingly provision has been raised for high-risk industries with excess capacity.
• Strengthening credit risk management in key industries, regions and institutions.	• We regularly reviewed and improved our "Industry Management System for Corporate Loans" (對公信貸行業管理制度), implemented industry classification management, strengthened credit portfolio management and established a credit portfolio analysis and monitoring mechanism, and constantly improved the concentration detecting and controlling mechanism. In 2013, we officially kicked off the construction of our customer risk warning & management system (客戶風險預警管理系統).
• Strengthening risk management in the key areas such as LGFVs and the real estate sector.	• We carried out on-site inspection on the customers from the LGFVs and the real estate sector. As for the LGFV loans, we strictly followed the "Guiding Opinions on Strengthening the Risk Control and Management of Loans to Local Financing Vehicles in 2013" (關於加強2013年地方政府融資平台貸款風險監管的指導意見) issued by the CBRC and continued to exercise strict control on the aggregate amount, and categorized our customers into three types: support, maintenance and exit, and took the appropriate measures based on these categorizations. As for the real estate development-related loans, we continued to limit our total amount on real estate lending and carry out list management.
Reinforcing operational risk management.	
• Improving the environment for operational risk management, proactively exploring the establishment of an efficient operational risk management system.	• We strengthened the organizational functions for managing operational risks, tightened the process of reporting operational risk events and management of key indicators of operational risks.

Key recommendations	Key remedial actions taken
• Intensifying operational risk management during business processes.	• We have printed out and distributed the "Operational Guidance for Internal Reconciliation of China Everbright Bank" (中國光大銀行內部對賬操作辦法), which clearly defined the grounds and standardized the procedures for internal reconciliation, and emphasized reconciliation timeline. We have been constantly optimizing our business operation and have strengthened process monitoring.
• Further strengthening operational risk control for foreign exchange business.	• We continued to improve the procedures for stop-loss limit management and the specific operational rules, strengthening control on the authorised limit for unilateral transactions.
Strengthening liquidity risk and market risk management.	• We continued to pursue strict loan-to-deposit ratio real time planning, management and assessment. As of 30 June 2013, our loan-to-deposit ratio was 70.28%, which was in line with the relevant regulatory requirements. • We have strengthened the management of maturity mismatch between market-based assets and liabilities as one of our key focuses, regularly monitored cash flow and established a reasonable liquidity reserve buffer. • We have also increased the core liabilities ratio. As of 31 December 2012, our core liabilities ratio was 50.45%, 1.26 percent higher than the average of the National Joint Stock Commercial Banks. • We have merged the market risk management team into the Risk Management Department, which exercises centralized control of our market-related risks.
Strengthening management of off-balance sheet businesses and non-credit assets to prevent key business risks.	• We have strengthened the management of off-balance sheet credit assets, improved the accuracy of off-balance sheet assets classification and strengthened the provision management for off-balance sheet risks. • We have strengthened the post-extension management for letters of guarantee as well as the risk management in the investments in income scheme related trusts and refined the system of debt hedging operations.

Key recommendations	Key remedial actions taken
Strengthening construction and management of information technology and electronic channels.	
• Strengthening construction of the three defensive perimeters of information technology and the relative risk management.	• We improved the functionality of the information technology system in our branches through (i) developing a new information technology system framework, (ii) establishing a system catalogue for our branches and (iii) promoting a research and development system in our branches and constantly optimizing the testing management of the development projects of our branches. • We have been constantly optimizing our principal business and management system, separating our intranet from the Internet physically and strengthened the management of IT project outsourcing, so as to prevent IT-related risks.
• Strengthening construction and management of the electronic banking business.	• We have established a risk monitoring and warning platform for electronic banking transactions, strengthened systematic control over the verification section in the electronic banking business and completed the systematic functions of electronic banking.
• Enhancing management of compliance risks and reputational risks.	• We have strengthened compliance for our wealth management segment through standardizing accounting audit of our financial products and improve compliance in the real practice of wealth management business. • We have strengthened compliance in our innovation segment, and have requested the creation of an integrated management mechanism for innovation risks across the Bank, so as to ensure smooth launch of various innovative banking products and services within the framework of regulatory compliance. • We have been constantly regulating our operations, promoting the "Sunshine Services" and the increasingly optimized management, enhancing our reputational risk management, strengthening protection for consumers' interests and proactively performing our social responsibilities.

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

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

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

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

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

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

NAO

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

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

Major Issues Identified by the NAO Audit Review	Rectification Measures
• Lack of strict enforcement of differentiated policies on extending housing mortgage loans We granted approval on a mortgage for a second residential property without pricing the loan at 110% of the benchmark interest rate or obtaining a down payment of at least 50%.	We have adopted rectification measures in a timely manner; complied with regulatory requirements by calling on the relevant borrower to settle, in part or in full, their loans in advance or enter into supplemental loan agreements to strictly enforce floating interest rate requirements; and tightened up review and approval of housing mortgages.
• Misuse of loan proceeds After we granted a working capital loan to a corporate lender, it was discovered that the corporate lender had provided false financial statements to us and that loan proceeds were improperly diverted to commercial real estate construction projects. A borrower receiving a personal consumption loan inappropriately used the proceeds to purchase commercial real estate.	We have shored up weaknesses in the investigation, examination and approval processes for credit extensions and in post-disbursements management, as well as strengthened (i) our examination of the actual situations of corporate borrowers, (ii) the diversification of our business, (including the examination of corporate group customers that are involved in real estate), (iii) the verification of the authenticity of information provided by corporate customers, and (iv) the supervision and monitoring of post-disbursement use of loan proceeds, in order to effectively prevent such misuse or the application of loan proceeds in restricted areas. We have fully recovered funds that had been misused by certain corporate group customers for commercial real estate construction projects. We have developed plans to clamp down on, and recover from, borrowers who had misused proceeds from personal consumption loans to purchase commercial real estate, as well as to prevent the reoccurrence of these events.

Major Issues Identified by the NAO Audit Review	Rectification Measures
• Flow of funds to the public through non-credit extension channels; effect on credit scale statistics and management. Payment (agency) risks involved in granting financing through our inter-bank business are not included in credit scale statistics and management. Certain funds used for wealth management products or negotiable instruments are not included in credit scale statistics and management. Lack of compliance with standard operating procedures in certain aspect of the wealth management business. Certain of our dealings in one corporate fund raising activity did not comply with our standard operating procedures. We advanced certain funds to a recipient who did not raise sufficient capital.	We have, in accordance with regulatory requirements, timely closed certain businesses and taken comprehensive measures to regulate business operations; conducted risk assessments, closely monitored risk profiles, reviewed and optimized the specific business and related management system; worked towards promoting risk and compliance awareness among our staff; and enhanced our management and control. In accordance with regulatory requirements and our auditors' recommendation, we have timely ceased the development of new business that involves inter-bank payment (agency) risks, as well as that involves wealth management and bill-linked products or business operations, and have taken measures to clamp down on advances toward the wealth management projects of certain corporate customer.
• Risk of non-compliance, revision of scope of approval authority for entrusted loans business Certain individual branches utilized inaccurate risk-based loan classifications. Certain corporate customers occupied a sizable amount of our credit funds, while simultaneously being granted entrusted loans.	We have strengthened our risk classification management of loans and risk classification deviations so as to accurately reflect our asset quality; and organized and supervised investigations and comprehensive rectification measures for non-compliance in extensions of new loans. We have also, among other things, further enhanced our credit management, properly controlled the total amounts, frequency and usages of loans extended, continued to optimize our loan portfolios and complied with the relevant regulations on the practice of charging fees for financial services.

Non-compliance by Employees

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

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

OVERVIEW

As a commercial bank, we are subject to a number of risks, primarily including credit risk, market risk, operational risk, liquidity risk and compliance risk. In order to manage these risks, we are committed to establishing a comprehensive risk management system that covers the identification, assessment, measurement, monitoring, reporting and control of risks. We have been dedicated to strengthening our risk management, with the NPL ratio of our total loans and advances to customers being 0.75%, 0.64%, 0.74% and 0.80% as of December 31, 2010, 2011 and 2012 and June 30, 2013, respectively.

Our principles for risk management are to steer the optimization of business portfolios by using our economic capital management framework and risk pricing mechanism to facilitate the match between the returns and the risks assumed, and to maintain our risk exposure within acceptable risk levels, in coordination with the implementation of our overall business strategies and comprehensive risk management system. On this basis, we ultimately aim to maximize returns to our Shareholders by maintaining capital adequacy levels that balance our risk exposure with our strategic objectives while striving to comply with the relevant regulatory requirements.

Our risk management principles are as follows:

(i) Comprehensive risk management: to establish and refine our comprehensive risk management covering various major risks;

(ii) Independent risk management: our risk management system is kept independent from our business operational system; and

(iii) "Creating value through effective risk management": we create business value by achieving a balance between risk and return and a balance between control and efficiency.

Our risk management goals are as follows:

(1) To cultivate a proactive risk management culture of "creating value through effective risk management" by:

- improving our policies and procedures, strengthening our training and implementing a position certification system to improve the quality of our business and risk management personnel;
- senior management setting an example for the rest of our staff and increasing accountability in order to increase our staff's awareness of risk; and
- including risk management performance as an evaluation criterion for appraisals of our staff, branches, sub-branches and various departments.

(2) To formulate and adhere to proactive and prudent risk management policies by:

- applying differentiated policies at different levels, standardizing the policy and management procedure through expert participation, regular reviews and other methods, and implementing our principles of fully identifying risks, accurately assessing risks, and taking reasonable risks;
- establishing regular review mechanisms and continuous optimization of the relevant mechanisms in order to better balance the relationship between principles and flexibility, the relationship between differentiation and consistency and the relationship between economic interests and social responsibility; and
- enhancing our policy execution system.

(3) To build up a risk management organizational matrix by:

- building up our risk management organizational structure and system in accordance with the principles of vertical management for credit risk, centralized management for market risk and hierarchical management for operational and compliance risks in order to reflect the risk management needs of our business development;
- improving our risk management organizational matrix and extending such structure to tier-two branches, cross-city and county-level sub-branches;
- defining a clear allocation of functions and responsibilities among our various committees, departments, units and personnel to prevent any gap in or overlap of duties and authorities and to increase our risk management efficiency; and
- ensuring the independence and professionalism of our Risk Management Department and aligning its functions closer to market conditions and our business objectives.

(4) To ensure prudent and effective risk management processes by:

- focusing on the different characteristics of credit risk, market risk, operational risk, liquidity risk and compliance risk and building corresponding risk management processes;
- implementing a system of comprehensive early warning, prompt risk reporting and swift response to risks; and
- ensuring that the Board of Directors, its Risk Management Committee and senior management promptly monitor various risks and adopt effective measures to prevent and resolve such risks.

(5) To set up an appropriate and active advanced technology support system for proactive risk management by:

- following the core principles of the New Basel Capital Accord and adopting the best practices of banks both within and outside the PRC;
- setting up a technology support system that covers effective measurement, analysis and management of credit risk, market risk, operational risk, liquidity risk and compliance risk; and
- utilizing advanced technology to support more specialized and targeted risk management processes.

KEY RECENT IMPROVEMENTS IN RISK MANAGEMENT

The key risk management improvements we have made in recent years are as follows:

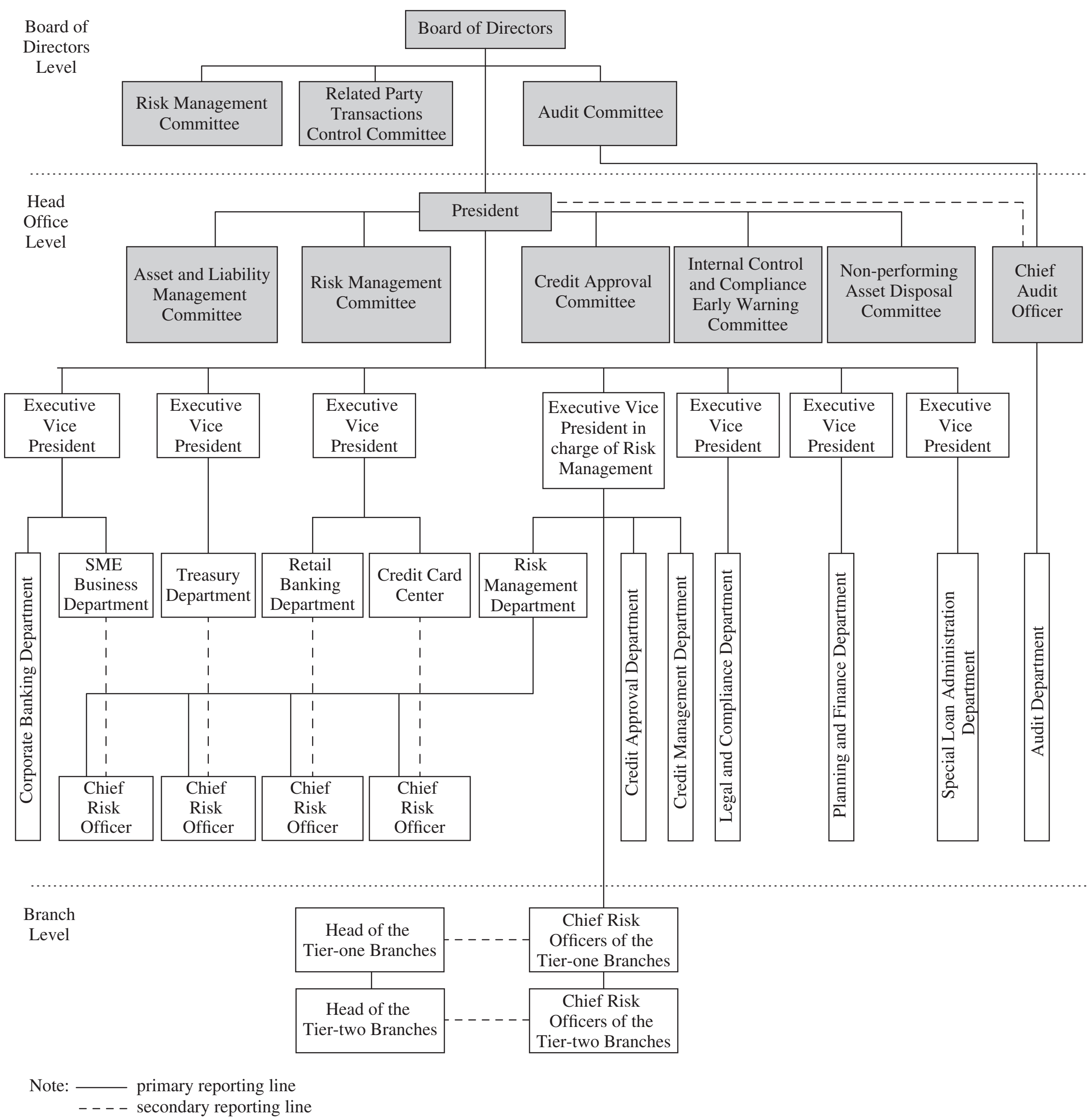
- In January 2007, we implemented a risk and control self-assessment program across various business lines as well as in our branches and sub-branches, conducted risk investigations using process analysis methodologies and by taking into consideration internal and external data relating to operational risk incidents together with findings from audit and compliance inspections and evaluated and improved the effectiveness of risk control measures.
- In November 2007, we established the Operation Management Department, which is responsible for managing clearing and settlement activities throughout our Bank, approving the disbursement of corporate and retail credit and conducting centralized management of letters of credit, letters of guarantee and other settlement products. By standardizing our operations, the Operation Management Department helped improve the standards of our centralized management and our operations, enhance risk management and improve operational efficiency.

- In February 2008, we integrated the functions and personnel of the three regional credit approval centers into the Credit Approval Department of our Head Office, which is responsible for approving loans falling outside the limit of authority of the branch-level chief risk officers. Additional integration of resources was carried out to further standardize and regulate credit approval process.
- In December 2008, we started to assign chief risk officers to various business departments of our Head Office, including the Treasury Department, the Credit Card Center, the Retail Banking Department and the SME Business Department. Through the assignment process, we have created a mechanism for the effective operation of, and cooperation between, the departments in charge of risk management and the frontline departments. This in turn allowed us to fully capitalize on the risk prevention function of the frontline departments and the risk control function of the middle offices, thus further strengthening the risk management of our business lines.
- In December 2009, we completed and submitted a Compliance Self-assessment Report and 13 sub-reports concerning compliance guidelines to the CBRC.
- In March 2010, we initiated a compliance platform project to fulfill the requirements of the New Basel Capital Accord, which mainly includes compliance self-assessment, project management and the establishment of a risk-weighted assets system.
- In June 2010, we implemented our operational risk management system.
- In December 2010, we implemented our market risk management system.
- In November 2011, we submitted an assessment application for the implementation of the New Basel Capital Accord to the CBRC.
- In January 2012, we began implementing plans to consolidate our risk management functions by shifting the main reporting line of each business line's chief risk officer and risk management team to the Risk Management Department in order to strengthen the independence of our risk management functions. We completed such adjustments in December 2012.
- During 2012, we adopted multiple measures to strengthen our risk management, including: (i) enhancing capital management by improving policies and management processes, bolstering capital deployment plans and promoting organic integration between capital management, risk management, assets and liabilities management and financial and business planning; (ii) launching a series of plans and proposals to improve risk management procedures, including an early warning platform for corporate customers, obtaining market information on risks, assessments on the impact of our debts and promoting accuracy and precision in our comprehensive risk management system; and (iii) formally commencing our risk-weighted assets system, which calculates risk-weighted assets based on four methods: initial capital method, weighted method, basic internal rating, and advanced internal rating (with the second, third and fourth methods falling under the principle of the new capital method).
- In early 2013, we completed upgrades of our credit rating system for corporate customers and further improved both the stability of our credit rating model and the practical business applicability of our non-retail internal rating adjustments system.
- In May 2013, we established the Credit Management Department at the Head Office in order to implement a risk management system that better suits the development of the SME and micro-enterprise financial services. The Credit Management Department also aims to enhance our risk management capability, strengthen our post-credit management and ensure the quality and stability of our credit assets.

- During the second half of 2013, in response to concerns about the tightening of liquidity in the PRC banking industry which resulted in significant, temporary fluctuations in the inter-bank lending rate during certain periods, we have emphasized amongst our departments the overriding importance of sound liquidity, increased our reserve level, and arranged for stronger short-term liquidity commitments, as well as implemented further upgrades to our internal controls to mitigate potential operational risk, including: (i) centralizing liquidity gap solutions through inter-bank financing under our Head Office; (ii) enhancing the daily critical point calibration mechanism; (iii) reevaluating the operational and liquidity risk management system and the reporting mechanism; (iv) strengthening our procedures in emergency management; and (v) controlling the scale of our inter-bank business and executing improved matching of inter-bank assets and liabilities.

RISK MANAGEMENT STRUCTURE

The chart below illustrates our risk management structure:



Board of Directors and Board Committees

The Board of Directors is the highest decision-making authority within our Bank in terms of risk management and is responsible for determining the overall risk management strategies and making important decisions for our Bank. It is also responsible for: determining our risk tolerance; examining the risk precaution measures formulated by our senior management; deciding on the fundamental management system and the establishment of our internal management organization; appointing senior management; examining the internal control assessment reports provided by the management, audit and regulatory authorities; reviewing and commenting on the effectiveness of our internal control system; and supervising the senior management's continuous improvement of our internal control system. The Board of Directors performs its risk management functions through the Risk Management Committee, the Audit Committee and the Related Party Transactions Control Committee.

The Risk Management Committee is responsible for formulating our risk management strategies and overall risk tolerance, and implementing such strategies and risk tolerance upon approval of the Board of Directors. It is also responsible for: supervising senior management in their management of credit, market and operational risks; assessing our risk management system and making recommendations to the Board of Directors; preparing periodical risk management reports for submission to the Board of Directors; developing management targets with respect to our capital adequacy ratio; and advising on related information disclosure.

The Audit Committee is responsible for monitoring and supervising our internal control function as well as overseeing our accounting policies and financial reporting procedures.

The Related Party Transactions Control Committee is responsible for the implementation of policies and guidelines relating to the review, approval, management and supervision of our related party transactions, as well as the assessment of the potential risks they may give rise to.

For further details of the respective responsibilities of our Board of Directors, as well as the Risk Management Committee, the Audit Committee and the Related Party Transactions Control Committee, see "Appendix VI – Summary of Articles of Association" and "Directors, Supervisors and Senior Management – Board of Directors Committees."

Senior Management and Special Committees

Based on the risk management strategies reviewed and approved by the Board of Directors, the senior management formulates, implements and manages various policies, systems, rules and limits covering a wide range of risks during the course of their day-to-day operations and management functions in order to ensure that all types of risks are effectively managed and controlled. Our senior management has established the following special committees: the Asset and Liability Management Committee, the Risk Management Committee, the Credit Approval Committee, the Non-performing Asset Disposal Committee and the Internal Control and Compliance Early Warning Committee, which coordinate, organize and supervise their respective risk management functions.

President

Our President is responsible for the operation and management of our Bank, including overall risk management and implementation of decisions made by the Board of Directors. Our President submits business plans to and implements such plans upon approval by, the Board of Directors. Our President also formulates our internal management organizational structure, core management policies and specific rules and procedures. The President may undertake other functions and exercise other powers as conferred upon him under the Articles of Association or by the Board of Directors.

Executive Vice President in Charge of Risk Management

Our Executive Vice President in charge of risk management reports to the Board of Directors' Risk Management Committee and the President on bank-wide risk exposure, material matters relating to risk and corresponding solutions, as well as the organization and operation of our risk management system. Our Executive Vice President in charge of risk management is also responsible for formulating and, upon obtaining the relevant approval, implementing our risk management framework, principles and strategies based on our overall development strategies. Furthermore, based on his authority, our Executive Vice President in charge of risk management: approves and supervises the implementation of risk management indicators for various business activities, bank-wide risk management policies and reporting processes; carries out assessments of the risk management system; examines and approves the detailed rules on risk management; and is responsible for tailoring our risk management system to achieve its risk management objectives. The chief risk officers of tier-one branches report to our Executive Vice President in charge of risk management.

Special Committees under Senior Management

- Risk Management Committee. By taking into consideration the external economic environment and our business development and risk management, the Risk Management Committee reviews our risk management strategies and provides suggestions on amendments to such strategies to our President at our President's executive meetings. It is also responsible for: the review of our risk management policies, procedures and rules and regulations, as well as their implementation upon submission and approval in accordance with the management procedure; the review of reports on the bank-wide risk profile, material matters relating to risk and risk management, and the organization and operation of our risk management functions; and the review of risk management issues raised by relevant departments of our Head Office and by our branches.
- Asset and Liability Management Committee. The Asset and Liability Management Committee is responsible for reviewing and providing guidance for our business development plans. It is also responsible for reviewing and determining annual targets and plans for the allocation of assets, liabilities and off-balance sheet items and making adjustments to such targets and plans in accordance with specific circumstances. Further, it regularly reviews reports on the bank-wide asset and liability status. It is also responsible for the management of bank-wide liquidity risk and the interest rate risk of banking books.
- Credit Approval Committee. The Credit Approval Committee is responsible for the examination and approval of credit applications that fall beyond the limits of authority of the Credit Approval Department of our Head Office and for providing guidance on matters relating to credit examination and approval throughout our Bank.
- Non-performing Asset Disposal Committee. The Non-performing Asset Disposal Committee reviews and approves the procedures, incentive measures and relevant policies for the disposal of and recovery of non-performing assets as well as examines and approves asset disposal proposals, the repayment of debts by assets, loan foreclosure on repossessed assets, the loan write offs and litigation relating to non-performing assets and risk agency matters.
- Internal Control and Compliance Early Warning Committee. The Internal Control and Compliance Early Warning Committee reviews early warning signal reports, approves proposals for handling early warning signals, instructs relevant departments to conduct special investigations, implements action plans in relation to early warning signals and performs other compliance functions with respect to the management of early warning signals.

Head Office Risk Management Departments

Risk Management Department

The Risk Management Department coordinates and puts in place comprehensive risk management for credit, market and operational risk. It is responsible for: formulating policies and procedures for risk management; regular review and modification according to actual circumstances, and setting out relevant implementation rules; formulating, tracking and improving our credit policies, risk management system and methods and the rules and processes of making credit-related decisions; compiling and collating various types of risk management reports and reporting to the senior management, the Asset and Liability Management Committee and the Risk Management Committee of our Bank and the Risk Management Committee of the Board of Directors in a timely manner; formulating strategic plans for our credit portfolios composition; analyzing the performance of our credit portfolios; and organizing, developing and maintaining risk management systems and models. The Risk Management Department assigns a chief risk officer and/or a risk management team to each of the Retail Banking Department, Credit Card Center, Treasury Department and SME Business Department to establish customized risk management systems targeted to address specific risk profiles of each business line.

Credit Approval Department

In accordance with our credit policies and procedures, the Credit Approval Department is responsible for: examining, considering and approving various types of credit business applications within their limit of authority; administering the specific delegation of credit approval authority in our credit business; formulating plans for credit approval authority delegation in our credit business; organizing, monitoring, administering and appraising the bank-wide implementation of credit approval authority delegation; and periodically reviewing the credit examination and approval activities of lower-level credit approval functions.

Credit Management Department

The Credit Management Department performs three core functions: (i) data analysis and model building at the portfolio level, (ii) post-credit-granting review and management and risk warning at the business level, and (iii) key operating procedure control at the process level. The Credit Management Department is responsible for coordinating credit risk monitoring and portfolio management for large, medium, small and micro-sized credit granting operations at our bank. Additionally, the Credit Management Department conducts industry and credit asset portfolio data analysis, formulates and maintains our post-credit-granting management system, reviews and examines credit and loans granted to corporate and retail customers, monitors and administers key credit business procedures, and monitors and guards against events associated with material risks.

Legal and Compliance Department

The Legal and Compliance Department is responsible for: coordinating and organizing the management of internal control, compliance risk and legal risk throughout our Bank; developing the relevant compliance risk management policies and systems; providing guidance for implementing bank-wide compliance tasks; organizing legal and compliance inspections for our businesses and communicating with external regulatory authorities in connection with compliance matters.

Special Loan Administration Department

The Special Loan Administration Department is responsible for: formulating implementation rules on the management of non-performing assets; managing non-performing loans; filing claims against borrowers who become bankrupt or insolvent, or handling follow-up work against borrowers who are liquidated or dissolved; handling debt restructuring in relation to non-performing assets; assessing the rating, interest suspension, waivers of interest and other issues relating to non-performing assets and reporting to the Non-performing Asset Disposal Committee for approval; and preparing application materials relating to debt write-offs for submission to the Non-performing Asset Disposal Committee for examination and approval.

Other Departments

In addition to those set forth above, certain other departments also implement risk management policies and procedures and perform certain management functions within their scope of operation.

Risk Management Structure at the Branch and Sub-branch Levels

Tier-one Branches

We have implemented a program to assign chief risk officers to tier-one branches. While chief risk officers at the branch level are directly under the leadership of our Head Office, they also report to the local branch heads and are subject to the guidance of the Risk Management Department, Credit Approval Department, Credit Management Department, Special Loan Administration Department and Legal and Compliance Department in our Head Office in relation to business matters so as to maintain the independence of the risk management of tier-one branches. Chief risk officers at the branch level supervise the risk management department, special loan administration department and legal and compliance department of their respective branches and are responsible for managing the credit risk of such branches and examining and approving loans within their limit of authority. They also assist the branch heads in managing operational and compliance risks.

Tier-one branch heads are ultimately responsible for tier-one branch-level operational and management matters. They are in charge of the overall risk management tasks of their local branches and are responsible for creating a favorable atmosphere for risk management and for establishing an effective risk management system. Based on the principle of the hierarchical management of operational and compliance risks, branch heads are responsible for establishing branch-level operational risk and compliance risk management systems at the request of our Head Office and have primary responsibility for the management of such risks at the branch level. In accordance with the principle of vertical management of credit risk, branch heads support their respective branch's chief risk officers in managing credit risk by examining the branch/regional marketing guidelines and by exercising the "veto right" in the dual approval process for corporate credit applications.

Tier-two Branches, Cross-city and County-level Sub-branches

In order to standardize the risk management of tier-two branches, cross-city sub-branches and county-level sub-branches and to promote the healthy and orderly development of our businesses, we have begun to apply the risk management system of tier-one branches to our tier-two branches, cross-city sub-branches and county-level sub-branches.

CREDIT RISK MANAGEMENT

Credit risk is the risk of loss that we may suffer from default by an obligor or counterparty of his/her obligations or commitments under a contract. We are exposed to credit risk mainly in the form of loan portfolios, investment portfolios, guarantees and balance sheet and off-balance sheet credit risk exposure. To address our off-balance sheet credit risk, we implemented a comprehensive risk management program for all of our off-balance sheet businesses to prevent them from over-expanding by utilizing measures such as risk quotas and economic capital evaluations. We incorporated our off-balance sheet businesses into our uniform credit management system and centralized our credit risk management.

We manage credit risk by adopting normalized and unified processes and standards for our credit business. The Risk Management Department of our Head Office, in conjunction with other relevant departments, regularly reviews and modifies the workflows and standards adopted for our credit business. Credit risk management includes corporate credit, retail credit and financial institution credit management and may be broadly divided into three segments, namely: (i) acceptance of credit applications and credit investigations; (ii) credit examination and approval; and (iii) opening of credit lines and post-disbursement management.

Management of Credit Risk Associated with Corporate Credit Business

Acceptance of Credit Applications and Credit Investigation

All applications made to us for corporate credit are handled by our customer relationship managers. We adhere to the principle of "two-person investigation" in carrying out our credit investigations. The primary customer relationship managers and supporting customer relationship managers conduct comprehensive investigations of applicants or target customers, collect relevant information and data and thoroughly assess the credit applicant's eligibility for credit, the customer's solvency, compliance of the business by which the credit will be utilized and the reasonableness of credit plans. The credit investigation consists mainly of on-site investigation, which is supplemented by indirect investigations. Visits are made to the applicant's financial department, production and operation premises, key managers, clients and creditors with a view to obtaining first-hand data and gaining a comprehensive understanding of the production and operation, management, financial affairs, and credit status of, and industry information relating to, the applicant. If necessary, we may verify the authenticity of the information provided by customers through third party credit investigation agencies, relevant governmental departments, social intermediaries and other commercial banks and file the information for our records. If a customer relationship manager determines that an applicant meets the requirements of our credit policies and the basic criteria for credit, the customer relationship manager will request that the applicant submits the credit application and the relevant documents required in connection with the credit application.

The risk managers work in parallel with the customer relationship managers during the credit investigation process to uncover and assess credit risk and provide their opinions on the appropriateness of credit extension. The analysis and assessment of credit business usually include: (i) risk rating; (ii) assessment of credit business; and (iii) assessment of collateral.

(i) Risk rating

Our rating of risks associated with the corporate loan business generally consists of borrower rating and facility rating. In general, we carry out both borrower rating and facility rating for our normal risk corporate loan business and, if the loan is guaranteed, we carry out guarantor rating. Borrower rating is an assessment of a borrower's willingness and ability to repay its debts in the future, based on a comprehensive analysis of the quantitative and qualitative risk factors of a borrower (or a guarantor), and the rating results are shown by credit ratings. Our borrower rating system is composed of 24 different grades, with each individual grade corresponding to a probability of default (PD) in a one-year horizon. Facility rating is an assessment of the expected loss rate (ER) of specific transactions. A comprehensive consideration of borrower rating and default loss rate is shown as the product of the PD and loss given default (LGD). The assessment results are classified into 12 grades.

We use an internal rating system to rate the risks associated with our corporate credit business. Our internal rating system, which was developed under the guidance of the New Basel Capital Accord, was introduced on a bank-wide basis in 2004. On the basis of business performance indicators and data on the financial status of customers and through customer assessment models, the system measures the probability of default of customers, and, on that basis, computes the preliminary results of customer rating. The customer relationship managers are responsible for the preliminary assessment of borrower rating and risk managers are responsible for review and approval of the borrower rating. We treat credit risk rating results as an important basis for decision-making for our credit business, and have established clear guidelines on thresholds based on risk ratings.

(ii) Assessment of credit business

The investigation and assessment of the first source of repayment is the primary part of the credit investigation. Customer relationship managers are responsible for credit analysis and assessment.

The analysis and assessment of credit risk mainly include investigation of: (i) the integrity of a borrower; (ii) authority for a borrower to borrow funds; (iii) use of loans; (iv) profitability of the borrower and the professional management capability for the operation of such borrower; (v) professional knowledge of the borrower; (vi) prospects of the industry in which the borrower operates; (vii) repayment terms; (viii) sources of repayment funds; (ix) forecast of cash flow in various business cycles; (x) current credit and financial information of the borrower and relevant members of its group company; and (xi) valuation of collateral (or pledge) and its validity as well as the ability of guarantors to repay for borrowers and the validity of the guarantee.

(iii) Assessment of collateral

For loans with collateral, the value of collateral is usually required to be evaluated by independent appraisers. While different loan-to-value ratios will apply to loans secured by collateral based on the type and the specific condition of such collateral, the ratio should not generally exceed the maximum loan-to-value ratio for such type of collateral. Set out below are the loan-to-value ratios for major types of collateral:

Major types of collateral	**Maximum loan-to-value ratio**
Land use right mortgage (assignment)	70%
Real estate	40% – 60%
Machinery and equipment	30% – 40%
Certificates of deposits, treasury bonds, financial bonds	80% – 90%
Warehouse receipts, bill of lading	70%
Other rights[(1)]	40% – 80%
Other movable assets	50%

Note:

(1) Mainly include other property rights that may be pledged pursuant to the laws and administrative regulations of the PRC, such as receivables, transferable fund shares and shareholder rights.

Where loans are to be guaranteed by a third party with joint and several liability, we conduct an assessment of the guarantor's financial status, credit records and ability to repay for borrowers.

Credit Examination and Approval

Approval Authority

Our credit approval departments are independent from our business operation units. The examination and approval of credit follow the principles of objectivity and impartiality and opinions as to decision-making are given independently without any interference from internal or external factors. All credit projects are handled in conformity with the stipulations set by us with respect to the investigation and granting of credit and the processes for examination and approval.

Our normal-risk corporate loans are examined and approved by our authorized approval authorities and personnel, including our Head Office's Credit Approval Committee and Credit Approval Department, the chief risk officer of the SME Business Department of our Head Office, the chief risk officers of the branches, the general manager of the Risk Management Department of the branches as well as the heads of branch-level SME credit management centers and other authorized personnel, in each case according to the particular authorities granted to them. Our low-risk corporate loans are examined and approved by authorized examination and approval officers in various business lines.

Examination and Approval Process

(i) Normal-risk corporate credit business

Generally, the credit approval process includes the following stages of review and approval:

(1) the customer relationship manager completes a credit investigation report and, upon approval from the persons in charge of the relevant operational units, submits the report to the branch risk manager for review and issuance of a review report;

(2) upon review by the branch-level risk manager, any matter within the authority of the general manager of the branch-level risk management department will be sent to him/her for review and approval. The general manager of the branch-level risk management department directly issues rejections of credit applications and sends accepted applications to the head of the branch-level corporate banking business, who holds veto power, for review and as part of the dual approval process. The head of the branch-level corporate banking business then signs his or her opinion and issues the decision;

(3) upon review by the branch-level risk manager, any matter that exceeds the authority of the general manager of the branch-level risk management department must be submitted as a separate review report to the branch-level credit review committee for comments (certain applications are not subject to this review process and can be directly submitted to branch-level risk officer). Credit applications not approved by the credit review committee are submitted to the chief risk officer, who then issues the rejections. Credit applications that have been reviewed and approved by the credit review committee are submitted to the branch's chief risk officer for approval within the limits of his authority as part of the dual approval process, and then submitted to the branch head, who holds veto power, for review and approval; and

(4) credit applications accepted by the chief risk officer but that exceed the chief risk officer's approval authority may only be submitted to our Head Office if the branch head signs a written consent. All credit applications submitted to the Head Office by the branches and relevant departments of the Head Office are initially examined for preliminary approval by a junior examination officer of the Credit Approval Department, and then submitted to the competent higher-level review officer or institution for final approval. In accordance with the different features of credit applications, such applications may be approved by meetings or by authorized officers of the Credit Approval Department of our Head Office.

(ii) Examination and approval of credit applications from SMEs

For our SME customers, the approval process generally follows the above process for credit applications. However, an SME applicant of a tier-one branch shall also undergo credit investigation by the SME credit management center of the risk management department of that branch, followed by a report issued on the investigation. Any applications approved at this stage will then be examined for approval by the head of the branch-level SME credit management center, unless such approval would exceed his authority, in which case the application will be referred to the general manager of the branch-level risk management department or the branch-level chief risk officer for examination and approval within the limits of his authority. An application which has been approved by the head of the branch-level SME credit management center within the limits of his authority will then require the issuance of a signed opinion from the general manager of the SME business department, who holds a veto right.

For tier-two branches, cross-city sub-branches and county-level sub-branches that have a chief risk officer, an application by an SME customer must be investigated by the risk manager of the branch or sub-branch and then submitted to the chief risk officer of the branch or sub-branch for examination and approval within the limits of his authority. Where the approval of an application requires higher authority, the application will be referred to the tier-one branch chief risk officer for examination and approval within the limits of his authority.

Since 2012, we have implemented various measures in order to proactively address potential risks in connection with the downturn in macroeconomic conditions, as well as strengthen our risk management and improve asset quality. First, we implemented improved business modeling and improved risk mitigation functions. Second, we strengthened our risk monitoring system and conducted real-time surveillance and on-site examinations. Third, we maintained monitoring of risks associated with SMEs, enhanced monitoring of customers with non-performing loans and increased our clearing and recovery efforts.

(iii) LGFV credit business

For our LGFV credit business, we have implemented a risk management system that governs the whole process of the extension of such credit by following commercial principles and by standardizing our operations. In conducting risk assessments to ensure that the borrowers (particularly with respect to new loans) meet our credit standards, we take into account the overall solvency of the LGFVs and their debt servicing ability so as to prudently evaluate the risks associated with granting loans to such entities, including collateral risk and maturity risk. In the post-disbursement stage, we continuously monitor factors that may affect repayment and we use a comprehensive early warning system to identify, categorize, report and address maturity risk. We have developed rating tools that classify the underlying risks of loans to such entities in a more accurate and objective manner and analytical tools to strengthen maturity risk analysis and monitoring.

The CBRC requires PRC banks to classify LGFV loans in accordance with the level of cash flow coverage, which refers to a borrower's cash flow divided by the total loan principal and the interest incurred. The following table sets forth the level of cash flow coverage for our LGFV loans as of June 30, 2013:

	Proportion of borrowers as of June 30, 2013(5)
Full coverage(1)	95.56%
Basic coverage(2)	3.87%
Semi-coverage(3)	0.24%
Non-coverage(4)	0.33%

Notes:

(1) Full coverage means a borrower has sufficient cash flow to cover 100% or more of its total loan principal and the interest incurred.

(2) Basic coverage means a borrower has sufficient cash flow to cover between 70% and 100% of its total loan principal and the interest incurred.

(3) Semi-coverage means a borrower has sufficient cash flow to cover between 30% and 70% of its total loan principal and the interest incurred.

(4) Non-coverage means a borrower has sufficient cash flow to cover less than 30% of its total loan principal and the interest incurred.

(5) The percentages below are subject to rounding.

As of June 30, 2013, the cash flow of the majority of our LGFV borrowers was sufficient to cover 100% (or above) of the principal and the interest incurred. The remaining loans were secured by valid guarantees or collaterals or those originated from economically developed regions equivalent to or above the prefectural level.

As of June 30, 2013, 36% of our total LGFV loans were extended to entities at the provincial level, 53% were at the prefectural level and 11% were at lower levels of administrative division. As of June 30, 2013, our loans to LGFVs located in the Yangtze River Delta, Bohai Rim, Pearl River Delta and the other regions represented approximately 23%, 21%, 8% and 48%, respectively, of our total LGFV loans. As of June 30, 2013, our loans to LGFVs in the industries of (i) transportation infrastructure, (ii) municipal infrastructure, (iii) land reserves and (iv) others represented 32%, 17%, 42% and 9%, respectively, of our total LGFV loans.

(iv) Corporate real estate loan business

We require the implementation of credit life cycle process management for our corporate real estate loan business, which means that we focus on mid- to high-end customers and have put in place a specialized and centralized management system for our entire corporate real estate loan business. We have established the Real Estate Finance Center under the Corporate Banking Department of our Head Office, which is responsible for coordinating our corporate real estate loan operations and reviewing relevant project proposals. The Credit Approval Committee of our Head Office, the real estate credit approval center of the Credit Approval Department and the chief risk officers at the branch level are authorized to carry out the examination and approval of loan applications. After credit extension, we require that the utilization of credit match the construction progress of a real estate development project. During the post-disbursement stage, we require that management, control and risk investigation for loans be strengthened by strictly monitoring the source of funds for repayment and conducting regular reappraisals of the value of collateral and pledged assets. Since 2008, we have been conducting special stress tests on real estate loans and loans granted to industries related to real estate and developing risk measurement tools for loans granted to industries related to real estate. As of June 30, 2013, our residential and commercial property development loans, primary land development loans and mortgage loans for properties used for business operation of our corporate real estate loans accounted for 42.05%, 40.11% and 11.46% of our total corporate real estate loans, respectively.

(v) Low-risk corporate credit business

Our low-risk corporate credit business is conducted through a special credit approval process, and applications are examined and approved by authorized approval officers from the corporate banking business line within the limits of their authority. Low-risk corporate credit applicants are required to fulfill the following conditions: (1) the collateral and pledged assets are cash-equivalent assets or guarantees provided by financial institutions recognized by us; (2) the security provided can discharge in full the obligations relating to our creditor's rights (including principal, interest and service fees); and (3) the security is not legally defective and there is no associated policy risk.

Opening of Credit Lines and Post-disbursement Management

Opening of Credit Lines

The opening of credit lines involves fulfilling prerequisites for the granting of credit, entering into relevant contracts, loan reviews and making necessary accounting entries. After a credit application is approved, a credit line can be opened only after a Disbursement Approval Center at the branch level has determined upon examination that the prerequisites for the granting of credit have been fulfilled, the credit contract has been signed by an authorized person, the relevant legal procedures have been completed and the validity of any security has been confirmed. Substantially all of our credit contracts are in the standard form prescribed by our Legal and Compliance Department, and those that are not are subject to approval by our Legal and Compliance Department.

Post-disbursement Management

We have established a post-disbursement management system with defined responsibilities and standardized methods to continuously monitor factors that may affect repayment. We conduct off-site and on-site inspections and apply risk modelling techniques on the basis of our experience in order to detect the potential risks associated with a specific borrower, issue early warnings and adopt remedial measures. Customer relationship managers are responsible for the day-to-day credit check on the operating conditions and use of credit by their respective borrowers, so as to detect any signs of potential credit default and to adopt risk mitigation measures as soon as possible. Risk monitoring centers of the risk management/credit management departments at the branch level are responsible for post-disbursement organization, supervision, guidance, inspection and reporting. We emphasize monitoring factors that may have a negative impact on the ability of borrowers to make repayment, mainly including (i) the operating and overall credit risk status of a borrower, including its receivables and inventory, changes in operating cash flow and unusual cash outflows; (ii) the status of projects into which loans are injected; and (iii) the condition of assets collateralized or pledged as security for credit, as well as the condition of guarantors.

Early Warning

Following the principles of prompt reporting and quick response, we have established a comprehensive early warning system that sets out early warning processes, including identification, categorization, verification, reporting, handling and cancellation. We have three types of early warnings based on their degree of urgency and have designed action plans to deal with different types of early warnings so that business units are able to take the necessary measures to deal with risks promptly. Our Head Office maintains a Risk Management Committee, and each branch has early warning committees, which coordinate the early warning work of our Head Office and the branches, respectively. Our Head Office's Risk Management Committee and the branch-level early warning committees are responsible for early warning management at their respective levels and hold regular meetings to review the status of systematic risk and individual risk in order to deal with early warning signals promptly and to assess the results of response measures.

Loan Classification and Provision of Reserve

In 1999, in accordance with the requirements of regulatory authorities, we started to apply a five-category loan classification system. We carry out loan classification and make provisions for losses in accordance with the relevant requirements of PRC regulations as well as the requirements of PRC and international accounting standards.

The classification of loan risks and estimation of expected losses are carried out at different levels. Customer relationship managers are responsible for the preliminary classification of risks as well as for estimating the losses of non-performing loans, the results of both of which are then subject to review by risk managers. At the credit application stage, reports are submitted to the upper level following credit granting procedure to obtain determination from the relevant examination and approval institutions, and the scope of authority for determination is the same as the scope of authority for examination and approval. For the day-to-day management of existing credit, our Head Office Credit Management Departments, chief risk officers at the branch level and branch risk managers make the final determination within the limits of their authority.

At the beginning of 2007, on the basis of our existing five-category classification system and internal rating-based approach, we adopted a 12-category loan classification system that refined our loan classification in accordance with the default risks of a corporate borrower and facility risk arising from the loan. Based on the varying degrees of credit asset risk, our 12-category loan classification further expands the "normal" grade under the original five-category loan classification system into seven grades, which are expressed from P1 to P7. The original "special mention" class is further broken down into two grades, which are expressed by SM1 and SM2. Loans under "sub-standard," "doubtful," and "loss" classes remain unchanged and are collectively referred to as non-performing credit assets.

The following table illustrates our five-category and 12-category loan classification systems:

12-Category Loan Classification	Names under the Five-Category Classification	Names under the 12-Category Loan Classification
1	Normal	Grade 1 Pass (P1)
2		Grade 2 Pass (P2)
3		Grade 3 Pass (P3)
4		Grade 4 Pass (P4)
5		Grade 5 Pass (P5)
6		Grade 6 Pass (P6)
7		Grade 7 Pass (P7)
8	Special Mention	Grade 1 Special Mention (SM1)
9		Grade 2 Special Mention (SM2)
10	Sub-standard	Sub-standard (SS)
11	Doubtful	Doubtful (DF)
12	Loss	Loss (LS)

Through this loan classification system, we classify corporate loans on the basis of both quantitative and qualitative factors by analyzing the default risk of a corporate borrower and facility risk arising from the loan and considering the estimated impairment losses.

Our loan classification system is designed to help us to better monitor changes in our asset quality, detect potential credit risks and more effectively conduct post-disbursement management of our loan portfolio. We believe that this system has helped us strengthen our loan monitoring capabilities.

We make provision for losses arising from different types of our corporate credit assets in two ways: individually assessed provisions and collectively assessed provisions. Loss estimation is carried out on an individual basis for non-performing credit assets, whereas collective loss provisions are applied to credit assets classified as "normal" and "special mention."

Termination of loans to potential high-risk customers

We have established an exit management mechanism for potential high-risk customers in order to optimize our portfolio of borrowers and prevent potential risks from materializing. Potential high-risk customers are those who are expected to suffer an adverse impact on their repayment ability or to experience adverse changes in their financial condition. For such customers, we normally reduce credit limits, terminate credit lines, cease renewing credit facilities and request the provision of additional risk mitigation and other measures in accordance with the relevant provisions of their respective loan contracts.

Non-performing Loan Management

We proactively manage non-performing loans to reduce the associated risks to our loan portfolio, promptly write off doubtful debts and improve our recovery on disposals.

The non-performing asset disposal committees at our Head Office and branch level are responsible for managing and recovering our non-performing loans. They are also responsible for approving disposal and recovery plans for non-performing assets, including asset restructuring, settlement of loans by taking collaterals, write-off of loans and other related issues. Steps taken for the recovery of non-performing loans mainly include collection, foreclosure on collateral, legal proceedings, reduction or waiver of interest, loan restructuring, write-offs and collection by third parties.

Credit Risk Management for Retail Credit Business (Excluding Credit Cards)

Acceptance of Credit Applications and Credit Investigation

When handling a new business, a customer relationship manager of our retail credit business is required to have a face-to-face interview with the credit applicant, and all documents must be signed by the applicant in the presence of the manager. The applicant will be requested to sign an application form and provide his or her identity card, proof of income, transaction contracts, certification of ownership of assets collateralized or pledged as security, a written undertaking from the guarantor, if any, and materials proving the guarantor's creditworthiness. We mainly rely on income, credit history and loan repayment ability to assess the applicant.

Our retail credit business customer relationship managers are responsible for assessing retail credit applicants and completing the reporting materials required for approval. The assessment mainly focuses on the credit risk of the applicant and the valuation of the loan collateral. We conduct our credit investigations through on-site investigations, telephone interview and information inquiries as well as through other channels and methods to verify the authenticity of loan-related information. For mortgage loans that are doubtful or that are particularly large, customer relationship managers may take additional verification steps by making "home visits". The appraisal of the collateral for retail loans is similar to the appraisal of the collateral for corporate loans. In the case of secured loans, we usually request an independent appraiser approved by our Bank to appraise the security provided.

On the basis of the results of inquiries made with the personal credit database of the PBOC, and in light of the results of the assessment of the applicant's risk profile and the risk mitigation factors, retail customer relationship managers will prepare reporting materials for approval.

Credit Approval

Our retail credit approval is carried out by branch chief risk officers or persons authorized by them within the limits of their authority, except for high-risk retail credit business applicants, which must go through panel examination and approval. Our retail credit business is mainly approved by authorized individuals.

Loan Disbursement and Post-disbursement Management

After the loan applications of individual customers are approved, the authorized signatory of our business units, the borrower and the guarantor (if any), jointly enter into retail loan contracts and a disbursement will be made after the loan prerequisites are satisfied. In our retail loan monitoring, we focus on the repayment ability of the borrower and the status of assets collateralized or pledged as security and any change in their value. We adopt a five-category classification for retail loans by reference to the risks associated with the loans.

Once a loan becomes overdue, the customer relationship manager or specific collectors will, in the context of the individual circumstances leading to the overdue balance and the accompanying risks, demand repayment through various actions, including the use of telephone, e-mail, letters and home visits.

Based on the actual conditions of non-performing retail loans, repayment will be demanded from the borrowers and guarantors by one or several of the following ways: collection, litigation, appointment of factoring agents or repayment of loans by assets.

Credit Card Risk Management

Identification of Credit Risk

The Credit Card Center imposes different criteria for credit cards granted to different types of customers, making full use of risk measurement methods such as application grading models, behavior assessment models, initial credit line models and dynamic management of credit lines so as to manage credit card risk in a quantitative manner, which enables us to carry out differential management of customers with differing risk profiles and income statuses. On this basis, we decide whether a card should be issued and, if so, what type of card should be issued and what credit limit should be granted. Our Credit Card Center has completed building the Internal Assessment System, and is now using the measurement methods under the New Basel Capital Accord to monitor changes in asset quality.

Our Credit Card Center has set up a specialized risk data analysis team, which pays close attention to the macroeconomic development of China as well as the development of the credit card business in the banking industry. Furthermore, based on the requirements of our business, we collect information relating to the credit risk control measures of other banks through a number of channels and provide such information to risk policy-makers for their reference. Based on our business planning and risk management targets, we adjust our credit card policy in line with the current forecast of the credit card business in a timely manner.

We investigate and identify potential customer credit risks through a number of channels, including making full use of internal and external credit investigation means such as our credit card blacklist system, the personal credit information database of the PBOC, the identity verification system of the Ministry of Public Security, China UnionPay's risk information sharing system and the industry-wide risk information sharing system.

Credit Risk Control System

The Credit Card Center has established the Risk Management Department, Credit Approval Department, Collection Management Department, Strategy Research Department and other departments so as to strengthen the exchange and coordination of risk prevention information. We update guidelines for the examination and approval of credit card applications every year. The guidelines set out our risk management guiding principles, classify the clients into different types, namely supported, restricted and prohibited, and clarify the approval process for special cases. We have developed our own examination and approval management system, online credit limit adjustment system, electronic debt collection system and operational risk reporting system. In addition, we have carried out operational risk and control self-assessment (RCSA) for the purpose of identifying risks and refining our internal controls. The Credit Card Center has introduced the TRIAD customer management system which aims to improve our customer satisfaction through effective allocation of resources under our customer credit line management and behavior management, while controlling risk.

Since 2012, we have made persistent efforts to improve our risk management methods. We deploy differentiated risk management strategies that account for client attributes and transaction behavior, which allows us to focus on our large number of customers while also refining our credit card risk management. Meanwhile, we optimized our internal ratings system based on the New Basel Capital Accord through our re-examination algorithms, which adjust for the probability of default and changes in economic conditions.

Credit Risk Management for Financial Institution Credit Business

Our financial institution credit business primarily includes (i) investments in domestic financial bonds and other quoted securities, financial institution placements and borrowing, and trading of derivatives and (ii) investments in overseas negotiable instruments and overseas financial institution placements. We set up credit limits with respect to countries, regions and domestic and overseas counterparties. Such limits are subject to the approval by the Credit Approval Department and the Credit Approval Committee of our Head Office within their respective limits of authority.

Credit Risk Management System

Our credit risk management systems include our corporate credit risk management system, retail credit risk management system and financial institution credit risk management system.

Our corporate credit risk management system allows for electronic handling and streamlining of the credit granting process, from credit application, review and approval to disbursement approval and post-disbursement management. We pursue the continued development of our corporate loan risk management system to enhance its functions. In particular, by targeting credit extensions to micro-enterprises, we have developed an electronic procedure and risk model catering to the characteristics of micro-enterprises in our risk management system, which provide systemic support for the whole procedure, including risk identification, measurement, monitoring, mitigation and control.

Our retail credit risk management system is a comprehensive retail loan risk management system, comprising analysis modelling software, decision-making engines, process management and numerous relevant data sets, which are key to our establishment of a comprehensive risk management system for our Bank. The entire retail credit management process can be managed through this electronic system, which includes loan application, on-line approval, loan disbursement and post-disbursement management.

Our financial institution credit risk management system facilitates the process of the information collection and credit application, customer rating, credit approval, disbursement and post-disbursement monitoring in relation to financial institutions.

LIQUIDITY RISK MANAGEMENT

Liquidity risk refers to the risk of that, although a bank is solvent, it may be unable to obtain sufficient funds in a timely manner, or at a reasonable cost, to cope with asset growth or settle due and payable debts. Most of the funds held by us come from the deposits of our customers. In recent years, our customers' deposits have grown in quantity and diversified in types and term length. Based on estimation of our future cash flow, we take action to maintain an appropriate percentage of liquid assets.

Our Asset and Liability Management Committee is responsible for managing our overall liquidity. The Asset and Liability Management Committee, with our President as its chairman, is responsible for formulating policies relating to liquidity based on relevant regulatory requirements and the principle of prudence. The objectives of our liquidity policies are as follows:

- to maintain our liquidity at a stable and sufficient level and to ensure that we are in a position to fulfill payment obligations in a timely manner and meet our liquidity demands relating to our assets, liabilities and off-balance sheet operations, both in the case of normal business operations and in stressed circumstances, by setting up a methodical and comprehensive liquidity risk management system; and
- to make reasonable and timely adjustments to the scale and structure of our assets and liabilities based on market changes and business development and to pursue the maximization of profits and the minimisation of costs in order to maintain an appropriate level of liquidity with an aim to ensure the "safety, liquidity and efficiency" of our capital.

Our Planning and Finance Department is responsible for the daily management of our liquidity risk and for formulating and timely revising our liquidity risk management strategies. It is also responsible for the identification, measurement, monitoring and reduction of bank-wide liquidity risk. Our Treasury Department is responsible for day-to-day position management and forecasts and for maintaining our highly liquid asset portfolio at an appropriate level based on our liquidity risk management strategies. In the event of a material incident relating to payment obligations or any structural change, timely reports as well as recommendations must be given to the Asset and Liability Management Committee.

We mainly adopt liquidity gap analysis to measure liquidity risk and adopt different scenario analysis and stress tests to assess the impact created by the relevant liquidity risk. While we reduce our liquidity risk by term matching, diversification of liabilities and other on-balance sheet business adjustments in light of internal transfer pricing and external pricing, we also attempt to adjust for any liquidity shortfall by making use of monetary swaps and other financial derivatives.

MARKET RISK MANAGEMENT

Market risk means the risk of losses to our businesses resulting from an adverse movement of market prices, including interest rates, exchange rates, commodity prices and stock prices.

The Board of Directors bears ultimate responsibility for monitoring and managing our exposure to market risk to ensure that we can effectively identify, measure, monitor and control the different types of market risk to which our businesses are exposed. The Risk Management Committee of the Board of Directors is responsible for monitoring market risk management within its limit of authority delegated by the Board of Directors and reviewing our strategies, policies and procedures relating to market risk management together with relevant proposals on the acceptable market risk level put forward by the senior management. Most of the market risks to which we are exposed in our business operations and development are concentrated in our treasury management, including (i) money market activities, (ii) investment portfolio management and (iii) treasury transactions on behalf of customers. The Planning and Finance Department is responsible for the day-to-day monitoring and management of the underlying interest rate risk and foreign exchange risk of banking books. The Risk Management Department is responsible for establishing and improving our market risk management system, formulating market risk management policies and identifying, monitoring and reporting our market risk exposure.

In accordance with the requirements of regulatory authorities and the general practices of the banking industry, we divide our on- and off-balance sheet assets into two categories: trading book and banking book. Based on the nature and characteristics of the relevant accounts, we adopt methods to identify, measure, monitor and control market risk. Trading books refer to the financial instruments and commodities positions that could be traded freely. Banking books represent business other than trading books. We primarily measure and monitor the market risk associated with trading books through sensitivity indicators, scenario analysis and foreign exchange exposure analysis. We measure and monitor the market risk associated with banking books through sensitivity gap analysis, stress tests and effective duration analysis.

We aim to effectively identify, measure and monitor factors relating to market risk. In order to ensure that the market risk we assume is within our risk tolerance, we have established a tiered cap system for market risk management. The first tier sets a cap on the level of overall market risk exposure deemed acceptable to us. The second tier sets exposure caps on both interest rate and exchange rate risk. Third- and fourth-tier caps are business- and product-type specific. To ensure the implementation of our tiered cap system, we have implemented a suite of cap management procedures, covering application, approval, monitoring, early warning, reporting and action plans with respect to such caps.

In order to further enhance our trading and market risk management ability, we have established a comprehensive market risk management system. The main functions of this system include front-, middle- and back-office monitoring and processing of treasury transactions. The system also provides a specialized platform for trading and market risk management. At the same time, we have also introduced a Value-at-Risk (VaR) measurement model in order to enhance our ability to measure and manage market risk to prepare for our implementation of the New Basel Capital Accord.

Interest Rate Risk Management

Our interest rate risk mainly relates to the repricing risk in our commercial banking business and the risk of our treasury position. The objectives of our interest rate risk management are to develop measures to monitor and control interest rate risk, to establish proper mechanisms to measure, analyze and follow up on changes of such risk and to take appropriate steps before escalation of interest rate risk to reduce our potential loss so that we operate our business within an acceptable range of interest rate risk and to safeguard the safety, liquidity and profitability of our business operations.

We have adopted an interest rate risk management policy that serves as the foundation for our bank account interest rate risk management mechanisms and strategies. We actively explore and improve our interest rate risk management mechanisms, and endeavor to establish an appropriate asset-liability pricing mechanism by using a fund transfer pricing system, with a focus on profit. We have also improved and upgraded our assets and liabilities management system and improved the relevance of system applications towards interest rate risk management.

In our interest rate risk management, we have taken steps in conducting active management of assets and liabilities, and applying the results of gap analysis of asset-liability management to the adjustment of portfolios and the control of liability costs so as to increase our bank-wide net interest margin.

We assess the interest rate risk relating to banking book mainly through repricing gap analysis and net profit and interest income simulation analysis. We regularly monitor the position of the gap and conduct stress tests by using gap data. On this basis, we adjust repricing term structures of interest-earning assets and interest-bearing liabilities and use derivatives to hedge against interest rate risk. At the same time, we closely monitor the movement of interest rates of local and foreign currencies, and, in line with changes in market interest rates, adjust our interest rates for deposits and loans denominated in both local and foreign currencies so as to mitigate interest rate risk.

With respect to our treasury operations, we adopt such techniques as duration and present value per basis point to measure interest rate risk, and apply stress tests and scenario analysis to monitor and control risks.

Exchange Rate Risk Management

Our exchange rate risk primarily arises from the proprietary foreign currency portfolio within the Treasury Department's proprietary investments, and other foreign currency transactions. The objectives of our exchange rate risk management are to develop measures to monitor and control exchange rate risk, to establish proper mechanisms to measure, analyze and follow up on changes in such risk and to take appropriate steps before escalation of exchange rate risk to reduce our potential loss so that we operate our business within an acceptable range of exchange rate risk and to safeguard the safety, liquidity and profitability of our business operations. Our exchange rate risk is reflected in the mismatch of the currencies in which our assets and liabilities are denominated and the possible adverse impact of exchange rate fluctuation on our profit and capital in foreign currencies.

We have adopted exchange rate risk management measures across our Bank to centralize the management of exchange risks related to our account. We endeavor to match relevant foreign currency assets with liabilities and control the exchange risks by making available and utilizing various currency sources. We strictly control risk exposure in foreign exchange settlement and sales and take measures to improve the position-closing method for foreign exchange settlement and sales. We also implement a "multiple price quotations per day" mechanism to reduce exchange risk. We actively research, design and develop various derivative financial instruments and innovative financial products, aiming at managing exchange rate risk by utilizing appropriate financial instruments.

OPERATIONAL RISK MANAGEMENT

Operational risk represents the risk of loss associated with deficiencies and failures of internal processes, personnel and information systems, or external events. The operational risk that we face primarily includes, among others, internal and external fraud, damage to tangible property, disruptions to our operations or information technology system and problems associated with transaction settlement as well as business processes management. Operational risk also includes legal risk but does not include strategic or reputational risk.

Our operational risk management aims to control operational risk within an acceptable range, to increase service efficiency and optimize work flows, to lower management cost and increase profitability, to reduce the impact of contingencies and to ensure normal and continuous operation of our business.

We have established a hierarchical operational risk management structure, operating under the guidance of the operational risk management policies formulated by the Board and implemented by our senior management, with three lines of defense. The Board of Directors is ultimately responsible for operational risk management. Our senior management actively leads the relevant initiatives; branch-level management teams are responsible for operational risk management at their respective branches, with branch heads having ultimate responsibility at branch level.

Business units and functional departments constitute the first line of defense to safeguard against operational risk, directly bearing and managing the operational risk of their own departments or lines and assuming primary responsibility for operational risk management. The Risk Management Department and Legal and Compliance Department constitute the second line of defense to safeguard against operational risk, and are responsible for establishing an operational risk management framework and guarding, supporting and monitoring the implementation of our operational risk management at all levels. The internal audit departments and discipline and inspection departments constitute the third line of defense against operational risk. The internal audit departments are responsible for auditing the implementation of our operational risk management system across our Bank and reporting related issues to the senior management and the Audit Committee of the Board of Directors, and the discipline and inspection departments carry out investigations and culpability verifications and ensure that the relevant individuals are held accountable for any operational issues identified.

We have preliminarily established an operational risk identification and assessment system, which is based on operational risk and control self-assessment (RCSA), supplemented by an operational risk event reporting system and key operational risk indicators and supported by internal audit and compliance assessments. Under the hierarchical management of operational risk, different business lines or business departments are responsible for applying the relevant tools to identify, assess and control operational risk and adopt appropriate risk management measures.

We have implemented the operational risk and control self-assessment (RCSA) process and have incorporated this into the daily work of our business lines, branches and sub-branches. The RCSA is implemented by the institute or department that assumes direct responsibility for operational risk for the purpose of internally assessing operational risks and effectiveness of control in accordance with the principles of operational risk management.

We have established an operational risk reporting system whereby various business lines and various branches and sub-branches are required to report on operational risk events in accordance with the predetermined reporting scope, route and format. The operational risk reporting system helps to pinpoint weak links in operational risk control through identifying spread of losses, and can be used to verify the results of operational risk control self-assessment so as to evaluate the quality of the RCSA.

We have set up a key risk indicator (KRI) system for operational risk, which covers our main risk categories and key product groups. By continuously monitoring key risk indicators, we aim to keep abreast of changes in our operational risk exposure and to enhance our adaptable supervision capabilities so as to actively manage operational risk and be able to issue early warnings prior to the occurrence of potential operational risk incidents.

COMPLIANCE RISK MANAGEMENT

Compliance risk refers to the risk of legal sanctions, regulatory penalties, material financial loss, or reputational damage to a commercial bank resulting from failure to comply with applicable laws and regulations as well as relevant industry standards. Compliance risk management is an important part of our overall risk management and we have accordingly placed strong emphasis on compliance risk management throughout our internal control structure and procedures. The Board of Directors is ultimately responsible for matters relating to compliance risk and the legal and compliance departments at both our Head Office and at the branch level take comprehensive responsibility for coordinating bank-wide compliance risk management, including the implementation of an integrated and coordinated compliance risk management system and the adoption of tracking and monitoring measures. We continuously provide effective guidance, monitoring, alerts, identification and assessment with respect to compliance risk, and actively promote systematic compliance management.

CAPITAL MANAGEMENT UNDER COMPREHENSIVE RISK MANAGEMENT

We believe we have an established capital management system and promote organic integration between our capital management, comprehensive risk management and assets and liabilities management. We also strengthened our valued-based portfolio management system to enhance our systematic risk management capability.

Our capital management organizational structure encompasses the Board, supervisory committee and senior management. We emphasize efficiency in our capital management by using RAROC/EVA indicators as guidance. We also utilized a number of tools in our capital management, such as (i) advanced audit mechanisms, (ii) a multi-tiered capital management and internal capital adequacy assessment program (ICAAP) and (iii) a risk-weighted assets system at the accounting level (including standard and advanced methods for capital measurement).

Anti-Money Laundering

In accordance with relevant legal and regulatory requirements on anti-money laundering, we have formulated rules, regulations and policies for the monitoring, reporting and managing of anti-money laundering risk, which are reviewed on an annual basis and revised as necessary to satisfy our own risk management requirements and those of relevant regulators.

We carry out anti-money laundering training by internal or third party consultants to increase the awareness among our staff of anti-money laundering risks. We have established an Anti-Money Laundering Leading Team and an Anti-Money Laundering Work Office. The Anti-Money Laundering Leading Team is responsible for spearheading our bank-wide anti-money laundering initiatives, formulating and overseeing the implementation of relevant laws and regulatory rules on the identification and handling of large transactions and suspicious transactions. It is comprised of the respective heads of the Legal and Compliance Department, Operation Management Department, Trade Finance Department, Retail Banking Department and other related departments. Each such department bears management responsibility for anti-money laundering activities in accordance with its authority. The Anti-Money Laundering Work Office is within the Legal and Compliance Department, and is responsible for the day-to-day bank-wide management of anti-money laundering risk and coordinating the reporting of anti-money laundering work of relevant departments, and the consolidation and reporting of the data of large transactions and suspicious transactions.

INTERNAL CONTROL

We continue to enhance our internal control functions and our corporate governance and strive to achieve the best practice standards of our industry.

We maintain a three-tiered internal control management system, which consists of the decision-making level, the implementation level and the supervision and evaluation level.

Decision-making Level

The Board of Directors has ultimate decision-making authority and is mainly responsible for deciding our internal control strategy and making the most significant business decisions. The Board of Directors is also responsible for reviewing the internal control reports submitted by our senior management, auditors and regulators, conducting overall assessment of the integrity and effectiveness of our bank-wide internal control system, and advising on improvements and supervising the senior management to carry out continuous improvement and refinement of our internal control system.

Implementation Level

Our senior management is supervised by the Board of Supervisors and is responsible for: (i) implementing the various strategies, policies, systems and procedures approved by the Board of Directors; (ii) establishing an organizational structure with specific authorization and duties as well as clear reporting lines; (iii) setting up a procedure for identifying, measuring and managing risks; developing and implementing sound and effective internal control measures; and (iv) adopting measures to rectify any existing internal control deficiencies.

The special committees under the senior management, including, among others, the Risk Management Committee, the Asset and Liability Management Committee and the Internal Control and Compliance Early Warning Committee, are responsible for internal control and risk management within their respective limits of authority.

Business departments in our Head Office are responsible for departmental internal control matters, including the implementation of internal control policies and procedures, identification and management of internal control deficiencies and timely reporting on their internal control efforts to the senior management.

Management at the branch level is responsible for branch-level internal control matters, including, at the request of the senior management or the business departments of our Head Office, the formulation of specific detailed implementation rules and business procedures and the establishment and enhancement of internal control mechanisms.

Supervision and Evaluation Level

The Board of Supervisors is responsible for supervising our Bank in its compliance with the relevant laws and regulations, as well as supervising the Board of Directors and senior management in their performance of their respective duties and inspecting and supervising our Bank in connection with the matters relating to internal control. The Audit Department is responsible for carrying out audits, supervision and assessment of our business operations, internal control and risk profile across our Bank.

INTERNAL AUDIT

Pursuant to the Guidelines on Internal Audit for Banking Financial Institutions (銀行業金融機構內部審計指引) issued by the CBRC, we began to reform our internal audit system starting at the end of 2006. We have put in place an independent vertical audit management system under which our audit functions are accountable to the Board of Directors and report to the Board of Directors, the Audit Committee of the Board of Directors and our senior management. We have also implemented an internal audit organizational structure comprising the Audit Department of our Head Office and five audit centers. The Audit Department and the audit centers are independent of other business departments and branches. They conduct their audit, supervision and assessment of matters relating to the business and operational management, internal control and risk profile across our Bank and supervise the audited authorities and departments to perform their duties by carrying out routine audits, special audits and audits into economic liabilities arising from existing and departing officers. The Audit Department is responsible for: (i) carrying out audits of our business operations, internal controls and risk profile across our Bank; (ii) making consistent efforts to improve review and supervision of our internal controls; and (iii) continuously strengthening the normalization and standardization of our internal control process, which has resulted in the quality and results of our audits improving continuously and promoted stable and healthy business operations across our Bank.

The Audit Department is responsible for auditing and assessing bank-wide operational activities, risk profile, internal control and corporate governance effectiveness; formulating the parameters for audit work and audit business systems across our Bank; formulating and organizing the implementation of annual work plans; managing and giving guidance to the audit centers; and conducting audits of the line departments, key businesses of our Head Office and key branches.

Each regional audit center is responsible for the implementation of annual work plans at a regional level and examining and assessing business operations, risk profile, internal control and corporate governance of branches within its region.

The following discussion and analysis should be read in conjunction with the Accountants' Report in Appendix I, the Unaudited Interim Financial Information in Appendix II and Unaudited Supplementary Financial Information in Appendix III, in each case together with the accompanying notes. Our consolidated financial statements included in the Accountants' Report and the Unaudited Interim Financial Information have been prepared in accordance with IFRS. The following discussion and analysis contain forward-looking statements that involve risks and uncertainties. Our actual results may differ from those anticipated in these forward-looking statements as a result of any number of factors, including those set forth in the sections headed "Forward-Looking Statements" and "Risk Factors."

ASSETS

As of June 30, 2013, our total assets amounted to RMB2,471.2 billion, an increase of 8.4% compared to RMB2,279.3 billion as of December 31, 2012. Our total assets increased by 31.5% to RMB2,279.3 billion as of December 31, 2012 from RMB1,733.3 billion as of December 31, 2011, which in turn increased by 16.8% from RMB1,484.0 billion as of December 31, 2010. The principal components of our total assets are (i) loans and advances to customers (net), (ii) financial assets held under resale agreements and placements with banks and other financial institutions (net), (iii) cash and deposits with the central bank, and (iv) investments (net), representing 43.7%, 12.9%, 12.6% and 23.2%, respectively, of our total assets as of June 30, 2013. The following table sets forth, as of the dates indicated, the components of our total assets.

	As of December 31,						As of June 30,	
	2010		2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Total loans and advances to customers	778,828	52.5%	889,825	51.3%	1,023,187	44.9%	1,104,554	44.7%
Less: Allowance for impairment losses	(18,273)	(1.2)	(21,043)	(1.2)	(25,856)	(1.2)	(25,889)	(1.0)
Loans and advances to customers, net	760,555	51.3	868,782	50.1	997,331	43.7	1,078,665	43.7
Investments, net[(1)]	187,431	12.6	161,214	9.3	478,384	21.0	574,569	23.2
Financial assets held under resale agreements and placements with banks and other financial institutions, net	193,870	13.1	288,687	16.7	366,705	16.1	318,444	12.9
Cash and deposits with the central bank	185,745	12.5	228,666	13.2	285,478	12.5	311,708	12.6
Deposits with banks and other financial institutions, net	53,275	3.6	105,263	6.0	47,019	2.1	73,870	3.0
Other assets[(2)]	103,074	6.9	80,734	4.7	104,378	4.6	113,912	4.6
Total assets	**1,483,950**	**100.0%**	**1,733,346**	**100.0%**	**2,279,295**	**100.0%**	**2,471,168**	**100.0%**

Notes:

(1) Consist of debt securities (net), equity instruments (net), fixed-rate mortgages and debt securities classified as receivables.

(2) Consist of interest receivables, positive fair value of derivatives, fixed assets, intangible assets, deferred tax assets, goodwill and other assets (including assets held for wealth management products).

Loans and Advances to Customers

Loans and advances to customers are the largest component of our assets. We provide a broad range of loan products to our customers through our branch network and substantially all of such loan products are denominated in Renminbi. Our loans and advances to customers, net of the allowance for impairment losses, represented 51.3%, 50.1%, 43.7% and 43.7% of our total assets as of December 31, 2010, 2011 and 2012 and June 30, 2013, respectively.

Our total loans and advances to customers increased by 8.0% to RMB1,104,554 million as of June 30, 2013 from RMB1,023,187 million as of December 31, 2012. Our total loans and advances to customers increased by 15.0% to RMB1,023,187 million as of December 31, 2012 from RMB889,825 million as of December 31, 2011, which in turn increased by 14.3% from RMB778,828 million as of December 31, 2010. The increase from December 31, 2011 to June 30, 2013 was due to an increase in our corporate and retail loans, partially offset by a decrease in our discounted bills. The increase from December 31, 2010 to December 31, 2011 was primarily due to an increase in our corporate and retail loans.

Distribution of Loans by Business Line

The following table sets forth, as of the dates indicated, our loans and advances to customers by business line. For a description of the loan products we offer, see "Business – Our Principal Businesses."

	As of December 31,						As of June 30,	
	2010		2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Corporate loans	571,232	73.3%	641,950	72.1%	699,090	68.4%	731,522	66.2%
Discounted bills	13,789	1.8	14,421	1.6	12,643	1.2	11,897	1.1
Retail loans	193,807	24.9	233,454	26.3	311,454	30.4	361,135	32.7
Total loans and advances to customers	**778,828**	**100.0%**	**889,825**	**100.0%**	**1,023,187**	**100.0%**	**1,104,554**	**100.0%**

Corporate Loans

Corporate loans have consistently been the largest component of our loan portfolio. Corporate loans represented 73.3%, 72.1%, 68.4% and 66.2% of our total loans and advances to customers as of December 31, 2010, 2011 and 2012 and June 30, 2013, respectively. Our corporate loans increased by 4.6% to RMB731,522 million as of June 30, 2013 from RMB699,090 million as of December 31, 2012. As of December 31, 2012, our corporate loans amounted to RMB699,090 million, an increase of 8.9% from RMB641,950 million as of December 31, 2011, which in turn increased by 12.4% from RMB571,232 million as of December 31, 2010. The overall increase from December 31, 2010 to June 30, 2013 was primarily due to the steady increase in the credit demand of our customers in line with the growth of the PRC economy.

The following table sets forth, as of the dates indicated, our corporate loans by contract maturity.

	As of December 31,						As of June 30,	
	2010		2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Short-term loans[1]	222,875	39.0%	275,585	42.9%	401,424	57.4%	444,051	60.7%
Medium- to long-term loans[2]	348,357	61.0	366,365	57.1	297,666	42.6	287,471	39.3
Total corporate loans	**571,232**	**100.0%**	**641,950**	**100.0%**	**699,090**	**100.0%**	**731,522**	**100.0%**

Notes:

(1) Loans with contract maturities of one year or less.

(2) Loans with contract maturities above one year.

Our short-term corporate loans increased by 10.6% to RMB444,051 million as of June 30, 2013 from RMB401,424 million as of December 31, 2012. As of December 31, 2012, our short-term corporate loans amounted to RMB401,424 million, an increase of 45.7% from RMB275,585 million as of December 31, 2011, which in turn increased by 23.7% from RMB222,875 million as of December 31, 2010. The overall increase in our short-term corporate loans from December 31, 2010 to June 30, 2013 was primarily due to our efforts to develop our SME loan business, a substantial part of which involves short-term loans.

Our medium- to long-term corporate loans decreased by 3.4% to RMB287,471 million as of June 30, 2013 from RMB297,666 million as of December 31, 2012. As of December 31, 2012, our medium- to long-term corporate loans amounted to RMB297,666 million, a decrease of 18.8% from RMB366,365 million as of December 31, 2011, which in turn increased by 5.2% from RMB348,357 million as of December 31, 2010. As a percentage of our total corporate loans, medium- to long-term corporate loans decreased from 61.0% as of December 31, 2010 to 39.3% as of June 30, 2013, primarily due to the increased proportion to our corporate loan portfolio of our SME loans, a substantial part of which involves short-term loans.

Distribution of Corporate Loans by Industry

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

	As of December 31,						As of June 30,	
	2010		2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Manufacturing								
Electrical machinery and equipment	6,581	1.2%	11,034	1.7%	12,614	1.8%	12,015	1.6%
Smelting and pressing of ferrous metals	30,037	5.3	35,293	5.5	32,049	4.6	29,690	4.1
Petrochemical materials and products	19,571	3.4	25,866	4.0	31,738	4.5	31,868	4.4
Coking	3,500	0.6	3,773	0.6	6,859	1.0	6,972	0.9
Smelting and pressing of non-ferrous metals	15,262	2.7	18,447	2.9	22,482	3.2	23,830	3.3
Others[1]	65,418	11.4	91,624	14.3	118,669	17.0	129,284	17.6
Subtotal	140,369	24.6	186,037	29.0	224,411	32.1	233,659	31.9

	As of December 31,						As of June 30,	
	2010		2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Wholesale and retail								
Metal and metal ore wholesale	23,470	4.1	37,415	5.8	39,342	5.6	37,885	5.2
Coal product wholesale	6,926	1.2	10,012	1.6	12,469	1.8	15,711	2.1
Petrochemical products wholesale and retail	1,879	0.3	2,876	0.4	6,088	0.9	7,865	1.1
Others(2)	34,773	6.1	52,415	8.2	71,691	10.2	78,837	10.8
Subtotal	67,048	11.7	102,718	16.0	129,590	18.5	140,298	19.2
Real estate								
Residential and commercial property development	32,565	5.7	30,902	4.8	30,005	4.3	38,472	5.3
Land development	24,098	4.2	32,264	5.0	36,894	5.3	36,691	5.0
Commercial property mortgage	13,638	2.4	13,080	2.0	12,954	1.8	10,486	1.4
Industrial park development	5,658	1.0	4,020	0.7	2,679	0.4	1,651	0.2
Others	5,357	0.9	3,810	0.6	2,937	0.4	4,182	0.6
Subtotal	81,316	14.2	84,076	13.1	85,469	12.2	91,482	12.5
Transportation, storage and postal services	65,122	11.4	67,427	10.5	67,628	9.7	67,291	9.2
Leasing and commercial services								
Investment and asset management	39,706	7.0	36,475	5.7	25,681	3.7	22,253	3.0
Others	16,245	2.8	15,341	2.4	15,094	2.1	16,288	2.2
Subtotal	55,951	9.8	51,816	8.1	40,775	5.8	38,541	5.2
Water, environment and public utilities management	67,235	11.8	42,222	6.6	32,643	4.7	29,702	4.1
Construction	13,213	2.3	22,067	3.4	32,042	4.6	40,186	5.5
Mining								
Ferrous metals	1,594	0.3	2,188	0.3	2,735	0.4	2,513	0.4
Coal mining and flotation	12,280	2.1	15,197	2.4	18,114	2.6	18,984	2.6
Petroleum and gas	307	0.1	322	0.1	432	0.1	852	0.1
Non-ferrous metals	5,509	1.0	6,484	1.0	5,789	0.8	4,700	0.6
Others	162	0.0	316	0.0	735	0.1	729	0.1
Subtotal	19,852	3.5	24,507	3.8	27,805	4.0	27,778	3.8
Production and supply of power, gas and water								
Electricity and heat	27,623	4.8	28,260	4.4	20,117	2.9	17,472	2.4
Gas and water	2,002	0.4	2,033	0.3	3,008	0.4	4,295	0.6
Subtotal	29,625	5.2	30,293	4.7	23,125	3.3	21,767	3.0
Others(3)	31,501	5.5	30,787	4.8	35,602	5.1	40,818	5.6
Total corporate loans	**571,232**	**100.0%**	**641,950**	**100.0%**	**699,090**	**100.0%**	**731,522**	**100.0%**

Notes:

(1) Consist primarily of auto manufacturing, production of auto parts and components, cement, garments and textiles.

(2) Consist primarily of trade dealership and agency, auto retail, retail of general merchandize, wholesale of grains, beans and tuber crops.

(3) Consist primarily of agriculture, forestry, animal husbandry and fishery; accommodation and catering industry; financial industry; scientific research, technical services and geological prospecting; resident services and other services; health, social security and social welfare; and culture, sports and entertainment.

As of June 30, 2013, the top five industries to which we provided corporate loans were (i) manufacturing, (ii) wholesale and retail, (iii) real estate, (iv) transportation, storage and postal services and (v) construction, which together represented 78.3% of our total corporate loans. As of December 31, 2011 and 2012, the top five industries to which we provided corporate loans were (i) manufacturing, (ii) wholesale and retail, (iii) real estate, (iv) transportation, storage and postal services and (v) leasing and commercial services, which together represented 76.7% and 78.3% of our total corporate loans, respectively. As of December 31, 2010, the top five industries to which we provided corporate loans were (i) manufacturing, (ii) real estate, (iii) water, environment and public utilities management, (iv) wholesale and retail and (v) transportation, storage and postal services, which together represented 73.7% of our total corporate loans.

As of June 30, 2013, loans extended to the manufacturing industry amounted to RMB233,659 million, an increase of 4.1% from RMB224,411 million as of December 31, 2012. Loans extended to the manufacturing industry increased by 20.6% to RMB224,411 million as of December 31, 2012 from RMB186,037 million as of December 31, 2011, which in turn increased by 32.5% from RMB140,369 million as of December 31, 2010. Loans extended to this industry as a percentage of our corporate loans increased to 31.9% as of June 30, 2013 from 24.6% as of December 31, 2010. The overall increases in both the amount of loans extended to the manufacturing industry and such loans as a percentage of our corporate loans during this period were primarily due to the increased credit demand of our corporate customers from this industry as a result of the continued growth of China's economy.

As of June 30, 2013, loans extended to the wholesale and retail industry amounted to RMB140,298 million, an increase of 8.3% from RMB129,590 million as of December 31, 2012. Loans extended to the wholesale and retail industry increased by 26.2% to RMB129,590 million as of December 31, 2012 from RMB102,718 million as of December 31, 2011, which in turn increased by 53.2% from RMB67,048 million as of December 31, 2010. Loans extended to this industry as a percentage of our corporate loans increased to 19.2% as of June 30, 2013 from 11.7% as of December 31, 2010. The overall increases in both the amount of loans extended to this industry and such loans as a percentage of our corporate loans during this period were primarily due to the increase in the credit demand of this industry as a result of its steady overall growth.

As of June 30, 2013, loans extended to the real estate industry amounted to RMB91,482 million, an increase of 7.0% from RMB85,469 million as of December 31, 2012. Loans extended to the real estate industry increased by 1.7% to RMB85,469 million as of December 31, 2012 from RMB84,076 million as of December 31, 2011, which in turn increased by 3.4% from RMB81,316 million as of December 31, 2010. The increase in loans extended to this industry from December 31, 2012 to June 30, 2013 was primarily due to the increased credit demand of certain borrowers in the industry. Loans extended to this industry as a percentage of our corporate loans decreased to 12.5% as of June 30, 2013 from 14.2% as of December 31, 2010, which reflected our accordance with the guidance provided by PRC government policies with respect to the real estate market during this period.

As of June 30, 2013, loans extended to the water, environment and public utilities management industry amounted to RMB29,702 million, a decrease of 9.0% from RMB32,643 million as of December 31, 2012. Loans extended to the water, environment and public utilities management industry decreased by 22.7% to RMB32,643 million as of December 31, 2012 from RMB42,222 million as of December 31, 2011, which in turn decreased by 37.2% from RMB67,235 million as of December 31, 2010. Loans extended to this industry as a percentage of our corporate loans decreased to 4.1% as of June 30, 2013 from 11.8% as of December 31, 2010. The overall decreases in both the amount of loans extended to this industry and such loans as a percentage of our corporate loans during this period were primarily due to a change in our business strategy to reduce our loans to LGFVs, including loans granted to projects in the water, environment and public utilities management industry.

As of June 30, 2013, loans extended to the transportation, storage and postal services industry amounted to RMB67,291 million, a decrease of 0.5% from RMB67,628 million as of December 31, 2012. Loans extended to the transportation, storage and postal services industry slightly increased by 0.3% to RMB67,628 million as of December 31, 2012 from RMB67,427 million as of December 31, 2011, which in turn increased by 3.5% from RMB65,122 million as of December 31, 2010. Loans extended to this industry as a percentage of our corporate loans decreased to 9.2% as of June 30, 2013 from 11.4% as of December 31, 2010, primarily due to (i) a relative increase in loans extended to the manufacturing industry and the wholesale and retail industry due to the aforementioned factors and (ii) a change in our business strategy to reduce our loans to LGFVs, including loans granted to expressway and railway construction projects in the transportation, storage and postal services industry.

As of June 30, 2013, loans extended to the construction industry amounted to RMB40,186 million, an increase of 25.4% from RMB32,042 million as of December 31, 2012. Loans extended to the construction industry increased by 45.2% to RMB32,042 million as of December 31, 2012 from RMB22,067 million as of December 31, 2011, which in turn increased by 67.0% from RMB13,213 million as of December 31, 2010. Loans extended to this industry as a percentage of our corporate loans increased to 5.5% as of June 30, 2013 from 2.3% as of December 31, 2010. The overall increases in both the amount of loans extended to this industry and such loans as a percentage of our corporate loans during this period were primarily due to the increase in the credit demand of this industry.

As of June 30, 2013, loans extended to the leasing and commercial services industry amounted to RMB38,541 million, a decrease of 5.5% from RMB40,775 million as of December 31, 2012. Loans extended to the leasing and commercial services industry decreased by 21.3% to RMB40,775 million as of December 31, 2012 from RMB51,816 million as of December 31, 2011, which in turn decreased by 7.4% from RMB55,951 million as of December 31, 2010. Loans extended to this industry as a percentage of our corporate loans decreased to 5.2% as of June 30, 2013 from 9.8% as of December 31, 2010. Both the amount of loans extended to this industry and such loans as a percentage of our corporate loans decreased during this period primarily because, taking into account the macroeconomic conditions, regulatory requirements and our own development plans, we adjusted our loan portfolio to reduce our LGFV loans, a portion of which was classified as loans extended to the leasing and commercial services industry.

Distribution of Corporate Loans by Loan Size

The following table sets forth, as of the dates indicated, the distribution of our corporate loan exposure by loan size.

	As of December 31,						As of June 30,	
	2010		2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Below RMB10 million	7,379	1.3%	11,437	1.8%	18,094	2.6%	21,727	3.0%
RMB10 million (inclusive) to RMB50 million	60,684	10.6	90,813	14.1	122,035	17.5	131,836	18.0
RMB50 million (inclusive) to RMB100 million	49,489	8.7	67,559	10.5	80,650	11.5	87,494	12.0
RMB100 million (inclusive) to RMB500 million	231,857	40.6	261,472	40.7	285,394	40.8	298,457	40.8
Over RMB500 million (inclusive)	221,823	38.8	210,669	32.9	192,917	27.6	192,008	26.2
Total corporate loans	**571,232**	**100.0%**	**641,950**	**100.0%**	**699,090**	**100.0%**	**731,522**	**100.0%**

Discounted Bills

Discounted bills represented 1.8%, 1.6%, 1.2% and 1.1%, respectively, of total loans and advances to customers, as of December 31, 2010, 2011 and 2012 and June 30, 2013.

The following table sets forth, as of the dates indicated, the distribution of our discounted bills by type.

	As of December 31,						As of June 30,	
	2010		2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Bank acceptance bills	11,734	85.1%	13,758	95.4%	11,777	93.2%	10,432	87.7%
Commercial acceptance bills	2,055	14.9	663	4.6	866	6.8	1,465	12.3
Total discounted bills	**13,789**	**100.0%**	**14,421**	**100.0%**	**12,643**	**100.0%**	**11,897**	**100.0%**

As of June 30, 2013, the balance of our discounted bills was RMB11,897 million, a decrease of 5.9% from RMB12,643 million as of December 31, 2012. The balance of our discounted bills decreased by 12.3% to RMB12,643 million as of December 31, 2012 from RMB14,421 million as of December 31, 2011, which in turn increased by 4.6% from RMB13,789 million as of December 31, 2010. While the balance of our total discounted bills as of June 30, 2013 decreased as compared to December 31, 2011, the average balance of our discounted bills increased by 104.5% to RMB26,638 million as at June 30, 2013 from RMB13,023 million as of December 31, 2011. The discounted bills consist of bank acceptance bills and commercial acceptance bills. The changes in the respective proportions of our bank acceptance bills and commercial acceptance bills to our total discounted bills primarily reflected our evaluation of their relative average yields and risk levels.

Retail Loans

Retail loans represented 24.9%, 26.3%, 30.4% and 32.7% of our total loans and advances to customers as of December 31, 2010, 2011 and 2012 and June 30, 2013, respectively. The following table sets forth, as of the dates indicated, our retail loans by product type.

	As of December 31,						As of June 30,	
	2010		2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Retail loans								
Residential and commercial mortgage loans	118,280	61.0%	130,215	55.8%	154,550	49.6%	171,227	47.4%
Credit card	13,000	6.7	25,346	10.8	69,611	22.4	89,496	24.8
Micro-enterprise equipment loans	43,722	22.6	49,685	21.3	41,756	13.4	36,495	10.1
Others(1)	18,805	9.7	28,208	12.1	45,537	14.6	63,917	17.7
Total retail loans	**193,807**	**100.0%**	**233,454**	**100.0%**	**311,454**	**100.0%**	**361,135**	**100.0%**

Note:

(1) Primarily consist of comprehensive consumer loans, personal business loans, retail loans secured by negotiable securities and personal automobile loans.

As of June 30, 2013, our retail loans amounted to RMB361,135 million, an increase of 16.0% from RMB311,454 million as of December 31, 2012. Our retail loans increased by 33.4% to RMB311,454 million as of December 31, 2012 from RMB233,454 million as of December 31, 2011, which in turn increased by 20.5% from RMB193,807 million as of December 31, 2010.

Residential and commercial mortgage loans have been the largest component of our retail loans from December 31, 2010 to June 30, 2013. As of June 30, 2013, our residential and commercial mortgages amounted to RMB171,227 million, an increase of 10.8% from RMB154,550 million as of December 31, 2012. Our residential and commercial mortgages increased by 18.7% to RMB154,550 million as of December 31, 2012 from RMB130,215 million as of December 31, 2011, which in turn increased by 10.1% from RMB118,280 million as of December 31, 2010. The overall increase in our residential and commercial mortgage loans from December 31, 2010 to June 30, 2013 was primarily due to the increase in new property purchases financed by mortgage loans and our streamlined loan approval process and standardized approval system for residential and commercial mortgage loans as well as our integrated customer service systems, which improved the efficiency and quality of our services to our residential and commercial loan customers. At the same time, the proportion of our residential and commercial mortgage loans in our total retail loans decreased over the period from December 31, 2010 to June 30, 2013, primarily due to (i) the reduced growth in the demand for residential and commercial mortgage loans due to the cooling-down measures implemented by the PRC government on the real estate industry and (ii) the corresponding adjustment of our product mix to allocate more resources to other more profitable retail loan products.

As of June 30, 2013, our credit card loans amounted to RMB89,496 million, an increase of 28.6% from RMB69,611 million as of December 31, 2012. Our credit card loans significantly increased by 174.6% to RMB69,611 million as of December 31, 2012 from RMB25,346 million as of December 31, 2011, which in turn increased by 95.0% from RMB13,000 million as of December 31, 2010. The rapid growth of our credit card loans from December 31, 2010 to June 30, 2013 was primarily due to (i) increases in both the number of credit cards issued and the volume of credit card transactions during this period; (ii) our efforts to develop and promote various innovative credit card products, such as the "Fortune Card" (福卡) and the "Sunshine Business Travel Card" (陽光商旅卡), which became increasingly popular among our customers; and (iii) our enhanced marketing efforts on credit cards which were tailor-made for our high-end individual customers.

As of June 30, 2013, our micro-enterprise equipment loans amounted to RMB36,495 million, a decrease of 12.6% from RMB41,756 million as of December 31, 2012, which in turn decreased by 16.0% from RMB49,685 million as of December 31, 2011. The decrease in our micro-enterprise equipment loans from December 31, 2011 to June 30, 2013 was primarily due to (i) a decline in demand for micro-enterprise equipment loans and (ii) the enhanced level of prudence in granting micro-enterprise equipment loans for the purpose of risk control. Our micro-enterprise equipment loans amounted to RMB49,685 million as of December 31, 2011, an increase of 13.6% from RMB43,722 million as of December 31, 2010. The growth of our micro-enterprise equipment loans from December 31, 2010 to December 31, 2011 was in line with the overall growth of our total retail loans for this period.

As of June 30, 2013, the balance of our other retail loans amounted to RMB63,917 million, an increase of 40.4% from RMB45,537 million as of December 31, 2012, which in turn increased by 61.4% from RMB28,208 million as of December 31, 2011 and further increased by 50.0% from RMB18,805 million as of December 31, 2010. The overall increase from December 31, 2010 to June 30, 2013 was primarily due to the rapid growth in our comprehensive consumer loans and personal business loans.

Distribution of Loans by Geographical Region

We classify our loans geographically based on the location of the branch from which the loans originated. Our branches generally grant loans to borrowers located in the geographical areas where the lending branch is located. The following table sets forth, as of the dates indicated, the distribution of our loan portfolio by geographical region. For definitions of our geographical regions, see "Definitions and Conventions."

	As of December 31,						As of June 30,	
	2010		2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Head Office[1]	13,023	1.7%	25,367	2.8%	69,629	6.8%	89,513	8.1%
Yangtze River Delta	209,058	26.8	222,276	25.0	243,573	23.8	248,648	22.5
Bohai Rim	170,906	21.9	193,992	21.8	199,896	19.5	205,841	18.6
Central China	113,774	14.6	132,157	14.9	152,891	14.9	168,376	15.2
Western China	113,487	14.6	132,947	14.9	151,357	14.8	167,649	15.2
Pearl River Delta	112,268	14.4	126,963	14.3	144,859	14.2	154,269	14.0
Northeastern China	46,312	6.0	56,123	6.3	60,982	6.0	67,208	6.1
Hong Kong	–	–	–	–	–	–	3,050	0.3
Total loans and advances to customers	**778,828**	**100.0%**	**889,825**	**100.0%**	**1,023,187**	**100.0%**	**1,104,554**	**100.0%**

Note:

(1) Loans originated from our Head Office mainly include credit card loans provided by our credit card center.

In recent years, our lending business mainly focused on the economically developed Yangtze River Delta, Bohai Rim and Pearl River Delta regions. As of June 30, 2013, the aggregate loans and advances to customers in these three regions amounted to RMB608,758 million, an increase of 3.5% from RMB588,328 million as of December 31, 2012. The aggregate loans and advances to customers in these three regions increased by 8.3% to RMB588,328 million as of December 31, 2012 from RMB543,231 million as of December 31, 2011, which in turn increased by 10.4% from RMB492,232 million as of December 31, 2010. As of December 31, 2010, 2011 and 2012 and June 30, 2013, the aggregate loans and advances to customers in these three regions represented 63.1%, 61.1%, 57.5% and 55.1% of our total loans and advances to customers, respectively. The decrease in such percentages reflected (i) our efforts to improve our lending business in Central China and Western China in response to the PRC government's policies to promote the economic development in these two regions and (ii) the rapid growth of the economies of Central and Western China, resulting in the expansion of our customer base in these regions.

As of June 30, 2013, the loans provided by our Head Office amounted to RMB89,513 million, an increase of 28.6% from RMB69,629 million as of December 31, 2012. The loans provided by our Head Office increased by 174.5% to RMB69,629 million as of December 31, 2012 from RMB25,367 million as of December 31, 2011, which in turn increased by 94.8% from RMB13,023 million as of December 31, 2010. As of December 31, 2010, 2011 and 2012 and June 30, 2013 the loans provided by our Head Office represented 1.7%, 2.8%, 6.8% and 8.1% of our total loans and advances to customers, respectively. The increases over the period primarily reflected the growth in our credit card loans, which constituted the main component of the loans provided by our Head Office.

Distribution of Loans by Collateral

Loans secured by mortgages, pledges or guarantees represented, in aggregate, 69.2%, 68.9%, 69.4% and 70.4% of our total loans and advances to customers as of December 31, 2010, 2011 and 2012 and June 30, 2013, respectively. The following table sets forth, as of the dates indicated, the distribution of our loan portfolio by type of collateral.

	As of December 31,						As of June 30,	
	2010		2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Mortgage loans[(1)(2)]	277,293	35.6%	311,601	35.0%	355,951	34.8%	398,818	36.1%
Pledge loans[(1)(3)]	61,908	8.0	80,038	9.0	86,221	8.4	100,002	9.1
Guaranteed loans	199,421	25.6	221,737	24.9	268,050	26.2	278,746	25.2
Unsecured loans	240,206	30.8	276,449	31.1	312,965	30.6	326,988	29.6
Total loans and advances to customers	**778,828**	**100.0%**	**889,825**	**100.0%**	**1,023,187**	**100.0%**	**1,104,554**	**100.0%**

Notes:

(1) Represent the total amount of loans wholly or partly secured by collateral in each category.

(2) Represent security interests in certain assets, such as buildings, land use rights, machines, equipment and vehicles, without taking possession.

(3) Represent security interests in certain assets, such as movable assets, certificates of deposits, financial instruments (including discounted bills), intellectual property rights and rights to future cash flows, by taking possession of or registering against such assets.

From December 31, 2010 to June 30, 2013, the amount of each of the four types of loans as set forth in the table above experienced steady growth and the proportion of each of these four types of loans in our total loans and advances to customers remained largely stable.

Borrower Concentration

In accordance with applicable PRC banking laws and regulations, we are subject to a loan balance limit of 10% of our regulatory capital to any single-borrower. The following table sets forth, as of June 30, 2013, our loan balance to our ten largest single-borrowers, all of which were classified as performing loans at that date.

	As of June 30, 2013			
	Industry	Amount	% of total loans	% of regulatory capital[(1)]
	(in millions of RMB, except percentages)			
Borrower A	Transportation, storage and postal services	6,482	0.6%	4.2%
Borrower B	Real estate	4,980	0.5	3.2
Borrower C	Public administration and social organization	3,906	0.4	2.5
Borrower D	Real estate	3,473	0.3	2.2
Borrower E	Transportation, storage and postal services	3,430	0.3	2.2
Borrower F	Leasing and commercial services	3,049	0.3	1.9
Borrower G	Real estate	2,650	0.2	1.7
Borrower H	Real estate	2,650	0.2	1.7
Borrower I	Transportation, storage and postal services	2,610	0.2	1.7
Borrower J	Wholesale and retail	2,508	0.2	1.6
Total		**35,738**	**3.2%**	**22.9%**

Note:

(1) Represents loan balance as a percentage of our regulatory capital. For the calculation of our regulatory capital as of June 30, 2013, see "Financial Information – Capital Resources – Capital Adequacy."

In accordance with applicable PRC banking guidelines, we are subject to a credit exposure of 15% of our regulatory capital to any single group-borrower. The following table sets forth, as of June 30, 2013, our credit exposure to our ten largest single group-borrowers.

	As of June 30, 2013			
	Industry	Amount	% of total loans	% of regulatory capital[(1)]
	(in millions of RMB, except percentages)			
Group A	Production and supply of power, gas and water	11,657	1.0%	7.5%
Group B	Transportation, storage and postal services	10,627	1.0	6.8
Group C	Manufacturing	9,491	0.9	6.1
Group D	Production and supply of power, gas and water	9,068	0.8	5.8
Group E	Construction	8,775	0.8	5.6
Group F	Construction	7,942	0.7	5.1
Group G	Construction	7,381	0.7	4.8
Group H	Wholesale and retail	7,265	0.7	4.7
Group I	Wholesale and retail	7,021	0.6	4.5
Group J	Transportation, storage and postal services	6,994	0.6	4.5
Total		**86,221**	**7.8%**	**55.4%**

Note:

(1) Represents credit exposure as a percentage of our regulatory capital. For the calculation of our regulatory capital as of June 30, 2013, see "Financial Information – Capital Resources – Capital Adequacy."

Maturity Profile of Loan Portfolio

The following table sets forth, as of June 30, 2013, our loan portfolio by remaining maturity.

	As of June 30, 2013					
	Due within 3 months or less	Due over 3 months up to 12 months	Due between 1 to 5 years	Due more than 5 years	Overdue[(1)]/ Repayment on demand	Total
	(in millions of RMB)					
Corporate loans						
Short-term loans	146,316	288,621	–	–	9,114	444,051
Medium- to long-term loans	12,594	61,545	148,746	63,676	910	287,471
Subtotal	158,910	350,166	148,746	63,676	10,024	731,522
Discounted bills						
Bank acceptance bills	5,015	5,169	–	–	248	10,432
Commercial acceptance bills	358	1,097	–	–	10	1,465
Subtotal	5,373	6,266	–	–	258	11,897
Retail loans						
Residential and commercial mortgage loans	2,516	7,823	42,897	115,879	2,112	171,227
Credit card	–	–	–	–	89,496	89,496
Micro-enterprise equipment loans	5,087	12,728	14,100	–	4,580	36,495
Others[(2)]	9,594	32,509	15,120	5,466	1,228	63,917
Subtotal	17,197	53,060	72,117	121,345	97,416	361,135
Total loans and advances to customers	**181,480**	**409,492**	**220,863**	**185,021**	**107,698**	**1,104,554**

Notes:

(1) Overdue loans represent loans where at least part of the principal and/or interest were overdue for one day or more.

(2) Consist primarily of comprehensive consumer loans, personal business loans, retail loans secured by negotiable securities and personal automobile loans.

Loan Interest Rate Profile

Interest rates have historically been highly regulated in China, but in the past few years they have been gradually liberalized. In July 2013, the lower limit on interest rates for RMB-denominated loans was removed, except with respect to residential mortgage loans, for which the lower limit is 70% of the PBOC benchmark lending interest rate for the first residential property purchased by a PRC family, and 110% of the PBOC benchmark lending interest rate for the second and any subsequent residential property purchase. We generally set floating interest rates on loans with a maturity of longer than one year. Only a small portion of such loans have fixed interest rates. We generally set fixed interest rates on loans with a maturity of one year or less. The interest rates on a small portion of such loans are reset on the next day or the first day of the month or quarter following the date of the change in the applicable benchmark interest rates. For details of the interest rates on loans, please refer to the section headed "Supervision and Regulation – PRC Banking Supervision and Regulation – Pricing of products and services."

Asset Quality of Our Loans and Advances to Customers

We measure and monitor the asset quality of our loan portfolio through our loan classification system. We classify our loans using a five-category loan classification system, which complies with the CBRC's guidelines. See "Supervision and Regulation – PRC Banking Supervision and Regulation – Loan Classification, Allowance and Write-offs – Loan Classification."

Loan Classification Criteria

In determining the classification of our loan portfolio, we apply a series of criteria derived from the CBRC guidelines. These criteria are designed to assess the likelihood of repayment by the borrower and the collectability of principal and interest on the loan. Our loan classification criteria focus on the following elements, where applicable: (i) repayment ability of the borrower, which depends on the cash flow, financial condition of the borrower as well as other non-financial factors that may affect the ability and willingness to pay; (ii) repayment record of the borrower; (iii) repayment willingness of the borrower; (iv) profitability of the project; (v) collateral on the loan; (vi) legal liabilities on loan repayment; and (vii) our credit management policy.

Corporate Loans and Discounted Bills

As mentioned above, our loan classification criteria refer to the process by which loans are categorized into different classes based on the degrees of risks. The degrees of risks of our corporate loans and discounted bills are assessed mainly by analyzing the repayment ability and repayment willingness of borrowers, any guarantee provided and the credit management requirement of our Bank. The primary repayment source and the secondary repayment source will be assessed comprehensively to determine the possibility of recovering both the principal and interest of loans on schedule. Prompt adjustments will be made to the classification of loan risks, mainly based on changes in the degree of risks associated with the loans. In applying the criteria mentioned above for classification of our loans, we will also consider the time overdue for principal and interest payment and other factors. The criteria for loan classification are detailed below:

Normal: This category refers to loans where the borrowers can perform the contracts in a normal manner and there is no sufficient reason to doubt that the borrowers may fail to repay their loans according to the relevant repayment schedules. Loans of the normal class usually have the following characteristics:

- The production and operation activities of the borrower are normal. The operational efficiency is good. The financial management is in order. The structure of the principal financial indicators and cash flow are reasonable;
- The borrower has a strong will to make repayment, has been repaying the principal and interest in a normal manner and has good credit record;
- No substantial warning signal has arisen from the borrower;

- The major shareholder, senior management and organization structure of the borrower did not change in a way that may be adverse to loan repayment;
- The guarantee provided (if applicable) is complete and valid; the operating activities and the financial condition of the guarantor are normal;
- The credit files and important documents with respect to our borrowers are kept in good order; and
- The borrower's loan repayment history is normal.

Special Mention: This category refers to loans where the borrowers have the ability to repay the principal and interest, but some factors may result in an adverse effect on repayment. Loans bearing one of the following characteristics are classified as no higher than the special mention category:

- The borrower defaults on the payment of interest and/or principal, or, in the case of installment loans, there is a late payment or we have to make an advance for the installment;
- The borrower or the guarantor incurred an adverse change which will obviously affect the repayment of loans;
- There is a material adverse change in a major shareholder, affiliated enterprise or the parent (or a subsidiary) of the borrower;
- The borrower fails to use the loan for the agreed purposes;
- The credit file is incomplete or any important document is lost, which has a material adverse effect on the legal validity of our claim;
- A loan disbursement has been made in contravention to any relevant law, regulation or credit approval procedure;
- The asset collateralized (or pledged) as security has an adverse change which may obviously affect the repayment of loans; and
- There is any other warning signal which may obviously affect the repayment of loans.

Substandard: This category refers to loans where the borrowers have obvious problems in their repayment ability, the borrowers cannot repay the principal and/or interest solely from their normal operating income and loss may be incurred even if the security is enforced. Generally, the expected losses of principal and interest in these loans are no more than 60%. Loans with one of the following characteristics are classified as no higher than the substandard category:

- A loan in respect of which the borrower has defaulted on the payment of interest and/or principal, or there is a late payment in installment, or we have to make an advance for the installment, for a period of 91 days to one year (inclusive) in each case; and
- We have initiated litigation to recover the loan.

Doubtful: This category refers to loans where the borrowers cannot repay the principal and interest in full and significant loss on the loan will most likely be incurred even if the security is enforced. Generally, the expected losses of principal and interest in these loans are no more than 90%. Loans with one of the following characteristics are classified as no higher than the doubtful category:

- There is a default on the payment of interest and/or principal, or there is a late payment in installment, or we have to make an advance for the installment, for a period of more than one year in each case;
- The borrower has become seriously insolvent, has suffered from heavy operating loss, or is in serious shortage of cash flow; and
- Substantial loss on the loan will be incurred, but the amount of loss can not yet be determined due to the existence of various factors such as a restructuring of the borrower, a merger, a disposal of the asset collateralized (or pledged) as security, pending litigation or an enforcement which is not yet complete and other factors.

Loss: This category refers to loans where neither the principal nor the interest can be recovered after taking all possible measures and going through all necessary legal procedures. The expected losses of principal and interest in these loans are 90% – 100%. Loans with one of the following characteristics are classified in the loss category:

- A loan which cannot be repaid in full by the borrower (and the guarantor, if applicable) after the borrower (and the guarantor, if applicable) has declared bankruptcy pursuant to law;
- A loan the full repayment of which has been confirmed to be impossible because, despite the continuing legal personality of the borrower, the production and operating activities of the borrower has ceased; the borrower has become dormant and there is a slim chance that its operations will resume;
- A loan the full or partial repayment of which has been confirmed to be impossible since the borrower has suffered from a serious natural calamity or accident, and has suffered substantial loss which is not covered by insurance, or a loan which cannot be repaid in full after insurance compensation;
- A loan the full repayment of which has been confirmed to be impossible because the legal personality of the borrower has been rescinded, or the borrower has been closed or dissolved, or its legal personality has been terminated;
- A loan which cannot be recovered by us because both the borrower and the guarantor do not have any property on which the lender could raise a claim, and the court has ruled that the enforcement be ended;
- An overdue loan which has been written off by the State Council after verification as a special case; and
- Other loans which are under the process of write-off after verification and have been reported to our Head Office.

Retail Loans

In applying the loan classification criteria to retail loans, we primarily consider the length of time by which payments of principal or interest are overdue, based on which our retail loans are classified by our retail loan management system. We can re-classify a loan considering additional factors based on information collected in the post-disbursement monitoring process.

The following table sets forth the length of time by which payment of principal or any interest is overdue by the five-category loan classification for our retail loans.

	Overdue days	
	Non-credit Card	Credit Card
Normal	0	0-30
Special mention	1-90	31-90
Substandard	91-360	91-120
Doubtful	361-540	121-180
Loss	541 and above	181 and above

Distribution of Loans by Loan Classification

The following table sets forth, as of the dates indicated, the distribution of our loan portfolio by the five-category loan classification. Under our five-category loan classification system, our non-performing loans are classified as substandard, doubtful or loss, as applicable.

	As of December 31,						As of June 30,	
	2010		2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Normal	759,968	97.5%	874,566	98.3%	1,001,284	97.9%	1,076,739	97.5%
Special mention	13,031	1.7	9,532	1.1	14,290	1.4	18,974	1.7
Subtotal	772,999	99.2	884,098	99.4	1,015,574	99.3	1,095,713	99.2
Substandard	484	0.1	1,229	0.1	3,431	0.3	4,329	0.4
Doubtful	2,344	0.3	1,881	0.2	1,975	0.2	3,114	0.3
Loss	3,001	0.4	2,617	0.3	2,207	0.2	1,398	0.1
Subtotal	5,829	0.8	5,727	0.6	7,613	0.7	8,841	0.8
Total loans and advances to customers	**778,828**	**100.0%**	**889,825**	**100.0%**	**1,023,187**	**100.0%**	**1,104,554**	**100.0%**
NPL ratio		**0.75%**		**0.64%**		**0.74%**		**0.80%**

The following table sets forth, as of the dates indicated, the distribution of our loans by business line and by the five-category loan classification.

	As of December 31,						As of June 30,	
	2010		2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Corporate loans								
Normal	557,529	71.5%	631,151	70.9%	685,148	67.0%	713,998	64.7%
Special mention	8,974	1.2	6,102	0.7	7,929	0.8	10,846	1.0
Substandard	170	0.0	928	0.1	2,912	0.3	3,563	0.3
Doubtful	2,206	0.3	1,757	0.2	1,643	0.2	2,549	0.2
Loss	2,353	0.3	2,012	0.2	1,458	0.1	566	0.0
Subtotal	571,232	73.3	641,950	72.1	699,090	68.4	731,522	66.2
NPL ratio(1)		0.83%		0.73%		0.86%		0.91%
Discounted bills								
Normal	13,674	1.8	14,371	1.6	12,643	1.2	11,887	1.1%
Special mention	115	0.0	–	–	–	–	10	0.0
Substandard	–	–	50	0.0	–	–	–	–
Doubtful	–	–	–	–	–	–	–	–
Loss	–	–	–	–	–	–	–	–
Subtotal	13,789	1.8	14,421	1.6	12,643	1.2	11,897	1.1%
NPL ratio(1)		–		0.35%		–		–
Retail loans								
Normal	188,765	24.2	229,044	25.8	303,493	29.7	350,854	31.7%
Special mention	3,942	0.5	3,430	0.4	6,361	0.6	8,118	0.7
Substandard	314	0.1	251	0.0	519	0.0	766	0.1
Doubtful	138	0.0	124	0.0	332	0.0	565	0.1
Loss	648	0.1	605	0.1	749	0.1	832	0.1
Subtotal	193,807	24.9	233,454	26.3	311,454	30.4	361,135	32.7
NPL ratio(1)		0.57%		0.42%		0.51%		0.60%
Total loans and advances to customers	**778,828**		**889,825**		**1,023,187**		**1,104,554**	
NPL ratio(2)		**0.75%**		**0.64%**		**0.74%**		**0.80%**

Notes:

(1) Calculated by dividing non-performing loans in each category by total loans and advances in that category.

(2) Calculated by dividing total non-performing loans by total loans and advances to customers.

As of June 30, 2013, our total non-performing loans amounted to RMB8,841 million, an increase of 16.1% from RMB7,613 million as of December 31, 2012, while the NPL ratio increased to 0.80% as of June 30, 2013 from 0.74% as of December 31, 2012. As of December 31, 2012, our total non-performing loans amounted to RMB7,613 million, an increase of 32.9% from RMB5,727 million as of December 31, 2011, while the NPL ratio increased to 0.74% as of December 31, 2012 from 0.64% as of December 31, 2011. The increase in our NPL ratio from December 31, 2011 to June 30, 2013 primarily reflected the negative impact of the volatility of macroeconomic conditions during this period. Our total non-performing loans decreased by 1.7% to RMB5,727 million as of December 31, 2011 from RMB5,829 million as of December 31, 2010, while the NPL ratio decreased to 0.64% as of December 31, 2011 from 0.75% as of December 31, 2010. The decrease in our NPL ratio from December 31, 2010 to December 31, 2011 was primarily due to a decrease in the amount of our non-performing loans coupled with an increase in the amount of our total loans and advances to customers during this period.

As of June 30, 2013, our corporate loans classified as "special mention" increased by 36.8% to RMB10,846 million from RMB7,929 million as of December 31, 2012. As of June 30, 2013, our corporate loans classified as "substandard" increased by 22.4% to RMB3,563 million from RMB2,912 million as of December 31, 2012. As of December 31, 2012, our corporate loans classified as "special mention" increased by 29.9% to RMB7,929 million from RMB6,102 million as of December 31, 2011. As of December 31, 2012, our corporate loans classified as "substandard" significantly increased by 213.8% to RMB2,912 million from RMB928 million as of December 31, 2011. The increase in the balance of corporate loans classified as "special mention" and "substandard" from December 31, 2011 to June 30, 2013 was primarily due to the deterioration in the financial condition and the repayment ability of certain borrowers as a result of the impact of the macroeconomic conditions during this period. As of December 31, 2011, our corporate loans classified as substandard amounted to RMB928 million, an increase of 445.9% from RMB170 million as of December 31, 2010. Such increase was primarily due to the downgrade of certain corporate loans to "non-performing" from "normal" or "special mention" as the financial condition of the borrowers deteriorated and their repayment ability was impaired during this period under the impact of the macroeconomic volatility and the economic downturn experienced in Europe and the United States. Our non-performing corporate loans are classified into the categories of "substandard," "doubtful" and "loss" primarily on the basis of assessing the expected loss rate of the loans. As the expected loss rate of the abovementioned loans were relatively low, these loans were classified as "substandard," resulting in the increase in the amount of our substandard corporate loans during this period.

As of June 30, 2013, our retail loans classified as "special mention" increased by 27.6% to RMB8,118 million from RMB6,361 million as of December 31, 2012, which in turn increased by 85.5% from RMB3,430 million as of December 31, 2011. The increase in our retail loans classified as "special mention" from December 31, 2011 to June 30, 2013 was primarily due to the growth in the overall scale of retail loans and the downgrading of certain micro-enterprise equipment loans to the category of "special mention" as a result of delay in payment by the borrowers who had been affected by macroeconomic conditions.

The following table sets forth, as of the dates indicated, the distribution of our loans classified as special mention by the type of collateral.

	As of December 31,						As of June 30,	
	2010		2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Mortgage loans	5,374	41.2%	3,665	38.4%	6,514	45.6%	9,515	50.2%
Pledge loans	868	6.7	253	2.7	1,383	9.7	1,765	9.3
Guaranteed loans	5,626	43.2	4,507	47.3	4,064	28.4	6,266	33.0
Unsecured loans	1,163	8.9	1,107	11.6	2,329	16.3	1,428	7.5
Total	**13,031**	**100.0%**	**9,532**	**100.0%**	**14,290**	**100.0%**	**18,974**	**100.0%**

Changes in the Asset Quality of Our Corporate Loan Portfolio

The following table sets forth, between the dates indicated, the changes in the outstanding balance of our non-performing corporate loans.

	Amount	NPL ratio
	(in millions of RMB, except percentages)	
As of January 1, 2010	6,462	1.40%
Downgrades	39	
Upgrades	(27)	
Recoveries	(1,536)	
Write-offs	(227)	
Non-performing loans arising from newly-granted loans	18	
As of December 31, 2010	4,729	0.83%
Downgrades	808	
Upgrades	–	
Recoveries	(546)	
Write-offs	(390)	
Non-performing loans arising from newly-granted loans	96	
As of December 31, 2011	4,697	0.73%
Downgrades	2,760	
Upgrades	(381)	
Recoveries	(688)	
Write-offs	(547)	
Non-performing loans arising from newly-granted loans	172	
As of December 31, 2012	6,013	0.86%
Downgrades	2,905	
Upgrades	(68)	
Recoveries	(631)	
Write-offs	(646)	
Disposals	(895)	
Non-performing loans arising from newly-granted loans	–	
As of June 30, 2013	6,678	0.91%

As of December 31, 2010, 2011 and 2012 and June 30, 2013, the balance of our non-performing corporate loans was RMB4,729 million, RMB4,697 million, RMB6,013 million and RMB6,678 million, respectively, with the corresponding NPL ratio for our corporate loans of 0.83%, 0.73%, 0.86% and 0.91% as of such dates, respectively.

Distribution of Non-performing Loans by Product Type

The following table sets forth, as of the dates indicated, our non-performing loans by product type.

	As of December 31,									As of June 30,		
	2010			2011			2012			2013		
	Amount	% of total	NPL ratio(1)	Amount	% of total	NPL ratio(1)	Amount	% of total	NPL ratio(1)	Amount	% of total	NPL ratio(1)
	(in millions of RMB, except percentages)											
Corporate loans												
Short-term loans	2,891	49.6%	1.30%	3,286	57.4%	1.19%	4,774	62.7%	1.19%	5,994	67.8%	1.35%
Medium- to long-term loans	1,838	31.5	0.53	1,411	24.6	0.39	1,239	16.3	0.42	684	7.7	0.24
Subtotal	4,729	81.1	0.83	4,697	82.0	0.73	6,013	79.0	0.86	6,678	75.5	0.91
Discounted bills	–	–	–	50	0.9	0.35	–	–	–	–	–	–
Retail loans												
Residential and commercial mortgage loans	649	11.1	0.55	496	8.7	0.38	548	7.2	0.35	572	6.5	0.33
Credit card	246	4.2	1.89	369	6.4	1.46	921	12.1	1.32	1,347	15.2	1.51
Micro-enterprise equipment loans	12	0.2	0.03	4	0.1	0.01	3	–	0.01	1	0.0	0.00
Others(2)	193	3.4	1.03	111	1.9	0.39	128	1.7	0.28	243	2.8	0.38
Subtotal	1,100	18.9	0.57	980	17.1	0.42	1,600	21.0	0.51	2,163	24.5	0.60
Total non-performing loans	**5,829**	**100.0%**	**0.75%**	**5,727**	**100.0%**	**0.64%**	**7,613**	**100.0%**	**0.74%**	**8,841**	**100.0%**	**0.80%**

Notes:

(1) Calculated by dividing non-performing loans in each category by total loans and advances in that category.

(2) Consist primarily of comprehensive consumer loans, personal business loans, retail loans secured by negotiable securities and personal automobile loans.

The NPL ratio of our corporate loans decreased from 0.83% as of December 31, 2010 to 0.73% as of December 31, 2011, which in turn increased to 0.86% as of December 31, 2012 and further increased to 0.91% as of June 30, 2013. The increase in the NPL ratio of our corporate loans from December 31, 2011 to June 30, 2013 reflected the cyclical fluctuation in the NPL ratio, which was primarily because, in light of the downturn of macroeconomic conditions, certain of our borrowers experienced insufficient demand for their products and services, over-capacity of production or increased operating costs, leading to their operational difficulties and the deterioration in their repayment ability. The decrease in the NPL ratio of our corporate loans from December 31, 2010 to December 31, 2011 was primarily due to the decrease in the amount of our non-performing corporate loans coupled with the increase in the total amount of our corporate loans during this period.

Our non-performing loans within discounted bills amounted to nil, RMB50 million, nil and nil as of December 31, 2010, 2011 and 2012 and June 30, 2013, respectively.

The NPL ratio of our retail loans was 0.57%, 0.42%, 0.51% and 0.60% as of December 31, 2010, 2011 and 2012 and June 30, 2013, respectively. The increase in the NPL ratio of our retail loans from December 31, 2011 to June 30, 2013 was primarily attributable to the significantly increased proportion in total retail loans of our credit card loans, which had a higher NPL ratio compared to the other retail loans. The decrease in the NPL ratio of our retail loans from December 31, 2010 to December 31, 2011 was primarily due to the decrease in the NPL ratio of our residential and commercial mortgage loans, which was the largest component of our retail loans during this period. The NPL ratio of our credit card loans decreased from 1.89% as of December 31, 2010 to 1.46% as of December 31, 2011 and further to 1.32% as of December 31, 2012, primarily due to (i) our formulation and adoption of a new risk assessment model, which enhanced our risk identification capability associated with credit cards, and (ii) the improvement of our debt collection functions. The NPL ratio of our credit card loans increased to 1.51% as of June 30, 2013 from 1.32% as of December 31, 2012, primarily due to our adjustment of our credit card business to increase the proportion of consumer credit, which carries higher interest rates and yields higher return.

Distribution of Corporate Non-performing Loans by Industry

The following table sets forth, as of the dates indicated, the distribution of our non-performing corporate loans by industry.

	As of December 31,									As of June 30,		
	2010			2011			2012			2013		
	Amount	% of total	NPL ratio(1)	Amount	% of total	NPL ratio(1)	Amount	% of total	NPL ratio(1)	Amount	% of total	NPL ratio(1)
	(in millions of RMB, except percentages)											
Manufacturing												
Electrical machinery and equipment	195	4.1%	2.96%	178	3.8%	1.61%	285	4.7%	2.26%	449	6.7%	3.74%
Smelting and pressing of ferrous metals	105	2.2	0.35	395	8.4	1.12	146	2.4	0.46	70	1.0	0.24
Petrochemical materials and products	241	5.1	1.23	209	4.4	0.81	359	6.0	1.13	250	3.8	0.78
Coking	1	0.0	0.03	1	0.0	0.03	1	0.0	0.01	1	0.0	0.01
Smelting and pressing of non-ferrous metals	56	1.2	0.37	56	1.2	0.30	136	2.3	0.60	139	2.1	0.58
Others	1,240	26.3	1.90	1,118	23.8	1.22	1,319	21.9	1.11	1,189	17.8	0.92
Subtotal	1,838	38.9	1.31	1,957	41.6	1.05	2,246	37.3	1.00	2,098	31.4	0.90
Wholesale and retail												
Metal and metal ore wholesale	304	6.4	1.30	281	6.0	0.75	1,136	18.9	2.89	2,400	36.0	6.33
Coal product wholesale	–	–	–	52	1.1	0.52	87	1.5	0.70	68	1.0	0.43
Petrochemical products wholesale and retail	9	0.2	0.48	–	–	–	–	–	–	–	–	–
Others	641	13.6	1.84	599	12.8	1.14	760	12.6	1.06	681	10.2	0.86
Subtotal	954	20.2	1.42	932	19.9	0.91	1,983	33.0	1.53	3,149	47.2	2.24
Transportation, storage and postal services	672	14.2	1.03	630	13.4	0.93	701	11.7	1.04	490	7.3	0.73
Leasing and commercial services												
Investment and assets management	32	0.7	0.08	32	0.7	0.09	32	0.5	0.12	32	0.5	0.14
Others	339	7.1	2.09	335	7.1	2.18	332	5.5	2.20	257	3.8	1.58
Subtotal	371	7.8	0.66	367	7.8	0.71	364	6.0	0.89	289	4.3	0.75
Real estate												
Residential and commercial property development	414	8.7	1.27	385	8.2	1.25	243	4.0	0.81	231	3.5	0.60
Others	37	0.8	0.69	32	0.7	0.84	29	0.5	0.99	27	0.4	0.65
Subtotal	451	9.5	0.55	417	8.9	0.50	272	4.5	0.32	258	3.9	0.28
Construction	110	2.3	0.83	123	2.6	0.56	191	3.2	0.60	145	2.2	0.36
Mining												
Coal	10	0.2	0.08	9	0.2	0.06	10	0.2	0.06	40	0.6	0.21
Ferrous metals	–	–	–	–	–	–	39	0.6	1.43	39	0.6	1.55
Petroleum and gas	14	0.3	4.56	–	–	–	–	–	–	–	–	–
Non-ferrous metals	38	0.8	0.69	28	0.6	0.43	–	–	–	–	–	–
Subtotal	62	1.3	0.31	37	0.8	0.15	49	0.8	0.18	79	1.2	0.28

	As of December 31,									As of June 30,		
	2010			2011			2012			2013		
	Amount	% of total	NPL ratio(1)	Amount	% of total	NPL ratio(1)	Amount	% of total	NPL ratio(1)	Amount	% of total	NPL ratio(1)
	(in millions of RMB, except percentages)											
Production and supply of power, gas and water												
Electricity and heat	45	1.0	0.16	40	0.9	0.14	40	0.7	0.20	–	–	–
Gas and water	59	1.2	2.95	58	1.2	2.85	–	–	–	–	–	–
Subtotal	104	2.2	0.35	98	2.1	0.32	40	0.7	0.17	–	–	–
Water, environment and public utilities management	1	0.0	0.00	–	–	–	–	–	–	–	–	–
Others(2)	166	3.6	0.53	136	2.9	0.44	167	2.8	0.47	170	2.5	0.42
Total non-performing corporate loans	**4,729**	**100.0%**	**0.83%**	**4,697**	**100.0%**	**0.73%**	**6,013**	**100.0%**	**0.86%**	**6,678**	**100.0%**	**0.91%**

Notes:

(1) Calculated by dividing non-performing loans in each category by total loans and advances in that category.

(2) Consist primarily of agriculture, forestry, animal husbandry and fishery; accommodation and catering industry; financial industry; scientific research, technical services and geological prospecting; resident services and other services; health, social security and social welfare; and culture, sports and entertainment.

From December 31, 2010 to June 30, 2013, the NPL ratios of our corporate loans in all the industries, except for the wholesale and retail and leasing and commercial services industries, decreased. As of December 31, 2010, 2011 and 2012 and June 30, 2013, the NPL ratio of our corporate loans in the wholesale and retail industry was 1.42%, 0.91%, 1.53% and 2.24%, and the NPL ratio of our corporate loans in the leasing and commercial services industry was 0.66%, 0.71%, 0.89% and 0.75%. The overall increases in the NPL ratios of these industries from December 31, 2011 to June 30, 2013 were primarily due to the deterioration in the financial condition and the repayment ability of certain borrowers that have been negatively affected by the macroeconomic conditions. The increase in the NPL ratio of our corporate loans in leasing and commercial services industry from December 31, 2010 to December 31, 2011 was primarily due to a decrease in the total amount of loans extended to this industry while the non-performing loans of this industry remained stable.

Distribution of Non-performing Loans by Geographical Region

The following table sets forth, as of the dates indicated, the distribution of our non-performing loans by geographical region.

	As of December 31,									As of June 30,		
	2010			2011			2012			2013		
	Amount	% of total	NPL ratio(1)	Amount	% of total	NPL ratio(1)	Amount	% of total	NPL ratio(1)	Amount	% of total	NPL ratio(1)
	(in millions of RMB, except percentages)											
Head Office	270	4.6%	2.07%	390	6.8%	1.54%	939	12.3%	1.35%	1,364	15.4%	1.52%
Yangtze River Delta	1,326	22.8	0.63	1,203	21.0	0.54	3,018	39.6	1.24	4,088	46.3	1.64
Pearl River Delta	1,426	24.5	1.27	1,826	31.9	1.44	1,558	20.5	1.08	1,065	12.0	0.69
Bohai Rim	795	13.6	0.47	724	12.6	0.37	635	8.3	0.32	654	7.4	0.32
Central China	1,017	17.4	0.89	897	15.7	0.68	775	10.2	0.51	1,083	12.2	0.64
Northeastern China	350	6.0	0.76	298	5.2	0.53	181	2.4	0.30	103	1.2	0.15
Western China	645	11.1	0.57	389	6.8	0.29	507	6.7	0.33	484	5.5	0.29
Hong Kong	–	–	–	–	–	–	–	–	–	–	–	–
Total non-performing loans(1)(2)	**5,829**	**100.0%**	**0.75%**	**5,727**	**100.0%**	**0.64%**	**7,613**	**100.0%**	**0.74%**	**8,841**	**100.0%**	**0.80%**

Notes:

(1) Calculated by dividing non-performing loans in each category by total loans and advances in that category.

(2) We did not have non-performing loans in the overseas regions from December 31, 2010 to June 30, 2013.

From December 31, 2012 to June 30, 2013, the NPL ratios of our loans in all the regions, except our Head Office, Central China and the Yangtze River Delta, decreased or remained stable. The NPL ratio of our loans in our Head Office increased from 1.35% to 1.52%, primarily due to the increase in the NPL ratio of our credit card loans, which comprise most of the loans from our Head Office, and the NPL ratio of our loans in the Central China and Yangtze River Delta increased from 0.51% to 0.64% and from 1.24% to 1.64% over this period, respectively primarily due to the deterioration in the financial conditions of certain of our SME customers in this region. From December 31, 2011 to December 31, 2012, the NPL ratios of our loans in all the regions, except the Yangtze River Delta and Western China, decreased. The NPL ratio of our loans in the Yangtze River Delta increased from 0.54% to 1.24% and the NPL ratio of our loans in Western China increased from 0.29% to 0.33% over this period, primarily due to the deterioration in the financial condition and the repayment ability of certain borrowers in these regions that have been negatively affected by the macroeconomic conditions. From December 31, 2010 to December 31, 2011, the NPL ratios of our loans in all the regions, except the Pearl River Delta, decreased. The NPL ratio of our loans in the Pearl River Delta increased from 1.27% to 1.44% over this period primarily due to certain of our corporate loans in the Pearl River Delta downgrading to the "non-performing" category from the "normal" or "special mention" category, which was primarily attributable to the deterioration in the financial condition and the repayment ability of certain borrowers during this period under the impact arising from the macroeconomic volatility and the economic downturn experienced in Europe and the United States.

Distribution of Non-performing Loans by the Type of Collateral

The following table sets forth, as of the dates indicated, the distribution of our non-performing loans by the type of collateral.

	As of December 31,									As of June 30,		
	2010			2011			2012			2013		
	Amount	% of total	NPL ratio[(1)]	Amount	% of total	NPL ratio[(1)]	Amount	% of total	NPL ratio[(1)]	Amount	% of total	NPL ratio[(1)]
	(in millions of RMB, except percentages)											
Mortgage loans[(2)(3)]	2,355	40.4%	0.85%	2,024	35.3%	0.65%	2,385	31.3%	0.67%	3,098	35.0%	0.78%
Pledge loans[(2)(4)]	720	12.4	1.16	725	12.7	0.91	707	9.3	0.82	646	7.3	0.65
Guaranteed loans	2,373	40.7	1.19	2,457	42.9	1.11	3,361	44.2	1.25	3,038	34.4	1.09
Unsecured loans	381	6.5	0.16	521	9.1	0.19	1,160	15.2	0.37	2,059	23.3	0.63
Total non-performing loans	**5,829**	**100.0%**	**0.75%**	**5,727**	**100.0%**	**0.64%**	**7,613**	**100.0%**	**0.74%**	**8,841**	**100.0%**	**0.80%**

Notes:

(1) Calculated by dividing non-performing loans in each category by total loans and advances in that category.

(2) Represent the total amount of loans wholly or partly secured by collateral in each category.

(3) Represent security interests in certain assets, such as buildings, land use rights, machines, equipment and vehicles, without taking possession.

(4) Represent security interests in certain assets, such as movable assets, certificates of deposit, financial instruments (including discounted bills), intellectual property rights and rights to future cash flows, by taking possession of or registering as the owner of such assets.

Ten Largest Non-performing Borrowers

The following table sets forth, at June 30, 2013, our borrowers with the ten largest non-performing corporate loan balances outstanding.

	As of June 30, 2013				
	Industry	Amount	Classification	% of total non-performing corporate loans	% of regulatory capital[(1)]
	(in millions of RMB, except percentages)				
Borrower A	Transportation, storage and postal services	290	Substandard	4.4%	0.2%
Borrower B	Leasing and commercial services	249	Doubtful	3.7	0.1
Borrower C	Manufacturing	215	Doubtful	3.2	0.1
Borrower D	Manufacturing	150	Substandard	2.2	0.1
Borrower E	Wholesale and retail	109	Substandard	1.6	0.1
Borrower F	Wholesale and retail	103	Substandard	1.6	0.1
Borrower G	Manufacturing	98	Substandard	1.5	0.1
Borrower H	Manufacturing	98	Substandard	1.5	0.1
Borrower I	Manufacturing	86	Doubtful	1.3	0.1
Borrower J	Wholesale and retail	82	Doubtful	1.2	0.0
Total		**1,480**		**22.2%**	**1.0%**

Note:

(1) Represents loan amounts as a percentage of our regulatory capital. For the calculation of our regulatory capital as of June 30, 2013, see "Financial Information – Capital Resources – Capital Adequacy Ratio."

Loan Aging Schedule

The following table sets forth, as of the dates indicated, our loan aging schedule.

	As of December 31,						As of June 30,	
	2010		2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Current loans	768,892	98.7%	879,675	98.9%	1,006,219	98.4%	1,082,813	98.0%
Loans overdue for								
3 months (inclusive)	4,349	0.6	5,308	0.6	10,000	1.0	13,791	1.3
3 months to 6 months (inclusive)	187	0.0	269	0.0	1,190	0.1	2,339	0.2
6 months to 1 year (inclusive)	317	0.0	447	0.1	2,365	0.2	2,394	0.2
Over 1 year	5,083	0.7	4,126	0.4	3,413	0.3	3,217	0.3
Total loans and advances to customers	**778,828**	**100.0%**	**889,825**	**100.0%**	**1,023,187**	**100.0%**	**1,104,554**	**100.0%**

Allowance for Impairment Losses on Loans and Advances to Customers

Our loans and advances to customers are reported net of the allowance for impairment losses on our consolidated statement of financial position. The carrying amounts are reviewed by us on a regular basis to determine whether there is objective evidence of impairment. If any such evidence exists, impairment loss is provided. Objective evidence of impairment in financial assets represents events that occur after the initial recognition of the financial assets and have impact on the estimated future cash flows of the assets, which can be estimated reliably.

Loans and receivables, which are considered individually significant and those with unique credit characteristics, are assessed individually for impairment. If there is objective evidence of impairment of loans and receivables, the amount of loss is measured as the excess of its carrying amount over the present value of the estimated future cash flows (exclusive of future credit losses that have not been incurred) discounted at the original effective interest rate. The impairment losses are recognized in profit or loss. The calculation of the present value of the estimated future cash flows of a collateralized loan or receivable reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

Loans and receivables which are assessed collectively for impairment include individually assessed loans and receivables with no objective evidence of impairment on an individual basis and homogeneous groups of loans and receivables which are not considered individually significant and not assessed individually. The collective impairment loss is assessed after taking into account: historical loss experience in portfolios of similar risk characteristics; the emergence period between a loss occurring and that loss being identified; and the current economic and credit environments and the judgment on inherent loss based on our historical experience.

Distribution of Allowance for Impairment Losses by Loan Classification

The following table sets forth, as of the dates indicated, the distribution of our allowance for impairment losses by loan classification category.

	As of December 31,									As of June 30,		
	2010			2011			2012			2013		
	Amount	% of total	Allowance to loans(1)	Amount	% of total	Allowance to loans(1)	Amount	% of total	Allowance to loans(1)	Amount	% of total	Allowance to loans(1)
	(in millions of RMB, except percentages)											
Normal	11,726	64.2%	1.54%	15,336	72.9%	1.75%	19,170	74.1%	1.91%	18,794	72.6%	1.75%
Special mention	1,502	8.2	11.53	1,173	5.6	12.31	2,067	8.0	14.46	2,521	9.7	13.29
Substandard	148	0.8	30.58	434	2.1	35.31	1,023	4.0	29.82	1,393	5.4	32.18
Doubtful	1,975	10.8	84.26	1,580	7.5	84.00	1,438	5.6	72.81	1,920	7.4	61.66
Loss	2,922	16.0	97.37	2,520	11.9	96.29	2,158	8.3	97.78	1,261	4.9	90.20
Subtotal of allowance for impairment losses on NPLs	5,045	27.6	86.55	4,534	21.5	79.17	4,619	17.9	60.67	4,574	17.7	51.74
Total allowance	**18,273**	**100.0%**	**2.35%**	**21,043**	**100.0%**	**2.36%**	**25,856**	**100.0%**	**2.53%**	**25,889**	**100.0%**	**2.34%**

Note:

(1) Calculated by dividing the amount of the allowance for impairment losses on loans in each category by the total amount of loans and advances in that category.

As of June 30, 2013, the balance of our allowance for impairment losses amounted to RMB25,889 million, which remained stable compared to RMB25,856 million as of December 31, 2012. The balance of our allowance for impairment losses increased by 22.9% to RMB25,856 million as of December 31, 2012 from RMB21,043 million as of December 31, 2011, which in turn increased by 15.2% from RMB18,273 million as of December 31, 2010. The overall increase in our allowance for impairment losses from December 31, 2010 to June 30, 2013 was primarily due to (i) an increase in our total loans and advances to customers during this period, and (ii) an increase in our allowance for impairment losses on certain of our loans based on our risk assessment.

The following table sets forth, as of the dates indicated, the allocation of our allowance for impairment losses by business line and by loan classification category.

	As of December 31,									As of June 30,		
	2010			2011			2012			2013		
	Amount	% of total	Allowance to NPLs[(1)]	Amount	% of total	Allowance to NPLs[(1)]	Amount	% of total	Allowance to NPLs[(1)]	Amount	% of total	Allowance to NPLs[(1)]
	(in millions of RMB, except percentages)											
Corporate loans												
Normal	9,645	52.8%	N/A	13,273	63.0%	N/A	16,720	64.7%	N/A	16,254	62.8%	N/A
Special mention	1,313	7.1	N/A	974	4.7	N/A	1,598	6.2	N/A	2,003	7.7	N/A
Substandard	65	0.4	38.24%	331	1.6	35.67%	830	3.2	28.50%	1,109	4.3	31.13%
Doubtful	1,876	10.3	85.04	1,491	7.1	84.86	1,199	4.7	72.98	1,566	6.0	61.44
Loss	2,352	12.9	99.96	1,976	9.3	98.21	1,458	5.6	100.00	566	2.2	100.00
Subtotal	15,251	83.5	322.50	18,045	85.7	384.18	21,805	84.4	362.63	21,498	83.0	321.92
Discounted bills												
Normal	26	0.1	N/A	10	0.1	N/A	17	0.1	N/A	29	0.1	N/A
Special mention	14	0.1	N/A	–	–	N/A	–	–	N/A	1	0.0	N/A
Substandard	–	–	–	25	0.1	50.00	–	–	–	–	–	–
Doubtful	–	–	–	–	–	–	–	–	–	–	–	–
Loss	–	–	–	–	–	–	–	–	–	–	–	–
Subtotal	40	0.2	–	35	0.2	70.00	17	0.1	–	30	0.1	–
Retail loans												
Normal	2,055	11.3	N/A	2,053	9.8	N/A	2,433	9.3	N/A	2,511	9.7	N/A
Special mention	175	1.0	N/A	199	0.9	N/A	469	1.8	N/A	517	2.0	N/A
Substandard	83	0.4	26.43	78	0.4	31.08	193	0.8	37.19	284	1.1	37.08
Doubtful	99	0.5	71.74	89	0.4	71.77	239	0.9	71.99	354	1.4	62.65
Loss	570	3.1	87.96	544	2.6	89.92	700	2.7	93.46	695	2.7	83.53
Subtotal	2,982	16.3	271.09	2,963	14.1	302.35	4,034	15.5	252.13	4,361	16.9	201.62
Total allowance	**18,273**	**100.0%**	**313.48%**	**21,043**	**100.0%**	**367.43%**	**25,856**	**100.0%**	**339.63%**	**25,889**	**100.0%**	**292.83%**

Note:

(1) Calculated by dividing the amount of the allowance for impairment losses on loans in each category by the total amount of non-performing loans in that category.

Changes in the Allowance for Impairment Losses

We report net impairment losses for the allowance for impairment losses on loans and advances to customers on our consolidated statements of comprehensive income. See "Financial Information – Critical Accounting Estimates and Judgments – Impairment Losses on Loans and Advances, Available-for-sale Financial Assets and Held-to-Maturity Investments."

The following table sets forth, between the dates indicated, the changes in the allowance for impairment losses on loans and advances to customers.

	Amount
	(in millions of RMB)
As of January 1, 2010	**15,765**
Charge for the year(1)	3,254
Write-offs	(821)
Recoveries	141
Unwinding of discount(2)	(66)
As of December 31, 2010	**18,273**
Charge for the year(1)	3,420
Write-offs	(749)
Recoveries	151
Unwinding of discount(2)	(52)
As of December 31, 2011	**21,043**
Charge for the year(1)	5,690
Write-offs	(909)
Recoveries	188
Unwinding of discount(2)	(156)
As of December 31, 2012	**25,856**
Charge for the period(1)	2,266
Write-offs	(1,349)
Recoveries	92
Unwinding of discount(2)	(171)
Disposals	(805)
As of June 30, 2013	**25,889**

Notes:

(1) Represents total allowance for impairment losses on loans (additions to the allowance for impairment losses on loans), net of write-backs (releases from the allowance for impairment losses on loans).

(2) Represents the interest income accrued on impaired loans as a result of subsequent increases in their present values due to the passage of time.

Distribution of Allowance for Impairment Losses by Assessment Methodology

The following table sets forth, as of the dates indicated, the distribution of the allowance for impairment losses for our loans and advances to customers by our assessment methodology.

	As of December 31,						As of June 30,	
	2010		2011		2012		2013	
	Amount	Allowance to loans(1)	Amount	Allowance to loans(1)	Amount	Allowance to loans(1)	Amount	Allowance to loans(1)
	(in millions of RMB, except percentages)							
Collectively assessed	13,980	1.81%	17,220	1.95%	22,369	2.20%	22,648	2.06%
Individually assessed	4,293	90.78	3,823	80.54	3,487	57.99	3,241	48.53
Total allowance	**18,273**	**2.35%**	**21,043**	**2.36%**	**25,856**	**2.53%**	**25,889**	**2.34%**

Note:

(1) Calculated by dividing the amount of the allowance for impairment losses on loans in each category by the total amount of loans and advances in that category.

Distribution of Allowance for Impairment Losses by Product Type

The following table sets forth, as of the dates indicated, the distribution of the allowance for impairment losses for our loans and advances to customers by product type.

	As of December 31,									As of June 30,		
	2010			2011			2012			2013		
	Amount	% of total	Allowance to NPLs(1)	Amount	% of total	Allowance to NPLs(1)	Amount	% of total	Allowance to NPLs(1)	Amount	% of total	Allowance to NPLs(1)
	(in millions of RMB, except percentages)											
Corporate loans												
Short-term loans	6,679	36.6%	231.03%	8,152	38.7%	248.08%	12,603	48.8%	263.99%	13,240	51.1%	220.89%
Medium- to long-term loans	8,572	46.9	466.38	9,893	47.0	701.13	9,202	35.6	742.70	8,258	31.9	1,207.31
Subtotal	15,251	83.5	322.50	18,045	85.7	384.18	21,805	84.4	362.63	21,498	83.0	321.92
Discounted bills	40	0.2	N/A	35	0.2	70.00	17	0.1	N/A	30	0.1	N/A
Retail loans												
Residential and commercial mortgage loans	1,850	10.1	285.05	1,738	8.2	350.40	2,000	7.7	364.96	1,971	7.6	344.58
Micro-enterprise equipment loans	244	1.3	2,033.33	246	1.2	6,150.00	255	1.0	8,500.00	260	1.0	26,000.00
Credit card	290	1.6	117.89	497	2.4	134.69	1,321	5.1	143.43	1,454	5.7	107.94
Others	598	3.3	309.84	482	2.3	434.23	458	1.7	357.81	676	2.6	278.19
Subtotal	2,982	16.3	271.09	2,963	14.1	302.35	4,034	15.5	252.13	4,361	16.9	201.62
Total allowance	**18,273**	**100.0%**	**313.48%**	**21,043**	**100.0%**	**367.43%**	**25,856**	**100.0%**	**339.63%**	**25,889**	**100.0%**	**292.83%**

Note:

(1) Calculated by dividing the amount of the allowance for impairment losses on loans in each category by the amount of non-performing loans in that category.

Distribution of Allowance for Impairment Losses for Corporate Loans by Industry

The following table sets forth, as of the dates indicated, the allowance for impairment losses for our corporate loans by industry.

	As of December 31,									As of June 30,		
	2010			2011			2012			2013		
	Amount	% of total	Allowance to NPLs(1)	Amount	% of total	Allowance to NPLs(1)	Amount	% of total	Allowance to NPLs(1)	Amount	% of total	Allowance to NPLs(1)
	(in millions of RMB, except percentages)											
Manufacturing	4,394	28.8%	239.06%	5,343	29.5%	273.02%	7,103	32.6%	316.25%	6,619	30.8%	315.49%
Transportation, storage and postal services	1,952	12.8	290.48	2,410	13.4	382.54	2,592	11.9	369.76	2,102	9.8	428.98
Wholesale and retail	1,936	12.7	202.94	2,633	14.6	282.51	4,404	20.2	222.09	4,966	23.1	157.70
Real estate	2,049	13.4	454.32	2,481	13.7	594.96	2,415	11.1	887.87	2,568	11.9	995.35
Leasing and commercial services	1,441	9.4	388.41	1,549	8.6	422.07	1,385	6.3	380.49	1,351	6.3	467.47
Water, environment and public utilities management	1,450	9.5	145,000.00	1,219	6.8	N/A	932	4.2	N/A	722	3.3	N/A
Production and supply of power, gas and water	647	4.2	622.12	748	4.1	763.27	694	3.2	1,735.00	600	2.8	N/A
Construction	311	2.0	282.73	432	2.4	351.22	736	3.4	385.34	918	4.3	633.10
Mining	381	2.5	614.52	480	2.7	1,297.30	626	2.9	1,277.55	626	2.9	792.41
Others(2)	690	4.7	415.66	750	4.2	551.47	918	4.2	549.70	1,026	4.8	603.53
Total allowance for corporate loans	**15,251**	**100.0%**	**322.50%**	**18,045**	**100.0%**	**384.18%**	**21,805**	**100.0%**	**362.63%**	**21,498**	**100.0%**	**321.92%**

Notes:

(1) Calculated by dividing the amount of the allowance for impairment losses on loans in each category by the amount of non-performing loans in that category.

(2) Consist of agriculture, forestry, animal husbandry and fishery; accommodation and catering industry; financial industry; scientific research, technical services and geological prospecting; resident services and other services; health, social security and social welfare; culture, sports and entertainment and so forth.

Distribution of Allowance for Impairment Losses by Geographical Region

The following table sets forth, as of the dates indicated, the allocation of our allowance for impairment losses by geographical region.

	As of December 31,									As of June 30,		
	2010			2011			2012			2013		
	Amount	% of total	Allowance to NPLs(1)	Amount	% of total	Allowance to NPLs(1)	Amount	% of total	Allowance to NPLs(1)	Amount	% of total	Allowance to NPLs(1)
	(in millions of RMB, except percentages)											
Head Office	310	1.7%	114.81%	516	2.5%	132.31%	1,339	5.2%	142.60%	1,472	5.7%	107.92%
Yangtze River Delta	4,791	26.2	361.31	5,159	24.5	428.84	6,647	25.7	220.25	7,356	28.4	179.94
Pearl River Delta	3,380	18.5	237.03	3,927	18.7	215.06	4,441	17.2	285.04	3,856	14.9	362.07
Bohai Rim	3,440	18.8	432.70	4,078	19.4	563.26	4,834	18.7	761.26	4,675	18.1	714.83
Central China	2,959	16.2	290.95	3,286	15.6	366.33	3,841	14.8	495.61	3,664	14.1	338.32
Northeastern China	1,018	5.6	290.86	1,297	6.2	435.23	1,402	5.4	774.59	1,370	5.3	1,330.10
Western China	2,375	13.0	368.22	2,780	13.1	714.65	3,352	13.0	661.14	3,494	13.5	721.90
Hong Kong	–	–	N/A	–	–	N/A	–	–	N/A	2	0.0	N/A
Total allowance	**18,273**	**100.0%**	**313.48%**	**21,043**	**100.0%**	**367.43%**	**25,856**	**100.0%**	**339.63%**	**25,889**	**100.0%**	**292.83%**

Note:

(1) Calculated by dividing the amount of the allowance for impairment losses on loans in each region by the amount of non-performing loans in that region.

Investments

Our investments are an important component of our assets. Net investments represented 12.6%, 9.3%, 21.0% and 23.2% of our total assets as of December 31, 2010, 2011 and 2012 and June 30, 2013, respectively.

We classify our investments into (i) debt securities, (ii) equity instruments, (iii) fixed-rate mortgages and (iv) debt securities classified as receivables. The following table sets forth, as of the dates indicated, the components of our investments.

	As of December 31,						As of June 30,	
	2010		2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Debt Securities								
Held-to-maturity debt securities	87,908	46.8%	84,243	52.2%	96,112	20.1%	93,303	16.2%
Available-for-sale debt securities	77,142	41.1	54,403	33.7	91,801	19.2	99,309	17.3
Debt securities at fair value through profit or loss	21,728	11.6	22,170	13.7	29,084	6.1	31,473	5.5
Subtotal	186,778	99.5	160,816	99.6	216,997	45.4	224,085	39.0
Equity instruments								
Available-for-sale equity investments	100	0.1	100	0.1	100	0.0	100	0.0
Fixed-rate mortgages	669	0.4	557	0.3	369	0.1	306	0.1
Debt securities classified as receivables[(1)]	–	–	–	–	261,207	54.5	350,334	60.9
Total investments	**187,547**	**100.0%**	**161,473**	**100.0%**	**478,673**	**100.0%**	**574,825**	**100.0%**
Allowance for impairment losses	(116)	–	(259)	–	(289)	–	(256)	–
Investments, net	**187,431**		**161,214**		**478,384**		**574,569**	

Note:

(1) Consist of beneficial interest transfer plans and wealth management products of financial institutions.

As of June 30, 2013, our total investments increased by 20.1% to RMB574,825 million from RMB478,673 million as of December 31, 2012, which in turn significantly increased by 196.4% to RMB478,673 million from RMB161,473 million as of December 31, 2011, primarily because we started to invest in debt securities classified as receivables in 2012 as such investment products rapidly emerged in China since 2012.

Our debt securities classified as receivables include our investments in beneficial interest transfer plans and wealth management products offered by other domestic financial institutions, which are currently a source of credit in the PRC inter-bank financing market. These types of investment products typically have predetermined rates of return and fixed terms. Because we purchase these investment products directly from the issuing institutions, and the secondary market for such products has not been active, we record these investment products as debt securities classified as receivables in accordance with IFRS.

Beneficial interest transfer plans are the major component of our debt securities classified as receivables. The underlying trust assets of our beneficial interest transfer plans consist of financial asset products offered by other reputable domestic financial institutions, attributable to infrastructure development, wholesale and retail, energy and various other industries. The beneficial interest transfer plans investment portfolio has not been concentrated in any single industry. For more details and a breakdown of debt securities classified as receivables, see Note 24 to the Accountants' Report in Appendix I to this prospectus.

The following table sets forth, as of June 30, 2013, the balance of our debt securities classified as receivables by remaining maturity.

	As of June 30, 2013						
	Overdue	Due within 1 month or less	Due over 1 month up to 3 months	Due over 3 months up to 12 months	Due between 1 year and 5 years	Due more than 5 years	Total
	(in millions of RMB)						
Debt securities classified as receivables.....	–	8,773	56,042	92,900	192,319	300	350,334

The primary risk for investments in debt securities classified as receivables is counterparty credit risk, because (i) we hold wealth management products offered by other domestic financial institutions and some of our beneficial interest transfer plans to maturity, and (ii) for beneficial interest transfer plans that we do not hold to maturity, we enter into forward sales contracts with the issuers of such products or third-party financial institutions. To manage counterparty credit risks arising from debt securities classified as receivables, we have set certain requirements for both issuers and third party financial institutions involved: generally, the issuer or third party financial institution (i) is a large bank in terms of total assets, (ii) is a bank with a credit rating of at least A- as rated by us, or (iii) is one of the four major domestic state-owned asset management companies.

As of December 31, 2011, our total investments amounted to RMB161,473 million, a decrease of 13.9% from RMB187,547 million as of December 31, 2010, primarily due to the decrease in our investment in debt securities.

Debt Securities

Our debt securities consist of listed and unlisted debt securities issued in and outside of the PRC by governments, the PBOC, policy banks, other banks and financial institutions, other domestic institutions and entities in public sectors and other institutions.

The following table sets forth, as of the dates indicated, our debt securities by issuer type.

	As of December 31,						As of June 30,	
	2010		2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Government bonds	45,271	24.2%	40,282	25.0%	88,279	40.7%	90,585	40.4%
PBOC bills	30,736	16.5	19	0.0	100	0.0	616	0.3
Bonds issued by banks and financial institutions in PRC	43,146	23.1	40,478	25.2	42,129	19.4	40,163	17.9
Bonds issued by other domestic institutions	66,425	35.6	79,057	49.2	85,513	39.4	91,367	40.8
Bonds issued by other banks and financial institutions outside PRC	898	0.5	863	0.5	863	0.4	1,206	0.5
Bonds issued by entities in public sectors and other institutions outside PRC	302	0.1	117	0.1	113	0.1	148	0.1
Total debt securities	**186,778**	**100.0%**	**160,816**	**100.0%**	**216,997**	**100.0%**	**224,085**	**100.0%**

As of June 30, 2013, the balance of our total debt securities amounted to RMB224,085 million, an increase of 3.3% from RMB216,997 million as of December 31, 2012. The balance of our total debt securities increased by 34.9% to RMB216,997 million as of December 31, 2012 from RMB160,816 million as of December 31, 2011, which in turn decreased by 13.9% from RMB186,778 million as of December 31, 2010.

As of June 30, 2013, the balance of our government bonds amounted to RMB90,585 million, an increase of 2.6% from RMB88,279 million as of December 31, 2012, which in turn increased by 119.2% from RMB40,282 million as of December 31, 2011, primarily because we allocated more funds to invest in government bonds that had high credit rating and because of the benefits of tax exemption on the interest income. As of December 31, 2011, the balance of our government bonds amounted to RMB40,282 million, a decrease of 11.0% from RMB45,271 million as of December 31, 2010, primarily due to the adjustment of our debt securities portfolio in response to the increases in the PBOC benchmark interest rates.

The overall decrease in our PBOC bills from RMB30,736 million as of December 31, 2010 to RMB616 million as of June 30, 2013 was primarily due to the adjustment of our debt securities portfolio by reallocating our fund resources to products with higher yields.

As of June 30, 2013, the balance of our bonds issued by other domestic institutions amounted to RMB91,367 million, an increase of 6.8% from RMB85,513 million as of December 31, 2012. The balance of our bonds issued by other domestic institutions increased by 8.2% to RMB85,513 million as of December 31, 2012 from RMB79,057 million as of December 31, 2011, which in turn increased by 19.0% from RMB66,425 million as of December 31, 2010. As a percentage to our total debt securities, such bonds accounted for 35.6%, 49.2%, 39.4% and 40.8% as of December 31, 2010, 2011 and 2012 and June 30, 2013, respectively. The increase in the balance of our bonds issued by other domestic institutions from December 31, 2010 to June 30, 2013 was primarily due to the rapid development of short-term commercial paper and medium-term notes, which gradually became one of the important investment targets in the inter-bank market and enabled us to actively participate in the investments in such short-term commercial paper and medium-term notes based on effective credit risk control.

The following table sets forth, as of the dates indicated, our debt securities by the domicile of the issuer.

	As of December 31,						As of June 30,	
	2010		2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
PRC	185,505	99.3%	159,836	99.4%	216,021	99.6%	222,731	99.4%
Outside PRC	1,273	0.7	980	0.6	976	0.4	1,354	0.6
Total debt securities	**186,778**	**100.0%**	**160,816**	**100.0%**	**216,997**	**100.0%**	**224,085**	**100.0%**

Debt securities issued by PRC issuers account for the vast majority of our debt securities, representing more than 99.3% of our total debt securities as of December 31, 2010, 2011 and 2012 and June 30, 2013, respectively.

As of June 30, 2013, the balance of our debt securities issued by issuers outside the PRC amounted to RMB1,354 million, an increase of 38.7% from RMB976 million as of December 31, 2012. The balance of our debt securities issued by issuers outside the PRC decreased by 0.4% to RMB976 million as of December 31, 2012 from RMB980 million as of December 31, 2011, which in turn decreased by 23.0% from RMB1,273 million as of December 31, 2010. The decrease from December 31, 2010 to December 31, 2012 was primarily because a portion of such debt securities matured or were sold. The increase from December 31, 2012 to June 30, 2013 was primarily due to investments in new foreign currency denominated debt securities.

The following table sets forth, as of the dates indicated, our debt securities by currency.

	As of December 31,						As of June 30,	
	2010		2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
RMB-denominated	184,831	99.0%	159,197	99.0%	215,514	99.3%	222,326	99.2%
U.S. dollar-denominated	1,815	0.9	1,497	0.9	1,360	0.6	1,639	0.7
Other foreign currency-denominated	132	0.1	122	0.1	123	0.1	120	0.1
Total debt securities	**186,778**	**100.0%**	**160,816**	**100.0%**	**216,997**	**100.0%**	**224,085**	**100.0%**

The following table sets forth, as of June 30, 2013, the balance of our debt securities by remaining maturity.

	As of June 30, 2013					
	Overdue	Due within 3 months or less	Due between 3 months to 1 year	Due over 1 year up to 5 years	Due more than 5 years	Total
	(in millions of RMB)					
Government bonds	–	3,766	1,836	18,009	66,974	90,585
PBOC bills	–	616	–	–	–	616
Bonds issued by banks and financial institutions in PRC	–	605	4,017	21,636	13,905	40,163
Bonds issued by other domestic institutions	–	1,148	10,414	74,639	5,166	91,367
Bonds issued by other banks and financial institutions outside PRC	–	–	92	895	219	1,206
Bonds issued by entities in public sectors and other institutions outside PRC	–	–	32	–	116	148
Total debt securities	**–**	**6,135**	**16,391**	**115,179**	**86,380**	**224,085**

The following table sets forth, as of the dates indicated, a breakdown of our debt securities between fixed interest rate and floating interest rate.

	As of December 31,						As of June 30,	
	2010		2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentage)							
Fixed interest rate	168,447	90.2%	144,640	89.9%	201,242	92.7%	208,648	93.1%
Floating interest rate	18,331	9.8	16,176	10.1	15,755	7.3	15,437	6.9
Total debt securities	**186,778**	**100.0%**	**160,816**	**100.0%**	**216,997**	**100.0%**	**224,085**	**100.0%**

The following table sets forth, as of the dates indicated, the carrying value and the fair value of the held-to-maturity debt securities in our investment portfolio.

	As of December 31,						As of June 30,	
	2010		2011		2012		2013	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
	(in millions of RMB)							
Held-to-maturity debt securities	87,793	87,255	83,985	84,363	95,824	96,064	93,048	93,426

Investment Concentration

The following table sets forth, as of June 30, 2013, our investments by issuer whose carrying value exceeded 10% of our shareholders' equity.

	As of June 30, 2013				
	Carrying value	% of total investments	% of total shareholders' equity	Carrying value/fair value	Fair value
	(in millions of RMB, except percentage)				
The MOF	84,392	14.7%	66.4%	99.9%	84,497
China Development Bank	28,056	4.9	22.1	100.4	27,942
Total	**112,448**	**19.6%**	**88.5%**	**100.0%**	**112,439**

Other Components of Our Assets

Other components of our assets consist primarily of (i) cash and deposits with the central bank, (ii) deposits with banks and other financial institutions, (iii) financial assets held under resale agreements and placements with banks and other financial institutions and (iv) other assets.

Cash and deposits with the central bank consist primarily of cash, required deposit reserves and surplus deposit reserves. Required deposit reserves represent the minimum level of cash deposits that we are required to maintain at the PBOC. The minimum level is determined as a percentage of our deposits from customers. Surplus deposit reserves are deposits with the PBOC, in excess of required deposit reserves which we maintain for clearing purposes. As of June 30, 2013, our cash and deposits with the central bank amounted to RMB311,708 million, an increase of 9.2% from RMB285,478 million as of December 31, 2012. Our cash and deposits with the central bank increased by 24.8% to RMB285,478 million as of December 31, 2012 from RMB228,666 million as of December 31, 2011, which in turn increased by 23.1% from RMB185,745 million as of December 31, 2010. The overall increase from December 31, 2010 to June 30, 2013 was primarily due to the increase in our deposits from customers and the increased deposit reserve ratio required by the PBOC.

Deposits with banks and other financial institutions consist primarily of our account balances maintained at other banks and financial institutions for settlement and clearing purposes or to pursue higher yields. As of June 30, 2013, the balance of our deposits with banks and other financial institutions, net of the allowance for impairment losses, was RMB73,870 million, an increase of 57.1% from RMB47,019 million as of December 31, 2012. The balance of our deposits with banks and other financial institutions, net of the allowance for impairment losses, decreased by 55.3% to RMB47,019 million as of December 31, 2012 from RMB105,263 million as of December 31, 2011, which in turn increased by 97.6% from RMB53,275 million as of December 31, 2010. The fluctuations from December 31, 2010 to June 30, 2013 were primarily due to our adjustment of overall asset portfolio to allocate our fund resources to products with higher yields while meeting our liquidity needs.

Financial assets held under resale agreements consist primarily of securities held under resale agreements, bank acceptance bills and credit assets. Placements with banks and other financial institutions consist primarily of inter-bank lendings. As of June 30, 2013, the balance of our financial assets held under resale agreements and placements with banks and other financial institutions amounted to RMB318,444 million, a decrease of 13.2% from RMB366,705 million as of December 31, 2012. The balance of our financial assets held under resale agreements and placements with banks and other financial institutions increased by 27.0% to RMB366,705 million as of December 31, 2012 from RMB288,687 million as of

December 31, 2011, which in turn increased by 48.9% from RMB193,870 million as of December 31, 2010. The overall increase from December 31, 2010 to December 31, 2012 was primarily due to the following reasons: (i) we continued to develop our inter-bank operations and (ii) we adjusted our overall asset portfolio to allocate our fund resources to products with higher yields while meeting our liquidity needs. The decrease from December 31, 2012 to June 30, 2013 was primarily due to our liquidity management needs.

Other assets consist primarily of interest receivables, positive fair value of derivatives, fixed assets, intangible assets, deferred tax assets, goodwill and other assets (including assets held for wealth management products). As of June 30, 2013, our other assets amounted to RMB113,912 million, an increase of 9.1% from RMB104,378 million as of December 31, 2012, primarily due to the increase in assets held for wealth management products and finance lease receivables. As of December 31, 2012, our other assets amounted to RMB104,378 million, an increase of 29.3% from RMB80,734 million as of December 31, 2011, primarily due to the increases in assets held for wealth management products and in interest receivables. Our other assets decreased by 21.7% to RMB80,734 million as of December 31, 2011 from RMB103,074 million as of December 31, 2010, primarily due to a decrease in assets held for wealth management products.

LIABILITIES AND SOURCES OF FUNDS

As of June 30, 2013, our total liabilities amounted to RMB2,344,102 million, an increase of 8.3% from RMB2,164,973 million as of December 31, 2012. Our total liabilities increased by 32.2% to RMB2,164,973 million as of December 31, 2012 from RMB1,637,196 million as of December 31, 2011, which in turn increased by 16.7% from RMB1,402,487 million as of December 31, 2010. Deposits from customers have been our primary source of funding and represented 75.8%, 74.8%, 65.9% and 66.3% of our total liabilities, as of December 31, 2010, 2011 and 2012 and June 30, 2013, respectively.

The following table sets forth, as of the dates indicated, the components of our total liabilities.

	As of December 31,						As of June 30,	
	2010		2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Deposits from customers	1,063,180	75.8%	1,225,278	74.8%	1,426,941	65.9%	1,554,691	66.3%
Deposits from banks and other financial institutions	197,214	14.1	270,627	16.5	527,561	24.4	564,122	24.1
Placements from banks and other financial institutions and financial assets sold under repurchase agreements	30,893	2.2	67,971	4.2	97,490	4.5	112,439	4.8
Debt securities issued	16,000	1.1	16,000	1.0	52,700	2.4	44,700	1.9
Other liabilities[1]	95,200	6.8	57,320	3.5	60,281	2.8	68,150	2.9
Total liabilities	**1,402,487**	**100.0%**	**1,637,196**	**100.0%**	**2,164,973**	**100.0%**	**2,344,102**	**100.0%**

Note:

(1) Consist of negative fair value of derivatives, accrued staff costs, taxes payable, interest payable, provisions and other liabilities (including wealth management fund).

Deposits from Customers

We provide demand and time deposit products to corporate and retail customers. The following table sets forth, as of the dates indicated, the deposits from customers by product type and customer type.

	As of December 31,						As of June 30,	
	2010		2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Corporate deposits								
Time	356,370	33.5%	409,417	33.4%	476,737	33.4%	526,834	33.9%
Demand	384,456	36.2	398,986	32.6	397,626	27.9	392,407	25.2
Subtotal	740,826	69.7	808,403	66.0	874,363	61.3	919,241	59.1
Retail deposits								
Time	87,503	8.2	114,062	9.3	127,378	8.9	141,001	9.1
Demand(1)	59,206	5.6	78,712	6.4	157,302	11.0	192,915	12.4
Subtotal	146,709	13.8	192,774	15.7	284,680	19.9	333,916	21.5
Pledged deposits								
Corporate	140,283	13.2	175,168	14.3	221,143	15.5	246,770	15.9
Retail	368	0.0	275	0.0	819	0.1	2,392	0.1
Subtotal	140,651	13.2	175,443	14.3	221,962	15.6	249,162	16.0
Funds deposited with us for remittance(2)	1,524	0.1	2,180	0.2	3,319	0.2	4,339	0.3
Structured deposits								
Corporate	14,132	1.4	4,017	0.3	14,103	1.0	20,109	1.3
Retail	19,338	1.8	42,461	3.5	28,514	2.0	27,924	1.8
Subtotal	33,470	3.2	46,478	3.8	42,617	3.0	48,033	3.1
Total deposits from customers	**1,063,180**	**100.0%**	**1,225,278**	**100.0%**	**1,426,941**	**100.0%**	**1,554,691**	**100.0%**

Notes:

(1) Retail demand deposits as of December 31, 2012 included liabilities under principal-guaranteed wealth management products.

(2) Consist of only corporate deposits.

As of June 30, 2013, our total deposits from customers amounted to RMB1,554,691 million, an increase of 9.0% from RMB1,426,941 million as of December 31, 2012. Our total deposits from customers increased by 16.5% to RMB1,426,941 million as of December 31, 2012 from RMB1,225,278 million as of December 31, 2011, which in turn increased by 15.2% from RMB1,063,180 million as of December 31, 2010.

As of June 30, 2013, our corporate deposits amounted to RMB919,241 million, an increase of 5.1% from RMB874,363 million as of December 31, 2012. Our corporate deposits increased by 8.2% to RMB874,363 million as of December 31, 2012 from RMB808,403 million as of December 31, 2011, which in turn increased by 9.1% from RMB740,826 million as of December 31, 2010. The overall increase in our corporate deposits from December 31, 2010 to June 30, 2013 was primarily due to: (i) our on-going efforts to grow corporate deposits by way of product innovation, (ii) our expanded branch network and improved customer service, to attract and maintain our corporate customers and (iii) our enhanced marketing efforts to our key corporate customers.

As of June 30, 2013, our retail deposits amounted to RMB333,916 million, an increase of 17.3% from RMB284,680 million as of December 31, 2012, among which our retail time deposits increased by 10.7% whereas our retail demand deposits increased by 22.6%. As of December 31, 2012, our retail deposits amounted to RMB284,680 million, an increase of 47.7% from RMB192,774 million as of December 31, 2011, among which our retail time deposits increased by 11.7% and our retail demand deposits increased by 99.8%. Our retail deposits increased by 31.4% to RMB192,774 million as of December 31, 2011 from RMB146,709 million as of December 31, 2010, among which our retail time deposits increased by 30.4% whereas our retail demand deposits increased by 32.9%. The overall increase in our retail deposits from December 31, 2010 to June 30, 2013 was primarily due to: (i) our efforts in product innovation and cross-selling with our wealth management, credit card and retail loan products, which resulted in the expansion of the customer base of our retail deposits, and (ii) enhancement of our distribution channels, including the expansion of our branch network and our electronic banking system.

Our pledged deposits primarily include acceptance deposits, letter of credit deposits, letter of guarantee deposits and credit-linked deposits. As of June 30, 2013, our total pledged deposits amounted to RMB249,162 million, an increase of 12.3% from RMB221,962 million as of December 31, 2012. Our total pledged deposits increased by 26.5% to RMB221,962 million as of December 31, 2012 from RMB175,443 million as of December 31, 2011, which in turn increased by 24.7% from RMB140,651 million as of December 31, 2010. The overall increase from December 31, 2010 to June 30, 2013 was primarily due to an increase in the scale of our bank acceptance bills business.

As of June 30, 2013, the balance of our total structured deposits amounted to RMB48,033 million, an increase of 12.7% from RMB42,617 million as of December 31, 2012. The balance of our structured deposits decreased by 8.3% to RMB42,617 million as of December 31, 2012 from RMB46,478 million as of December 31, 2011, which in turn increased by 38.9% from RMB33,470 million as of December 31, 2010. The overall increase from December 31, 2010 to June 30, 2013 was primarily due to (i) greater market demand for such products and (ii) our strategy to promote structured wealth management products.

Distribution of Deposits by Geographical Region

We classify deposits geographically based on the location of branches taking the deposits. There is generally a high correlation between the location of the depositor and the location of the branch taking the deposit, except in the case of our Head Office, which takes deposits from the headquarters of certain large corporate customers. The following table sets forth, as of the dates indicated, the distribution of our deposits from customers by geographical region.

	As of December 31,						As of June 30,	
	2010		2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Head Office	51,744	4.9%	75,920	6.2%	95,522	6.7%	75,800	4.9%
Yangtze River Delta	227,363	21.4	255,509	20.9	299,549	21.0	328,254	21.1
Pearl River Delta	146,038	13.7	168,029	13.7	189,520	13.3	217,827	14.0
Bohai Rim	278,997	26.2	318,241	26.0	370,833	25.9	392,481	25.3
Central China	140,867	13.3	163,298	13.3	191,939	13.5	219,638	14.1
Northeastern China	78,909	7.4	92,143	7.5	103,159	7.2	110,807	7.1
Western China	139,262	13.1	152,138	12.4	176,419	12.4	207,649	13.4
Hong Kong	–	–	–	–	–	–	2,235	0.1
Total deposits from customers	**1,063,180**	**100.0%**	**1,225,278**	**100.0%**	**1,426,941**	**100.0%**	**1,554,691**	**100.0%**

As of December 31, 2010, 2011 and 2012 and June 30, 2013, the deposits of our branches in the Yangtze River Delta, the Pearl River Delta and the Bohai Rim regions in aggregate accounted for 61.3%, 60.6%, 60.2% and 60.4% of our total deposits from customers, respectively.

Distribution of Deposits by Remaining Maturity

The following table sets forth, at June 30, 2013, the distribution of our deposits from customers by remaining maturity.

	As of June 30, 2013											
	Repayable on demand		Due within 3 months or less		Due over 3 months up to 12 months		Due over 1 year up to 5 years		Due more than 5 years			
	Amount	% of total deposits	Amount	% of total deposits	Amount	% of total deposits	Amount	% of total deposits	Amount	% of total deposits	Total	% of total deposits
	(in millions of RMB, except percentages)											
Corporate deposits												
Time deposits	–	–	168,715	10.9%	179,229	11.5%	177,210	11.4%	1,680	0.1%	526,834	33.9%
Demand deposits	392,407	25.2%	–	–	–	–	–	–	–	–	392,407	25.2
Subtotal	392,407	25.2	168,715	10.9	179,229	11.5	177,210	11.4	1,680	0.1	919,241	59.1
Retail deposits												
Time deposits	–	–	57,041	3.7	47,064	3.0	36,896	2.4	–	–	141,001	9.1
Demand deposits	192,915	12.4	–	–	–	–	–	–	–	–	192,915	12.4
Subtotal	192,915	12.4	57,041	3.7	47,064	3.0	36,896	2.4	–	–	333,916	21.5
Pledged deposits	40,717	2.6	111,435	7.1	96,143	6.2	867	0.1	–	–	249,162	16.0
Funds deposited with us for remittance	4,339	0.3	–	–	–	–	–	–	–	–	4,339	0.3
Structured deposits	–	–	18,102	1.2	29,931	1.9	–	–	–	–	48,033	3.1
Total deposits from customers	**630,378**	**40.5%**	**355,293**	**22.9%**	**352,367**	**22.6%**	**214,973**	**13.9%**	**1,680**	**0.1%**	**1,554,691**	**100.0%**

Distribution of Deposits by Currency

The following table sets forth, as of the dates indicated, the distribution of our deposits from customers by currency.

	As of December 31,						As of June 30,	
	2010		2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Renminbi deposits	1,038,147	97.6%	1,192,667	97.3%	1,375,598	96.4%	1,510,150	97.2%
U.S. dollar deposits	18,973	1.8	25,808	2.1	41,891	2.9	39,492	2.5
Other foreign currency deposits	6,060	0.6	6,803	0.6	9,452	0.7	5,049	0.3
Total deposits from customers	**1,063,180**	**100.0%**	**1,225,278**	**100.0%**	**1,426,941**	**100.0%**	**1,554,691**	**100.0%**

Other Components of Our Liabilities

Other components of our liabilities consist primarily of (i) deposits from banks and other financial institutions, (ii) placements from banks and other financial institutions and financial assets sold under repurchase agreements, (iii) debt securities issued and (iv) other liabilities.

Deposits from Banks and Other Financial Institutions

As of June 30, 2013, our deposits from banks and other financial institutions amounted to RMB564,122 million, an increase of 6.9% from RMB527,561 million as of December 31, 2012. Our deposits from banks and other financial institutions increased by 94.9% to RMB527,561 million as of December 31, 2012 from RMB270,627 million as of December 31, 2011, which in turn increased by 37.2% from RMB197,214 million as of December 31, 2010. The overall increase from December 31, 2010 to June 30, 2013 was primarily due to our adjustment of the overall liabilities structure to obtain funds at lower costs while meeting our liquidity needs.

Placements from Banks and Other Financial Institutions and Financial Assets Sold under Repurchase Agreements

As of June 30, 2013, our placements from banks and other financial institutions and financial assets sold under repurchase agreements amounted to RMB112,439 million, an increase of 15.3% from RMB97,490 million as of December 31, 2012, primarily due to our liquidity management needs. Our placements from banks and other financial institutions and financial assets sold under repurchase agreements increased by 43.4% to RMB97,490 million as of December 31, 2012 from RMB67,971 million as of December 31, 2011, which in turn increased by 120.0% from RMB30,893 million as of December 31, 2010. The increase from December 31, 2010 to December 31, 2012 primarily reflected our adjustment of the overall liabilities structure to obtain funds at lower costs while meeting our liquidity needs.

Debt Securities Issued

See "Financial Information – Capital Resources – Debt Securities Issued."

Other Liabilities

Our other liabilities consist of negative fair value of derivatives, accrued staff costs, taxes payable, interest payable, provisions and other liabilities (including wealth management fund). As of June 30, 2013, our total other liabilities amounted to RMB68,150 million, an increase of 13.1% from RMB60,281 million as of December 31, 2012, primarily due to the increase in liabilities held for wealth management products. Our total other liabilities increased by 5.2% to RMB60,281 million as of December 31, 2012 from RMB57,320 million as of December 31, 2011, primarily due to increases in interest payable, accrued staff costs, and taxes payable. Our total other liabilities decreased by 39.8% to RMB57,320 million as of December 31, 2011 from RMB95,200 million as of December 31, 2010.

SELECTED UNAUDITED ASSETS AND LIABILITIES INFORMATION AS OF SEPTEMBER 30, 2013

Under the rules of the Shanghai Stock Exchange on which our A Shares are listed, we are required to publish reports containing unaudited financial statements as of and for the nine months ended September 30 of each year. Because we published certain financial statements as of and for the nine months ended September 30, 2013 in the PRC prior to the date of this prospectus, we have included the condensed consolidated statement of financial position as of September 30, 2013, the condensed consolidated statement of the comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows, each for the nine months ended September 30, 2013, together with selected explanatory notes of our Group prepared in accordance with IFRS in Appendix II to this prospectus. KPMG, our independent reporting accountants, have conducted a review on such financial information in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants.

Assets

As of September 30, 2013, our total assets amounted to RMB2,474.3 billion, an increase of 8.6% from RMB2,279.3 billion as of December 31, 2012, primarily due to the increases in (i) loans and advances to customers, (ii) investments, and (iii) cash and deposits with the central bank, partially offset by a decrease in financial assets held under resale agreements and placements with banks and other financial institutions. The increase in our loans and advances to customers during the nine months ended September 30, 2013 was in line with the overall growth of our business. The increase in our investments was primarily attributable to the increase in our debt securities classified as receivables. The increase in our cash and deposits with the central bank was primarily attributable to the increase in the required deposit reserve as a result of increase in our deposits from customers. The decrease in our net financial assets held under resale agreements and placements with banks and other financial institutions was primarily due to our liquidity management needs.

	As of December 31,		As of September 30,	
	2012		2013	
	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)			
			(unaudited)	
Total loans and advances to customers	1,023,187	44.9%	1,139,398	46.0%
Less: Allowance for impairment losses	(25,856)	(1.2)	(23,853)	(1.0)
Loans and advances to customers, net	997,331	43.7	1,115,545	45.0
Investments, net[(1)]	478,384	21.0	518,825	21.0
Financial assets held under resale agreements and placements with banks and other financial institutions, net	366,705	16.1	343,247	13.9
Cash and deposits with the central bank	285,478	12.5	325,432	13.2
Deposits with banks and other financial institutions, net	47,019	2.1	55,231	2.2
Other assets[(2)]	104,378	4.6	116,064	4.7
Total assets	**2,279,295**	**100.0%**	**2,474,344**	**100.0%**

Notes:

(1) Consist of debt securities (net), equity instruments (net), fixed-rate mortgages and debt securities classified as receivables.

(2) Consist of interest receivables, positive fair value of derivatives, fixed assets, intangible assets, deferred tax assets, goodwill and other assets (including assets held for wealth management products).

Loans and Advances to Customers

Our total loans and advances to customers increased by 11.4% to RMB1,139,398 million as of September 30, 2013 from RMB1,023,187 million as of December 31, 2012, primarily due to the increases in our corporate loans and our retail loans during this period.

Distribution of Loans by Business Line

The following table sets forth, as of the dates indicated, our loans and advances to customers by business line. For a description of the loan products we offer, see "Business – Our Principal Businesses."

	As of December 31,		As of September 30,	
	2012		2013	
	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)			
			(unaudited)	
Corporate loans	699,090	68.4%	750,729	65.9%
Discounted bills	12,643	1.2	12,231	1.1
Retail loans	311,454	30.4	376,438	33.0
Total loans and advances to customers	**1,023,187**	**100.0%**	**1,139,398**	**100.0%**

Our corporate loans increased by 7.4% to RMB750,729 million as of September 30, 2013 from RMB699,090 million as of December 31, 2012, primarily due to the steady increase in the credit demand of our customers in line with the growth of the PRC economy. Our discounted bills decreased by 3.3% to RMB12,231 million as of September 30, 2013 from RMB12,643 million as of December 31, 2012, primarily due to the adjustment of our corporate loan portfolio. Our retail loans increased by 20.9% to RMB376,438 million as of September 30, 2013 from RMB311,454 million as of December 31, 2012, primarily due to the increase in our micro-enterprise personal loans and credit card loans.

Borrower Concentration

The following table sets forth, as of September 30, 2013, our loan balance to our ten largest single-borrowers, all of which were classified as performing loans at that date.

	As of September 30, 2013			
	Industry	Amount	% of total loans	% of regulatory capital(1)
	(in millions of RMB, except percentages)			
Borrower A	Transportation, storage and postal services	6,373	0.6%	4.0%
Borrower B	Public administration and social organization	3,906	0.4	2.4
Borrower C	Transportation, storage and postal services	3,380	0.3	2.1
Borrower D	Real estate	3,039	0.3	1.9
Borrower E	Leasing and commercial services	2,976	0.3	1.9
Borrower F	Real estate	2,650	0.2	1.7
Borrower G	Real estate	2,650	0.2	1.7
Borrower H	Transportation, storage and postal services	2,610	0.2	1.6
Borrower I	Transportation, storage and postal services	2,500	0.2	1.6
Borrower J	Wholesale and retail	2,473	0.2	1.5
Total		**32,557**	**2.9%**	**20.4%**

Note:

(1) Represents loan balance as a percentage of our regulatory capital. For the calculation of our regulatory capital as of September 30, 2013, see "Financial Information – Capital Resources – Capital Adequacy".

The following table sets forth, as of September 30, 2013, our credit exposure to our ten largest single group-borrowers.

	As of September 30, 2013			
	Industry	Amount	% of total loans	% of regulatory capital(1)
	(in millions of RMB, except percentages)			
Group A	Production and supply of power, gas and water	11,420	1.0%	7.1%
Group B	Transportation, storage and postal services	10,659	1.0	6.7
Group C	Manufacturing	9,443	0.8	5.9
Group D	Production and supply of power, gas and water	8,714	0.8	5.5
Group E	Construction	8,500	0.7	5.3
Group F	Construction	8,323	0.7	5.2
Group G	Transportation, storage and postal services	7,272	0.7	4.5
Group H	Manufacturing	6,960	0.6	4.4
Group I	Wholesale and retail	6,951	0.6	4.3
Group J	Wholesale and retail	6,801	0.6	4.3
Total		**85,043**	**7.5%**	**53.2%**

Note:

(1) Represents credit exposure as a percentage of our regulatory capital. For the calculation of our regulatory capital as of September 30, 2013, see "Financial Information – Capital Resources – Capital Adequacy".

Asset Quality of Our Loans to Customers

Distribution of Loans by Loan Classification

The following table sets forth, as of the dates indicated, the distribution of our loan portfolio by the five-category loan classification. Under our five-category loan classification system, our non-performing loans are classified as substandard, doubtful or loss, as applicable.

	As of December 31, 2012		As of September 30, 2013	
	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)			
			(unaudited)	
Normal	1,001,284	97.9%	1,111,581	97.6%
Special mention	14,290	1.4	18,453	1.6
Subtotal	1,015,574	99.3	1,130,034	99.2
Substandard	3,431	0.3	4,724	0.4
Doubtful	1,975	0.2	2,951	0.3
Loss	2,207	0.2	1,689	0.1
Subtotal	7,613	0.7	9,364	0.8
Total loans to customers	**1,023,187**	**100.0%**	**1,139,398**	**100.0%**
NPL ratio(1)		**0.74%**		**0.82%**

Note:

(1) Calculated by dividing total non-performing loans by total loans and advances to customers.

The following table sets forth, as of the dates indicated, the distribution of our loans by business line and by the five-category loan classification.

	As of December 31,		As of September 30,	
	2012		2013	
	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)			
			(unaudited)	
Corporate loans				
Normal	685,148	67.0%	733,806	64.4%
Special mention	7,929	0.8	9,886	0.9
Substandard	2,912	0.3	4,034	0.4
Doubtful	1,643	0.2	2,477	0.2
Loss	1,458	0.1	526	0.0
Subtotal	699,090	68.4	750,729	65.9
NPL ratio(1)		0.86%		0.94%
Discounted bills				
Normal	12,643	1.2	12,225	1.1
Special mention	–	–	6	0.0
Substandard	–	–	–	–
Doubtful	–	–	–	–
Loss	–	–	–	–
Subtotal	12,643	1.2	12,231	1.1
NPL ratio(1)		–		–
Retail loans				
Normal	303,493	29.7	365,550	32.1
Special mention	6,361	0.6	8,561	0.7
Substandard	519	0.0	690	0.1
Doubtful	332	0.0	474	0.0
Loss	749	0.1	1,163	0.1
Subtotal	311,454	30.4	376,438	33.0
NPL ratio(1)		0.51%		0.62%
Total loans and advances to customers	**1,023,187**		**1,139,398**	
NPL ratio(2)		**0.74%**		**0.82%**

Notes:

(1) Calculated by dividing non-performing loans in each category by total loans and advances in that category.

(2) Calculated by dividing total non-performing loans by total loans and advances to customers.

Our total non-performing loans increased by 23.0% to RMB9,364 million as of September 30, 2013 from RMB7,613 million as of December 31, 2012, while the NPL ratio increased to 0.82% as of September 30, 2013 from 0.74% as of December 31, 2012. The increase in the balance of our non-performing loans from December 31, 2012 to September 30, 2013 was primarily attributable to the negative impact of the volatility of macroeconomic conditions during this period on the financial condition of certain borrowers.

As of September 30, 2013, our corporate loans classified as "special mention" increased by 24.7% to RMB9,886 million from RMB7,929 million as of December 31, 2012. As of September 30, 2013, our corporate loans classified as "substandard" increased by 38.5% to RMB4,034 million from RMB2,912 million as of December 31, 2012. The increases in the balances of corporate loans classified as "special mention" and "substandard" were primarily due to the deterioration in the financial condition and the repayment ability of certain borrowers as a result of the impact of the macroeconomic conditions during this period.

Our retail loans classified as "special mention" increased by 34.6% to RMB8,561 million as of September 30, 2013 from RMB6,361 million as of December 31, 2012, was primarily due to the downgrading of certain micro-enterprise equipment loans as a result of delay in payment by the borrowers who had been negatively affected by macroeconomic conditions. Our retail loans classified as "substandard" amounted to RMB690 million as of September 30, 2013, an increase of 32.9% from RMB519 million as of December 31, 2012, primarily due to the increase in credit card loans classified as such as a result of the expansion of our credit card business.

Changes in the Asset Quality of Our Corporate Loan Portfolio

The following table sets forth, between the dates indicated, the changes in the outstanding balance of our non-performing corporate loans.

	Amount	NPL ratio
	(in millions of RMB, except percentages)	
As of December 31, 2012	6,013	0.86%
Downgrades	6,180	
Upgrades	(68)	
Recoveries	(762)	
Write-offs	(674)	
Disposals	(3,790)	
Non-performing loans arising from newly-granted loans	138	
As of September 30, 2013	7,037	0.94%

As of September 30, 2013 and December 31, 2012, the balance of our non-performing corporate loans was RMB7,037 million and RMB6,013 million respectively, with the corresponding NPL ratio for our corporate loans of 0.94% and 0.86% as of such dates. The increases in the balance of our non-performing corporate loans and the NPL ratio of our corporate loans were primarily because certain of our corporate loans were exposed to a higher level of default risk as a result of the volatility of macroeconomic conditions during this period.

Ten Largest Non-performing Borrowers

The following table sets forth, at September 30, 2013, our borrowers with the ten largest non-performing corporate loan balances outstanding.

	As of September 30, 2013				
	Industry	Amount	Classification	% of total non-performing corporate loans	% of regulatory capital(1)
	(in millions of RMB, except percentages)				
Borrower A	Transportation, storage and postal services	290	Substandard	4.1%	0.2%
Borrower B	Leasing and commercial services	249	Doubtful	3.5	0.1
Borrower C	Manufacturing	215	Doubtful	3.1	0.1
Borrower D	Manufacturing	150	Substandard	2.1	0.1
Borrower E	Manufacturing	120	Substandard	1.7	0.1
Borrower F	Wholesale and retail	109	Substandard	1.5	0.1
Borrower G	Wholesale and retail	103	Substandard	1.5	0.1
Borrower H	Manufacturing	98	Substandard	1.4	0.1
Borrower I	Manufacturing	98	Substandard	1.4	0.1
Borrower J	Wholesale and retail	90	Substandard	1.3	0.0
Total		**1,522**		**21.6%**	**1.0%**

Note:

(1) Represents loan balance as a percentage of our regulatory capital. For the calculation of our regulatory capital as of September 30, 2013, see "Financial Information – Capital Resources – Capital Adequacy."

Allowance for Impairment Losses on Loans and Advances to Customers

Distribution of Allowance for Impairment Losses by Loan Classification

The following table sets forth, as of the dates indicated, the distribution of our allowance for impairment losses by loan classification category.

	As of December 31,			As of September 30,		
	2012			2013		
	Amount	% of total	Allowance to loans(1)	Amount	% of total	Allowance to loans(1)
	(in millions of RMB, except percentages)					
					(unaudited)	
Normal	19,170	74.1%	1.91%	16,935	71.0%	1.52%
Special mention	2,067	8.0	14.46	2,246	9.4	12.17
Substandard	1,023	4.0	29.82	1,346	5.6	28.49
Doubtful	1,438	5.6	72.81	1,829	7.7	61.98
Loss	2,158	8.3	97.78	1,497	6.3	88.63
Subtotal of allowance for impairment losses on NPLs	4,619	17.9	60.67	4,672	19.6	49.89
Total allowance	**25,856**	**100.0%**	**2.53%**	**23,853**	**100.0%**	**2.09%**

Note:

(1) Calculated by dividing the amount of the allowance for impairment losses on loans in each category by the total amount of loans and advances in that category.

The following table sets forth, as of the dates indicated, the allocation of our allowance for impairment losses by business line and by loan classification category.

	As of December 31,			As of September 30,		
	2012			2013		
	Amount	% of total	Allowance to NPLs[(1)]	Amount	% of total	Allowance to NPLs[(1)]
	(in millions of RMB, except percentages)					
				(unaudited)		
Corporate loans						
Normal	16,720	64.7%	N/A	14,275	59.8%	N/A
Special mention	1,598	6.2	N/A	1,638	6.9	N/A
Substandard	830	3.2	28.50	1,076	4.5	26.67
Doubtful	1,199	4.7	72.98	1,528	6.4	61.69
Loss	1,458	5.6	100.00	522	2.2	99.24
Subtotal	21,805	84.4	362.63	19,039	79.8	270.56
Discounted bills						
Normal	17	0.1	N/A	17	0.1	N/A
Special mention	–	–	N/A	1	0.0	N/A
Substandard	–	–	–	–	–	–
Doubtful	–	–	–	–	–	–
Loss	–	–	–	–	–	–
Subtotal	17	0.1	–	18	0.1	–
Retail loans						
Normal	2,433	9.3	N/A	2,643	11.1	N/A
Special mention	469	1.8	N/A	607	2.5	N/A
Substandard	193	0.8	37.19	270	1.1	39.13
Doubtful	239	0.9	71.99	301	1.3	63.50
Loss	700	2.7	93.46	975	4.1	83.83
Subtotal	4,034	15.5	252.13	4,796	20.1	206.10
Total allowance	**25,856**	**100.0%**	**339.63%**	**23,853**	**100.0%**	**254.73%**

Note:

(1) Calculated by dividing the amount of the allowance for impairment losses on loans in each category by the total amount of non-performing loans in that category.

Changes in the Allowance for Impairment Losses

The following table sets forth, between the dates indicated, the changes in the allowance for impairment losses on loans and advances to customers.

	As of and for the nine months ended September 30, 2013
	(in millions of RMB) (unaudited)
As of December 31, 2012	25,856
Charge for the period[1]	3,202
Write-offs	(1,560)
Recoveries	144
Unwinding of discount[2]	(266)
Disposals	(3,523)
As of September 30, 2013	**23,853**

Notes:

(1) Represents total allowance for impairment losses on loans (additions to the allowance for impairment losses on loans), net of write-backs (releases from the allowance for impairment losses on loans).

(2) Represents the interest income accrued on impaired loans as a result of subsequent increases in their present values due to the passage of time.

Investments

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

	As of December 31,		As of September 30,	
	2012		2013	
	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)			
			(unaudited)	
Debt Securities				
Held-to-maturity debt securities	96,112	20.1%	101,735	19.6%
Available-for-sale debt securities	91,801	19.2	95,964	18.5
Debt securities at fair value through profit or loss	29,084	6.1	29,630	5.7
Subtotal	216,997	45.4	227,329	43.8
Equity instruments				
Available-for-sale equity investments	100	0.0	100	0.0
Fixed-rate mortgages	369	0.1	277	0.1
Debt securities classified as receivables[1]	261,207	54.5	291,385	56.1
Total investments	**478,673**	**100.0%**	**519,091**	**100.0%**
Allowance for impairment losses	(289)	–	(266)	–
Investments, net	**478,384**		**518,825**	

Note:

(1) Consist of beneficial interest transfer plans and wealth management products of financial institutions.

Our total investments increased by 8.4% to RMB519,091 million as of September 30, 2013 from RMB478,673 million as of December 31, 2012, primarily due to an increase in the balance of our debt securities classified as receivables by 11.6% to RMB291,385 million as of September 30, 2013 from RMB261,207 million as of December 31, 2012, primarily due to the adjustment of our investment portfolios to allocate our fund resources to such investments, which generally have higher yields.

Debt Securities

The following table sets forth, as of the dates indicated, our debt securities by issuer type.

	As of December 31, 2012		As of September 30, 2013	
	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)			
			(unaudited)	
Government bonds	88,279	40.7%	88,821	39.1%
PBOC bills	100	0.0	–	–
Bonds issued by banks and financial institutions in PRC	42,129	19.4	39,918	17.5
Bonds issued by other domestic institutions	85,513	39.4	97,058	42.7
Bonds issued by other banks and financial institutions outside PRC	863	0.4	1,310	0.6
Bonds issued by entities in public sectors and other institutions outside PRC	113	0.1	222	0.1
Total debt securities	**216,997**	**100.0%**	**227,329**	**100.0%**

The balance of our total debt securities increased by 4.8% to RMB227,329 million as of September 30, 2013 from RMB216,997 million as of December 31, 2012. The increase was primarily attributable to the increase in the balance of our bonds issued by other domestic institutions by 13.5% to RMB97,058 million as of September 30, 2013 from RMB85,513 million as of December 31, 2012, primarily due to the rapid development of short-term commercial paper and medium-term notes, which have become one of the important investment targets in the inter-bank market and enabled us to actively participate in investments in such products based on effective credit risk control.

Liabilities and Sources of Funds

The following table sets forth, as of the dates indicated, the components of our total liabilities.

	As of December 31,		As of September 30,	
	2012		2013	
	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)			
			(unaudited)	
Deposits from customers	1,426,941	65.9%	1,622,107	69.3%
Deposits from banks and other financial institutions	527,561	24.4	512,266	21.9
Placements from banks and other financial institutions and financial assets sold under repurchase agreements	97,490	4.5	106,196	4.5
Debt securities issued	52,700	2.4	45,181	1.9
Other liabilities[(1)]	60,281	2.8	56,248	2.4
Total liabilities	**2,164,973**	**100.0%**	**2,341,998**	**100.0%**

Note:

(1) Consist of negative fair value of derivatives, accrued staff costs, taxes payable, interests payable, provisions and other liabilities (including wealth management fund).

Our total liabilities increased by 8.2% to RMB2,341,998 million as of September 30, 2013 from RMB2,164,973 million as of December 31, 2012, primarily due to the increases in deposits from customers and placements from banks and other financial institutions and financial assets sold under repurchase agreements.

Deposits from Customers

The following table sets forth, as of the dates indicated, the deposits from customers by product type and customer type.

	As of December 31,		As of September 30,	
	2012		2013	
	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)			
			(unaudited)	
Corporate deposits				
Time	476,737	33.4%	570,735	35.2%
Demand	397,626	27.9	377,831	23.3
Subtotal	874,363	61.3	948,566	58.5
Retail deposits				
Time	127,378	8.9	132,361	8.2
Demand[1]	157,302	11.0	191,487	11.8
Subtotal	284,680	19.9	323,848	20.0
Pledged deposits				
Corporate	221,143	15.5	244,169	15.0
Retail	819	0.1	2,316	0.1
Subtotal	221,962	15.6	246,485	15.1
Funds deposited with us for remittance[2]	3,319	0.2	2,829	0.2
Structured deposits				
Corporate	14,103	1.0	24,797	1.5
Retail	28,514	2.0	75,582	4.7
Subtotal	42,617	3.0	100,379	6.2
Total deposits from customers	**1,426,941**	**100.0%**	**1,622,107**	**100.0%**

Notes:

(1) Retail demand deposits as of December 31, 2012 included liabilities under principal-guaranteed wealth management products.

(2) Consist of only corporate deposits.

Our total deposits from customers increased by 13.7% to RMB1,622,107 million as of September 30, 2013 from RMB1,426,941 million as of December 31, 2012, primarily due to the increases in our corporate deposits, retail deposits, pledged deposits and structured deposits.

Our corporate deposits increased by 8.5% to RMB948,566 million as of September 30, 2013 from RMB874,363 million as of December 31, 2012, primarily due (i) our on-going efforts to grow corporate deposits by way of product innovation, (ii) our expanded branch network and improved customer service to attract and maintain our corporate customers and (iii) our enhanced marketing efforts to our key corporate customers. Our retail deposits increased by 13.8% to RMB323,848 million as of September 30, 2013 from RMB284,680 million as of December 31, 2012, primarily due to (i) our efforts in product innovation and cross-selling with our wealth management, credit card and retail loan products, which resulted in the expansion of the customer base of our retail deposits, and (ii) the enhancement of our distribution channels, including the expansion of our branch network and our electronic banking system. Our pledged deposits increased by 11.0% to RMB246,485 million as of September 30, 2013 from RMB221,962 million as of December 31, 2012, primarily due to an increase in the scale of our bank acceptance bills business. Our structured deposits increased by 135.5% to RMB100,379 million as of September 30, 2013 from RMB42,617 million as of December 31, 2012, primarily due to (i) increasing market demands for such products, and (ii) our strategy to promote structured wealth management products.

The following discussion and analysis should be read in conjunction with the Accountants' Report in Appendix I, the Unaudited Interim Financial Information in Appendix II, the Unaudited Supplementary Financial Information in Appendix III and the Unaudited Pro Forma Financial Information in Appendix IV, in each case together with the accompanying notes. Our consolidated financial statements and notes as of and for the years ended December 31, 2010, 2011 and 2012 and as of and for the six months ended June 30, 2013, have been audited and prepared in accordance with IFRS and are included in Appendix I. The Unaudited Interim Financial Information has also been prepared in accordance with IFRS.

The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. Our actual results may differ from those anticipated in these forward-looking statements as a result of any number of factors, including those set forth in the sections headed "Forward-Looking Statements" and "Risk Factors." Capital adequacy ratios discussed in this section are calculated in accordance with applicable CBRC guidelines.

OVERVIEW

We are a National Joint Stock Commercial Bank committed to establishing ourselves as one of the most innovative commercial banks in China. As of December 31, 2010, 2011 and 2012 and June 30, 2013, (i) our total assets were RMB1,484.0 billion, RMB1,733.3 billion, RMB2,279.3 billion and RMB2,471.2 billion, respectively; (ii) our total loans and advances to customers were RMB778.8 billion, RMB889.8 billion, RMB1,023.2 billion, and RMB1,104.6 billion, respectively; and (iii) our total deposits from customers were RMB1,063.2 billion, RMB1,225.3 billion, RMB1,426.9 billion and RMB1,554.7 billion, respectively. For the years ended December 31, 2010, 2011 and 2012 and for the six months ended June 30, 2013, our net profit was RMB12,794 million, RMB18,085 million, RMB23,620 million and RMB14,939 million, respectively. From 2010 to 2012, our total assets, total loans and advances to customers, total deposits from customers and net profit grew at a CAGR of 23.9%, 14.6%, 15.9% and 35.9%, respectively.

GENERAL FACTORS AFFECTING OUR RESULTS OF OPERATIONS

China's Economic Conditions

Our results of operations and financial condition are significantly affected by China's economic conditions and the economic measures undertaken by the PRC government. China has experienced rapid economic growth over the past three decades. From 2007 to 2012, China's nominal GDP grew at a CAGR of 14.3%, and fixed asset investments increased at a CAGR of 22.3%, according to the NBSC. In addition, total RMB-denominated loans and deposits increased at a CAGR of 19.2% and 18.7%, respectively, from 2007 to 2012, according to data from the PBOC. The growth of China's economy has led to increased corporate activities as well as significant increases in personal wealth, with per capita annual disposable income of urban residents increasing at a CAGR of 12.3%, from 2007 to 2012, according to the NBSC. Increased levels of corporate activities and personal wealth have generally led to a rapid growth in the banking business in China.

In recent years, the PRC government has implemented a series of macroeconomic and monetary policies, including, among others, adjusting the benchmark interest rate and the required deposit reserve ratio applicable to commercial banks, imposing lending limits on commercial banks that had the effect of restricting loan growth, imposing restrictions on residential mortgage loans and loans to property developers to cool down the overheating of the property market and promulgating industry development guidelines to promote growth in certain industries or control the overheating and over-capacity in certain other industries. These macroeconomic and monetary policies have a significant impact on our lending activities, business growth, results of operations and financial condition.

Bank lending in China grew at a high rate in 2010, 2011 and 2012. According to the PBOC, China's broad money supply (M2) increased by 14.4% in 2012 and loan balances of financial institutions increased by RMB9.1 trillion to RMB67.3 trillion in the same year. The overall increase in bank loans has imposed strains on the capital adequacy levels of many banks. Increased lending also requires PRC banks to make additional allowance for loan losses and gives rise to a need to further strengthen risk management. Since the second half of 2008, in response to the global financial crisis and economic slowdown, the PRC government has moderately loosened monetary policies which resulted in the narrowing interest spread and, in turn, depressed the net interest margin of many banks, including us. Partly driven by the improving general economic condition and increased liquidity, China's capital markets have gradually picked up since the second half of 2010, although significant price fluctuations continue to exert pressures on the sustainability of the recovery of China's capital markets. From October 2010 to July 2011, the PRC government tightened liquidity through multiple increases of the PBOC benchmark interest rate and the required deposit reserve ratio for banks. China has experienced a slowdown in overall economic growth since October 2011, partly due to the European sovereign debt crisis. In response to the changing economic conditions, the PBOC has recently made further adjustments to monetary policies and lowered the required deposit reserve ratio and the PBOC benchmark interest rate multiple times from February 2012 to July 2012.

Interest Rate Environment

Our results of operations depend to a large extent on our net interest income. For the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, our net interest income accounted for 85.2%, 85.4%, 83.7% and 77.0% of our total operating income, respectively. Historically, interest rates on deposits and loans were subject to strict restrictions established by the PBOC. In recent years, as part of the overall reform of the banking system, the PBOC has implemented a series of initiatives designed to gradually liberalize inter-bank market interest rates, bond market interest rates and interest rates of foreign currency deposits, as well as lowered the interest rate floor of RMB-denominated loans and raised the interest rate ceiling of RMB-denominated deposits. In early 2007, the SHIBOR announced by the National Interbank Funding Center officially commenced operation, and a market interest rate system based on SHIBOR is taking shape gradually.

The PBOC has gradually increased the use of market-oriented interest rate policy to regulate the market, including raising the benchmark RMB lending rates for financial institutions nine consecutive times and benchmark RMB deposit rates for financial institutions eight consecutive times from October 2004 to December 2007, and, subsequently, based on changes in the macroeconomic conditions, significantly lowering the benchmark RMB deposit and lending rates for financial institutions several times in the second half of 2008. In recent years, the PBOC has adjusted the benchmark interest rate several times. From October 2010 to July 2011, the PBOC increased the benchmark interest rates for one-year deposits and loans five times to 3.50% and 6.56%, respectively. During June and July 2012, the PBOC lowered the benchmark interest rates for one-year deposits and loans twice to 3.00% and 6.00%, respectively. The PBOC has also recently liberalized the interest rate restrictions on deposits and loans. Effective on June 8, 2012, the PBOC allows commercial banks to set deposit rates at up to 110% of the PBOC benchmark deposit interest rate. Effective on July 20, 2013, the PBOC removed the lower limit for new loans provided by commercial banks, except for new residential mortgage loans, for which the lower limit is set at 70% of the PBOC benchmark lending interest rate.

In October 2008, the PBOC also announced a policy to permit qualified residential mortgage loans to be priced below the applicable benchmark lending rates by up to 30%. On January 27, 2011, the State Council promulgated the Notice of the General Office of the State Council on Issues Concerning Further Regulating and Controlling of Real Estate Market (國務院辦公廳關於進一步做好房地產市場調控工作有關問題的通知), which requires a family purchasing a second residential property and any subsequent residential property to make a down payment of no less than 60% of the purchase price and the lending interest rate shall not be lower than 110% of the benchmark lending interest rates.

Going forward, the PBOC may further liberalize the existing interest rate regime on RMB-denominated loans and deposits. In this respect, we expect to face greater pricing pressure as compared to Large Commercial Banks. As the PRC government continues its policy of interest rate liberalization, we expect inter-bank competition to continue to play an increasingly important role in the pricing of interest rates, which may adversely affect our net interest income and results of operations.

Exchange Rate Environment

The value of Renminbi is influenced by the PRC's political and economic conditions. Since 1994, the conversion of Renminbi into foreign currencies, including Hong Kong dollars and U.S. dollars, has been based on rates set by the PBOC, and the PBOC determines the rate on a daily basis based on the inter-bank foreign exchange market rates of the preceding working day and the prevailing foreign exchange rates on the international financial market. From 1994 to July 20, 2005, the official exchange rate for the conversion of Renminbi to U.S. dollars was generally stable. On July 21, 2005, the PRC government permitted Renminbi to fluctuate within a monitored band based on market supply and demand and with reference to a basket of foreign currencies. From July 21, 2005 to December 31, 2012, the cumulative appreciation of Renminbi against the U.S. dollar was 32.3%. In June 2010, in view of economic and financial developments in China and abroad, particularly China's balance of payments situation, the PBOC decided to further reform the RMB exchange rate regime and increase the flexibility of the RMB exchange rate. In April 2012, the PBOC increased the daily floating range of the exchange rates of Renminbi against the U.S. dollar from 0.5% to 1%. If the Renminbi appreciates (or depreciates) against the U.S. dollar or other currencies, it may lead to foreign exchange losses (or gains) on our foreign currency-denominated assets and liabilities, respectively.

Changes in China's Regulatory Environment

Our business and results of operations are materially affected by changes in policies, laws and regulations relating to the PRC banking industry, including the extent to which we can engage in certain businesses, activities or charge fees. Commercial banks in China are mainly regulated by the PBOC and the CBRC. However, they are also subject to the supervision and regulation of other regulatory authorities including the SAFE, the CSRC and the CIRC. The PBOC is responsible for formulating and implementing monetary policies and the CBRC is responsible for supervising and regulating banking institutions. In addition to benchmark interest rates, the PBOC sets deposit reserve ratio requirements, extends loans and provides re-discounted bills to commercial banks and conducts open market operations, all of which affect liquidity and market interest rates.

In addition to requiring enhanced disclosure, improved corporate governance and more prudent scrutinization of assets, the CBRC has the authority to supervise capital measurement and capital adequacy of the PRC commercial banks. In December 2010, the Basel Committee officially issued Basel III. In light of the implications of Basel III, on April 27, 2011, the CBRC issued new guidelines setting more stringent capital adequacy, leverage, liquidity and loan loss provisioning requirements for PRC banks in accordance with the reform of China's banking industry and regulatory framework. On June 7, 2012, the CBRC further promulgated the Rules Governing Capital Management of Commercial Banks (Provisional) (商業銀行資本管理辦法(試行)), which became effective on January 1, 2013 and requires commercial banks to fulfill all relevant capital regulatory requirements by the end of 2018. In addition, on November 30, 2012, the CBRC released the Notification on Matters Related to the Implementation of the Rules Governing Capital

Management of Commercial Banks (Provisional) in Transitional Period (關於實施《商業銀行資本管理辦法(試行)》過渡期安排相關事項的通知). See "Supervision and Regulation – PRC Banking Supervision and Regulation – Supervision Over Capital Adequacy."

The PBOC and the CBRC have implemented a series of initiatives to gradually allow the development and introduction of new fee- and commission-based banking services and financial instruments that banks may offer or in which they may invest. For example, the PBOC and the CBRC have given approval for enterprises to issue commercial paper, thereby promoting the gradual development of such market. The discounted bills market has also grown rapidly in recent years. In addition, the developments in China's capital markets have also broadened the scope of our investable securities, such as corporate bonds and asset-backed securities, which generally offer higher yields than traditional investments, such as PBOC bills. The developments in China's capital markets have allowed us to expand our fee- and commission-based business, including underwriting commercial paper and wealth management services.

In addition, changes to tax laws and regulations may affect our tax expenses and results of operation.

The Competitive Landscape in China's Banking Industry

Market-oriented liberalization in recent years has led to an increased level of competition in China's banking industry. We face competition from other PRC commercial banks, including Large Commercial Banks, other National Joint Stock Commercial Banks and city commercial banks, as well as from rural financial institutions and foreign financial institutions. Many other PRC commercial banks compete with us in substantially the same markets for loans, deposits and fee- and commission-based products and services. Furthermore, following the lifting of regulatory restrictions on geographical presence, customer base and operating licenses of foreign banks in China in December 2006 as part of China's WTO accession commitments, we have experienced intensified competition from foreign banks operating in China. In addition, the Closer Economic Partnership Arrangement signed by the PRC and Hong Kong governments has eased certain restrictions on the banking businesses that Hong Kong banks can undertake in mainland China, including permitting Hong Kong banks to provide Renminbi banking services earlier than foreign banks. Greater participation by foreign banks will further increase competition in China's banking industry. The increased competition affects the pricing of our loans and deposits, as well as the pricing of and the income from our fee- and commission-based services.

We may also face competition for funding from other investment alternatives as China's capital markets continue to develop. For example, when China's stock markets experience a significant increase, the growth in our time deposits from customers may slow down, reflecting their preference for alternative investments to seek higher returns.

FINANCIAL DISCLOSURES AFTER GLOBAL OFFERING

As a company with A Shares listed on the Shanghai Stock Exchange, we are required to publish quarterly financial information. We confirm that our quarterly financial information (in both English and Chinese) will also be released in Hong Kong simultaneously pursuant to Rule 13.10B of the Listing Rules subsequent to our listing on the Hong Kong Stock Exchange. Subsequent to our listing on the Hong Kong Stock Exchange, we will simultaneously publish annual, interim and quarterly financial information under PRC GAAP for A Share disclosure purposes and under IFRS for H Share disclosure purposes.

RESULTS OF OPERATIONS

The following table sets forth, for the periods indicated, our condensed results of operations.

	For the year ended December 31,			For the six months ended June 30,	
	2010	2011	2012	2012	2013
				(unaudited)	
	(in millions of RMB)				
Interest income	54,156	77,884	103,971	50,736	58,368
Interest expense	(23,733)	(38,444)	(53,708)	(25,428)	(32,314)
Net interest income	30,423	39,440	50,263	25,308	26,054
Fee and commission income	5,081	7,381	9,994	5,163	7,666
Fee and commission expense	(372)	(408)	(515)	(225)	(317)
Net fee and commission income	4,709	6,973	9,479	4,938	7,349
Other net income/(loss)[1]	596	(215)	328	285	435
Operating income	35,728	46,198	60,070	30,531	33,838
Operating expenses[2]	(15,126)	(18,289)	(22,685)	(10,802)	(12,160)
Impairment losses on assets	(3,491)	(3,698)	(5,795)	(2,439)	(2,250)
Profit before tax	17,111	24,211	31,590	17,290	19,428
Income tax	(4,317)	(6,126)	(7,970)	(4,354)	(4,489)
Net profit	**12,794**	**18,085**	**23,620**	**12,936**	**14,939**

Notes:

(1) Consists of net trading gain/(loss), net gain/(loss) arising from investment securities, net foreign exchange gain/(loss), dividend income and other operating income.

(2) Consist of staff costs, other general and administrative expenses, business tax and surcharges, depreciation and amortization as well as rental and property management expenses.

Our net profit increased by 15.5% to RMB14,939 million for the six months ended June 30, 2013 compared to RMB12,936 million for the six months ended June 30, 2012, primarily due to increases in interest income and net fee and commission income, partially offset by increases in our interest expense and operating expenses.

Our net profit increased by 30.6% to RMB23,620 million for the year ended December 31, 2012 compared to RMB18,085 million for the year ended December 31, 2011, primarily due to increases in our interest income, net fee and commission income and other net income, partially offset by increases in our interest expense, operating expenses, impairment losses on assets and income tax.

Our net profit increased by 41.4% to RMB18,085 million for the year ended December 31, 2011 compared to RMB12,794 million for the year ended December 31, 2010, primarily due to increases in interest income and net fee and commission income, partially offset by increases in our interest expense, operating expenses, income tax and impairment losses on assets, as well as other net loss incurred in the year ended December 31, 2011.

Six Months Ended June 30, 2012 Compared to Six Months Ended June 30, 2013

Net Interest Income

Net interest income is the largest component of our operating income, representing 82.9% and 77.0% of our operating income for the six months ended June 30, 2012 and 2013, respectively.

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

	For the six months ended June 30,	
	2012	2013
	(unaudited)	
	(in millions of RMB)	
Interest income	50,736	58,368
Interest expense	(25,428)	(32,314)
Net interest income	**25,308**	**26,054**

Our net interest income increased by 2.9% to RMB26,054 million for the six months ended June 30, 2013 compared to RMB25,308 million for the six months ended June 30, 2012, as a result of a 15.0% increase in our interest income to RMB58,368 million for the six months ended June 30, 2013 compared to RMB50,736 million for the six months ended June 30, 2012, partially offset by a 27.1% increase in our interest expense to RMB32,314 million for the six months ended June 30, 2013 compared to RMB25,428 million for the six months ended June 30, 2012.

The following table sets forth, for the periods indicated, the average balances of our assets and liabilities, the related interest income or expense and average yields (for assets) or average costs (for liabilities). The average balances of interest-earning assets and interest-bearing liabilities are the average of the daily balances. The average balances of non-interest earning assets, non-interest bearing liabilities and the allowance for impairment losses are the average of the balances at January 1 and June 30 for the periods indicated.

	For the six months ended June 30,					
	2012			2013		
	Average balance(7)	Interest income	Average yield(8)	Average balance(7)	Interest income	Average yield(8)
		(unaudited)				
	(in millions of RMB, except percentages)					
Assets						
Loans and advances to customers	942,023	32,008	6.80%	1,102,439	34,120	6.19%
Debt securities investments(1)	225,961	4,953	4.38	544,907	13,585	4.99
Deposits with the central bank(2)	250,469	1,830	1.46	297,802	2,193	1.47
Deposits with banks and other financial institutions	59,398	1,458	4.91	34,671	431	2.49
Financial assets held under resale agreements and placements with banks and other financial institutions	382,522	10,487	5.48	358,041	8,039	4.49
Total interest-earning assets	**1,860,373**	**50,736**	**5.45%**	**2,337,860**	**58,368**	**4.99%**
Allowance for impairment losses	(28,143)			(31,964)		
Non-interest earning assets(3)	123,341			148,471		
Total assets	**1,955,571**	**50,736**		**2,454,367**	**58,368**	

	For the six months ended June 30,					
	2012			2013		
	Average balance(7)	Interest expense	Average cost(8)	Average balance(7)	Interest expense	Average cost(8)
		(unaudited)				
	(in millions of RMB, except percentages)					
Liabilities						
Deposits from customers(4)	1,230,375	15,288	2.49%	1,459,533	17,621	2.41%
Deposits from banks and other financial institutions	356,051	7,655	4.30	568,915	11,744	4.13
Financial assets sold under repurchase agreements and placements from banks and other financial institutions	109,949	1,958	3.56	111,837	1,763	3.15
Debt securities issued	32,341	734	4.54	50,512	1,140	4.51
Total interest-bearing liabilities	**1,728,716**	**25,635**	**2.97%**	**2,190,797**	**32,268**	**2.95%**
Fair value change of structured deposits		(207)			46	
Non-interest-bearing liabilities	60,736			64,216		
Total liabilities	**1,789,452**	**25,428**		**2,255,013**	**32,314**	
Net interest income		**25,308**			**26,054**	
Net interest spread(5)		**2.48%**			**2.04%**	
Net interest margin(6)		**2.70%**			**2.23%**	

Notes:

(1) Consist of available-for-sale debt securities, held-to-maturity debt securities, debt securities held for trading and debt securities classified as receivables.

(2) Primarily consist of required deposit reserves and surplus deposit reserves.

(3) Consist of cash, positive fair value of derivatives, assets held for wealth management, interest receivable and other assets.

(4) Consist of corporate deposits, retail deposits and structured deposits.

(5) Calculated as the difference between the average yield on total interest-earning assets (calculated on an annualized basis) and the average cost of total interest-bearing liabilities (calculated on an annualized basis).

(6) Calculated by dividing net interest income (including the impact of fair value change of structured deposits) by the average balance of total interest-earning assets on an annualized basis.

(7) Represents the average of the daily balances during the period.

(8) Calculated on an annualized basis.

The following table sets forth, for the periods indicated, the changes in our interest income and interest expense allocated to various categories of assets or liabilities and the contributions to such changes from change in volume and change in rate within each asset or liability category. The contribution from change in volume is measured by multiplying the difference between the average balance of the relevant assets or liabilities for the current period and the average balance of the relevant assets or liabilities for the previous period by the average yield/cost for the relevant period. The contribution from changes in rate is measured by multiplying the difference between the average yield/cost for the current period and the average yield/cost for the previous period by the average balance of the relevant assets or liabilities for the previous period.

	Changes in interest income and interest expense for the six months ended June 30,		
	2013 vs. 2012		
	Increase/(decrease) due to changes in		
	Volume[(1)]	Rate[(2)]	Net increase/ (decrease)[(3)]
	(in millions of RMB)		
Assets			
Loans and advances to customers	4,965	(2,853)	2,112
Debt securities investments	7,952	680	8,632
Deposits with the central bank	349	14	363
Deposits with banks and other financial institutions	(307)	(720)	(1,027)
Financial assets held under resale agreements and placements with banks and other financial institutions	(550)	(1,898)	(2,448)
Changes in interest income	**12,409**	**(4,777)**	**7,632**
Liabilities			
Deposits from customers	2,871	(538)	2,333
Deposits from banks and other financial institutions	4,394	(305)	4,089
Financial assets sold under repurchase agreements and placements from banks and other financial institutions	30	(225)	(195)
Debt securities issued	410	(4)	406
Sub-total	7,705	(1,072)	6,633
Fair value change of structured deposits			253
Changes in interest expense			**6,886**

Notes:

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

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

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

Interest Income

Our interest income increased by 15.0% to RMB58,368 million for the six months ended June 30, 2013 compared to RMB50,736 million for the six months ended June 30, 2012, primarily due to an increase of 25.7% in the average balance of our interest-earning assets to RMB2,337,860 million for the six months ended June 30, 2013 compared to RMB1,860,373 million for the six months ended June 30, 2012, partially offset by the decrease in the average yield of our total interest-bearing assets to 4.99% for the six months ended June 30, 2013 compared to 5.45% for the six months ended June 30, 2012. The increase in the average balance of our interest-earning assets was primarily due to an increase in the average balance of (i) our debt securities investments, (ii) our loans and advances to customers, and (iii) our deposits with the central bank. The increase in the average balance of our interest-earning assets was partially offset by a decrease in the average balance of (i) financial assets held under resale agreements and placements with banks and other financial institutions and (ii) our deposits with banks and other financial institutions. The decrease in the average yield on our interest-earning assets was primarily due to decreases in the average yield of (i) our loans and advances to customers, (ii) our deposits with banks and other financial institutions, and (iii) our financial assets held under resale agreements and placements with banks and other financial institutions.

Interest Income from Loans and Advances to Customers

Interest income from loans and advances to customers is the largest component of our interest income, representing 63.1% and 58.5% of our interest income for the six months ended June 30, 2012 and 2013, respectively.

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

	For the six months ended June 30,					
	2012			2013		
	Average balance(1)	Interest income	Average yield(2)	Average balance(1)	Interest income	Average yield(2)
		(unaudited)				
	(in millions of RMB, except percentages)					
Corporate loans	673,470	23,085	6.86%	734,535	23,040	6.27%
Retail loans	245,231	7,740	6.31	341,266	10,259	6.01
Discounted bills	23,322	1,183	10.14	26,638	821	6.16
Total loans and advances to customers	**942,023**	**32,008**	**6.80%**	**1,102,439**	**34,120**	**6.19%**

Notes:

(1) Represents the average of the daily balances during the period.

(2) Calculated on an annualized basis.

Interest income from loans and advances to customers increased by 6.6% to RMB34,120 million for the six months ended June 30, 2013 compared to RMB32,008 million for the six months ended June 30, 2012, primarily as a result of an increase in the average balance to RMB1,102,439 million for the six months ended June 30, 2013 compared to RMB942,023 million for the six months ended June 30, 2012, partially offset by the decrease in the average yield of our total loans and advances to customers to 6.19% for the six months ended June 30, 2013 compared to 6.80% for the six months ended June 30, 2012. The increase in the average balance of our loans and advances to customers was primarily due to our continued business expansion. The decrease in the average yield on our loans and advances to customers was primarily due to the decrease in the average yields of our corporate loans, retail loans and discounted bills.

The largest component of our interest income from loans and advances to customers is the interest income from our corporate loans, representing 72.1% and 67.5% of our total interest income from loans and advances to customers for the six months ended June 30, 2012 and 2013, respectively.

Interest income from corporate loans remained relatively stable at RMB23,040 million for the six months ended June 30, 2013 compared to RMB23,085 million for the six months ended June 30, 2012. The average balance increased by 9.1% to RMB734,535 million for the six months ended June 30, 2013 from RMB673,470 million for the six months ended June 30, 2012, reflecting the overall expansion of our corporate banking business. Such increase in the average balance was offset by a decrease in the average yield to 6.27% for the six months ended June 30, 2013 compared to 6.86% for the six months ended June 30, 2012, primarily due to the impact of two consecutive decreases in the PBOC benchmark interest rates since the second half of 2012.

Interest income from our retail loans increased by 32.5% to RMB10,259 million for the six months ended June 30, 2013 compared to RMB7,740 million for the six months ended June 30, 2012, primarily due to an increase of 39.2% in the average balance to RMB341,266 million for the six months ended June 30, 2013 compared to RMB245,231 million for the six months ended June 30, 2012. The increase in the average balance reflected the overall expansion of our retail banking business. The decrease in the average yield on retail loans was primarily due to the impact of two consecutive decreases in the PBOC benchmark interest rates since the second half of 2012.

Interest income from discounted bills decreased by 30.6% to RMB821 million for the six months ended June 30, 2013 compared to RMB1,183 million for the six months ended June 30, 2012, primarily due to a decrease in the average yield, partially offset by an increase in the average balance. The average balance of discounted bills increased by 14.2% to RMB26,638 million for the six months ended June 30, 2013 from RMB23,322 million for the six months ended June 30, 2012, primarily due to the expansion of our business. The average yield on discounted bills decreased to 6.16% for the six months ended June 30, 2013 compared to 10.14% for the six months ended June 30, 2012, primarily due to an increase in the proportion of short term discounted bills, which have greater liquidity and carry lower yields.

Interest Income from Debt Securities Investments

Interest income from debt securities investments represented 9.8% and 23.3% of our total interest income for the six months ended June 30, 2012 and 2013, respectively.

Interest income from debt securities investments increased significantly by 174.3% to RMB13,585 million for the six months ended June 30, 2013 compared to RMB4,953 million for the six months ended June 30, 2012, primarily due to an increase in the average balance on our debt securities investments to RMB544,907 million for the six months ended June 30, 2013 compared to RMB225,961 million for the six months ended June 30, 2012. The increase in the average balance was primarily due to the adjustment of our investment portfolios to allocate our fund resources to debt securities with higher yields, including debt securities classified as receivables.

Interest Income from Deposits with the Central Bank

Our interest-earning deposits with the central bank primarily consist of required deposit reserves and surplus deposit reserves with the PBOC. Required deposit reserves represent the minimum level of cash deposits with the PBOC which we are required to maintain, calculated as a percentage of the balance of our total deposits from customers. Surplus deposit reserves are the deposits with the PBOC in excess of required deposit reserves.

Interest income from deposits with the central bank increased by 19.8% to RMB2,193 million for the six months ended June 30, 2013 compared to RMB1,830 million for the six months ended June 30, 2012, primarily due to an increase in the average balance by 18.9% to RMB297,802 million for the six months ended June 30, 2013 compared to RMB250,469 million for the six months ended June 30, 2012. The increase in the average balance was primarily due to an increase in our required deposit reserves, reflecting an increase in our deposits from customers.

Interest Income from Deposits with Banks and other Financial Institutions

Interest income from deposits with banks and other financial institutions decreased significantly by 70.4% to RMB431 million for the six months ended June 30, 2013 compared to RMB1,458 million for the six months ended June 30, 2012, primarily due to (i) a decrease in the average yield to 2.49% for six months ended June 30, 2013 compared to 4.91% for the six months ended June 30, 2012 and (ii) a decrease in the average balance to RMB34,671 million for six months ended June 30, 2013 compared to RMB59,398 million for the six months ended June 30, 2012. The decrease in the average yield of deposits with banks and other financial institutions was primarily due to a decrease in the PRC inter-bank money market interest rate in 2013 as a result of two consecutive decreases in the PBOC benchmark interest rate since the second half of 2012 and a decrease in the required reserve ratio. The decrease in the average balance was primarily due to the reallocation of our fund resources to products with higher yields while meeting our liquidity needs.

Interest Income from Financial Assets Held under Resale Agreements and Placements with Banks and other Financial Institutions

For the six months ended June 30, 2012 and 2013, interest income from financial assets held under resale agreements and placements with banks and other financial institutions represented 20.7% and 13.8% of our total interest income, respectively.

Interest income from financial assets held under resale agreements and placements with banks and other financial institutions decreased by 23.3% to RMB8,039 million for the six months ended June 30, 2013 compared to RMB10,487 million for the six months ended June 30, 2012, primarily due to (i) a decrease in the average yield to 4.49% for the six months ended June 30, 2013 compared to 5.48% for the six months ended June 30, 2012 and (ii) a decrease in the average balance to RMB358,041 million for six months ended June 30, 2013 compared to RMB382,522 million for the six months ended June 30, 2012. The decrease in the average yield on financial assets held under resale agreements and placements with banks and other financial institutions was primarily due to a lower inter-bank money market interest rate as a result of the two consecutive downward adjustments of the benchmark interest rate by the PBOC in 2012 and a decrease in the required reserve ratio. The decrease in average balance of financial assets held under resale agreements and placements with banks and other financial institutions was primarily due to the adjustment of our asset structure.

Interest Expense

Interest expense increased by 27.1% to RMB32,314 million for the six months ended June 30, 2013 compared to RMB25,428 million for the six months ended June 30, 2012, primarily due to a 26.7% increase in the average balance of interest-bearing liabilities, partially offset by a decrease in the average cost of interest-bearing liabilities to 2.95% for the six months ended June 30, 2013 compared to 2.97% for the six months ended June 30, 2012. The decrease in the average cost on our interest-bearing liabilities was primarily due to the decreases in the average cost of deposits from customers, the average cost of deposits from banks and other financial institutions, the average cost of financial assets sold under repurchase agreements and placements from banks and other financial institutions, and the average cost of debt securities issued.

Interest Expense on Deposits from Customers

Interest expense on deposits from customers (including structured deposits) represented 60.1% and 54.5% of our total interest expense for the six months ended June 30, 2012 and 2013, respectively.

The following table sets forth, for the periods indicated, the average balance, interest expense and average cost for our corporate deposits, retail deposits and structured deposits by product type.

	For the six months ended June 30,					
	2012			2013		
	Average balance(1)	Interest expense	Average cost(2)	Average balance(1)	Interest expense	Average cost(2)
	(unaudited)					
	(in millions of RMB, except percentages)					
Corporate deposits						
Time	582,696	10,662	3.66%	697,691	11,878	3.40%
Demand	396,441	1,575	0.79	422,868	1,465	0.69
Subtotal	979,137	12,237	2.50	1,120,559	13,343	2.38
Retail deposits						
Time	113,078	1,742	3.08	136,508	2,237	3.28
Demand	66,108	182	0.55	83,518	203	0.49
Subtotal	179,186	1,924	2.15	220,026	2,440	2.22
Structured deposits(3)						
Corporate	18,887	294	3.11	33,430	649	3.88
Retail	53,165	833	3.13	85,518	1,189	2.78
Subtotal	72,052	1,127	3.13	118,948	1,838	3.09
Total deposits from customers	**1,230,375**	**15,288**	**2.49%**	**1,459,533**	**17,621**	**2.41%**

Notes:

(1) Represents the average of the daily balances during the period.

(2) Calculated on an annualized basis.

(3) Structured deposits are all time deposits.

The largest component of our interest expense on deposits from customers has been interest expense on corporate deposits, representing 80.0% and 75.7% of our total interest expense on deposits from customers for the six months ended June 30, 2012 and 2013, respectively.

Interest expense on total deposits from customers increased by 15.3% to RMB17,621 million for the six months ended June 30, 2013 compared to RMB15,288 million for the six months ended June 30, 2012, primarily due to an increase of 18.6% in the average balance which was partially offset by a decrease of eight basis points in the average cost. The increase in the average balance was primarily due to our marketing efforts to attract corporate and retail deposits. The decrease in the average cost was primarily due to the impact of two consecutive decreases in the PBOC benchmark interest rate since the second half of 2012.

Interest expense on corporate deposits increased by 9.0% to RMB13,343 million for the six months ended June 30, 2013 compared to RMB12,237 million for the six months ended June 30, 2012, primarily due to an increase in the average balance by 14.4% to RMB1,120,559 million for the six months ended June 30, 2013 compared to RMB979,137 million for the six months ended June 30, 2012, which was partially offset by a decrease of 12 basis points in the average cost. The increase in the average balance was primarily due to our marketing efforts to attract corporate deposits. The decrease in the average cost of our corporate deposits was primarily due to the impact of two consecutive decreases in the PBOC benchmark interest rates since the second half of 2012.

Interest expense on retail deposits increased by 26.8% to RMB2,440 million for the six months ended June 30, 2013 compared to RMB1,924 million for the six months ended June 30, 2012, primarily due to (i) an increase in the average balance by 22.8% to RMB220,026 million for the six months ended June 30, 2013 compared to RMB179,186 million for the six months ended June 30, 2012, and (ii) an increase in the average cost to 2.22% for the six months ended June 30, 2013 compared to 2.15% for the six months ended June 30, 2012. The increase in the average balance was primarily due to our business expansion in the retail sector. The increase in the average cost was primarily because (i) the PBOC raised the interest rate ceiling of deposits in 2012 and (ii) the average balance of retail time deposits, which have a higher average cost than retail demand deposits, increased by 20.7% to RMB136,508 million for the six months ended June 30, 2013 from RMB113,078 million for the six months ended June 30, 2012.

Our structured deposits refer to structured wealth management products, each of which consists of a time deposit and a derivative transaction. Interest expense on structured deposits significantly increased by 63.1% to RMB1,838 million for the six months ended June 30, 2013 compared to RMB1,127 million for the six months ended June 30, 2012, primarily due to an increase in the average balance by 65.1% to RMB118,948 million for the six months ended June 30, 2013 compared to RMB72,052 million for the six months ended June 30, 2012, which was partially offset by a decrease in the average cost to 3.09% for the six months ended June 30, 2013 compared to 3.13% for the six months ended June 30, 2012. The increase in the average balance of our structured deposits was primarily due to (i) the increased market demand for such products and (ii) our enhanced marketing efforts for structured deposits, with the aim of obtaining more high net-worth customers. The decrease in the average cost of our structured deposits was primarily due to the impact of the overall decrease in market interest rates.

Interest Expense on Deposits from Banks and Other Financial Institutions

Interest expense on deposits from banks and other financial institutions increased by 53.4% to RMB11,744 million for the six months ended June 30, 2013 compared to RMB7,655 million for the six months ended June 30, 2012, primarily due to an increase in the average balance by 59.8% to RMB568,915 million for the six months ended June 30, 2013 compared to RMB356,051 million for the six months ended June 30, 2012, which was partially offset by a decrease of 17 basis points in the average cost. The increase in the average balance of our deposits from banks and other financial institutions was primarily due to the expansion of our inter-bank business operations. The decrease in the average cost of our deposits from banks and other financial institutions was primarily due to a decrease in the interest rate of the PRC inter-bank money market.

Interest Expense on Financial Assets Sold under Repurchase Agreements and Placements from Banks and Other Financial Institutions

Interest expense on financial assets sold under repurchase agreements and placements from banks and other financial institutions decreased by 10.0% to RMB1,763 million for the six months ended June 30, 2013 compared to RMB1,958 million for the six months ended June 30, 2012, primarily due to a decrease in the average cost to 3.15% for the six months ended June 30, 2013 compared to 3.56% for the six months ended June 30, 2012, which was partially offset by an increase in the average balance.

The decrease in the average cost of our financial assets sold under repurchase agreements and placements from banks and other financial institutions was primarily due to a decrease in the interest rate of the PRC inter-bank money market. The increase in the average balance of our financial assets sold under repurchase agreements and placements from banks and other financial institutions was primarily due to the expansion of operations of our financial assets sold under repurchase agreements and placements from banks and other financial institutions.

Net Interest Spread and Net Interest Margin

Net interest spread is the difference between the average yield on interest-earning assets and the average cost on interest-bearing liabilities. Net interest margin (which is calculated on an annualized basis) is the ratio of net interest income (including the impact of fair value change of structured deposits) to the average balance of total interest-earning assets.

Our net interest spread decreased to 2.04% for the six months ended June 30, 2013 compared to 2.48% for the six months ended June 30, 2012, primarily due to a decrease of 46 basis points in the average yield on our interest-earning assets to 4.99% for the six months ended June 30, 2013 compared to 5.45% for the six months ended June 30, 2012, partially offset by a decrease of 2 basis points in the average cost of our interest-bearing liabilities to 2.95% for the six months ended June 30, 2013 compared to 2.97% for the six months ended June 30, 2012.

Our net interest margin decreased by 47 basis points to 2.23% for the six months ended June 30, 2013 compared to 2.70% for the six months ended June 30, 2012, because while our net interest income increased by 2.9%, the average balance of our interest-earning assets increased at a greater rate by 25.7% for the six months ended June 30, 2013 compared to the six months ended June 30, 2012.

The decrease in our net interest spread was primarily due to declines in the average yields on our loans and other financial assets, accompanied by the stable average costs of our interest-bearing liabilities. The decrease in our net interest margin was primarily due to lesser growth in our net interest income as compared to the growth in our average balance of interest-earning assets.

Net Fee and Commission Income

Net fee and commission income represented 16.2% and 21.7% of our total operating income for the six months ended June 30, 2012 and 2013, respectively. The following table sets forth, for the periods indicated, the principal components of our net fee and commission income.

	For the six months ended June 30,	
	2012	**2013**
	(unaudited)	
	(in millions of RMB)	
Fee and commission income		
Bank card service fees	1,784	3,200
Settlement and clearing fees	869	850
Underwriting and advisory fees	904	1,152
Wealth management service fees	519	1,174
Agency service fees	350	303
Acceptance and guarantee fees	321	432
Custody and other fiduciary business fees	280	388
Others[(1)]	136	167
Subtotal	5,163	7,666
Fee and commission expenses	**(225)**	**(317)**
Net fee and commission income	**4,938**	**7,349**

Note:

(1) Primarily consist of management fees from trade finance limits and fees from leasing business.

Our net fee and commission income increased by 48.8% to RMB7,349 million for the six months ended June 30, 2013 compared to RMB4,938 million for the six months ended June 30, 2012, primarily due to the increases in bank card service fees, wealth management service fees, and underwriting and advisory fees.

Bank Card Service Fees

Bank card service fees primarily consist of annual fees and transaction fees on our credit cards. Bank card service fees increased by 79.4% to RMB3,200 million for the six months ended June 30, 2013 compared to RMB1,784 million for the six months ended June 30, 2012, primarily due to an increase in transaction fees received from our credit card holders as a result of (i) our increased focus on products with higher yield and (ii) increases in the number of credit cards issued by us and the transaction volume of our credit card holders.

Settlement and Clearing Fees

Settlement and clearing fees primarily consist of fees earned on settlement and clearing services in respect of bank drafts, commercial drafts, promissory notes and checks, as well as fees earned on money transfers and clearing services. Settlement and clearing fees decreased by 2.2% to RMB850 million for the six months ended June 30, 2013 compared to RMB869 million for the six months ended June 30, 2012, primarily due to decreases in our factoring fees and domestic trading and financial settlement fees.

Underwriting and Advisory Fees

Underwriting and advisory fees primarily consist of fees earned on the underwriting of securities (such as short-term commercial paper and medium-term notes) and our financial advisory services for customers. Underwriting and advisory fees increased by 27.4% to RMB1,152 million for the six months ended June 30, 2013 compared to RMB904 million for the six months ended June 30, 2012, primarily due to the growth in fees from our short-term commercial paper business and the continued strengthening of our cooperation with companies in other industries, including finance leasing, trusts, automobile financing and other banking institutions.

Wealth Management Service Fees

Wealth management service fees primarily consist of fees earned on the sales and management of the Sunshine Wealth Management (陽光理財) products. Wealth management service fees increased significantly by 126.2% to RMB1,174 million for the six months ended June 30, 2013 compared to RMB519 million for the six months ended June 30, 2012, primarily due to the growth of our wealth management business.

Agency Service Fees

Agency service fees primarily consist of fees earned on our agency services in connection with distribution of insurance, mutual fund products, trust business, agency trading of gold and other agency service fees, which include commissions from trading debt securities on behalf of our corporate customers. Agency service fees decreased by 13.4% to RMB303 million for the six months ended June 30, 2013 compared to RMB350 million for the six months ended June 30, 2012, primarily due to agency service fees recognized for the six months ended June 30, 2012 for a service provided to a government institution.

Acceptance and Guarantee Fees

Acceptance and guarantee fees primarily consist of fees from issuing recourse and non-recourse credit commitments. Acceptance and guarantee fees increased by 34.6% to RMB432 million for the six months ended June 30, 2013 compared to RMB321 million for the six months ended June 30, 2012, primarily due to the growth of our bank acceptance bills business.

Custody and Other Fiduciary Business Fees

Custody and other fiduciary business fees primarily consist of custodian fees or asset management fees collected on securities investment funds, securities companies' collective asset management plans, wealth management for banks, trust property, debt securities and enterprise annuity funds, all of which are under our custody or supervision and our other fiduciary services. Custody and other fiduciary business fees increased by 38.6% to RMB388 million for the six months ended June 30, 2013 compared to RMB280 million for the six months ended June 30, 2012, primarily due to the continued expansion of our custodian business.

Other Fees

Other fees primarily consist of management fees from our trade finance business and fees from our leasing business. Other fees increased by 22.8% to RMB167 million for the six months ended June 30, 2013 compared to RMB136 million for the six months ended June 30, 2012, primarily due to the increase in fees from our leasing business.

Fee and Commission Expenses

Fee and commission expenses primarily consist of fees paid to third parties in connection with our fee- and commission-based services that can be directly allocated to the provision of such services. Fee and commission expenses increased by 40.9% to RMB317 million for the six months ended June 30, 2013 compared to RMB225 million for the six months ended June 30, 2012, primarily due to the increase in bank card transaction fees resulting from inter-banking transactions.

Other Net Income

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

	For the six months ended June 30,	
	2012	2013
	(unaudited)	
	(in millions of RMB)	
Net gain arising from investment securities	29	121
Net trading gain	500	48
Net foreign exchange (loss)/gain	(350)	140
Other operating income	106	126
Total other net income	**285**	**435**

Other net income increased by 52.6% to RMB435 million for the six months ended June 30, 2013 compared to RMB285 million for the six months ended June 30, 2012, primarily due to (i) a net foreign exchange gain, as compared to a net loss for the six months ended June 30, 2012, and (ii) an increase in net gain arising from investment securities in the six months ended June 30, 2013, compared to the six months ended June 30, 2012, which was partially offset by a decrease in net trading gain.

Net Gain Arising from Investment Securities

Net gain arising from investment securities consists of net gains or losses on disposal of our available-for-sale financial assets, net revaluation gain/(loss) reclassified from other comprehensive income to profit or loss and net gain/(loss) on disposal of held-to-maturity investments. Net gain on investment securities increased significantly to RMB121 million for the six months ended June 30, 2013, compared to RMB29 million for the six months ended June 30, 2012. The increase in net gain from investment securities for the six months ended June 30, 2013 was primarily due to the gains from the disposal of available-for-sale bonds.

Net Trading Gain

Net trading gain consists of net realized and unrealized gains or losses on our debt financial instruments and derivative financial instruments held for trading purposes and financial instruments designated at fair value through profit or loss. We recorded a net trading gain of RMB48 million for the six months ended June 30, 2013, whereas we recorded a net trading gain of RMB500 million for the six months ended June 30, 2012. The decrease in net trading gain for the six months ended June 30, 2013 was primarily due to the depreciation of the U.S. dollar in the second quarter of 2013 and the decrease in the fair value of the corresponding derivative financial instruments for foreign exchange rate, resulting in revaluation losses.

Net Foreign Exchange (Loss)/Gain

As of June 30, 2013, we recorded a net foreign exchange gain of RMB140 million, an increase of RMB490 million from June 30, 2012. The significant increase in the net foreign exchange gain from June 30, 2012 to June 30, 2013 was primarily because the foreign exchange gain/(loss) changed from net loss as of June 30, 2012 to net gain as of June 30, 2013, which had been affected by the appreciation of Renminbi. During the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, there has generally been an inverse correlation between our net trading gain and net foreign exchange (loss)/gain.

Other Operating Income

Other operating income primarily consists of other income from business operation and non-operating income. Other income from business operation consists of investment property rental income and postal fees. Non-operating income mainly includes income from suspended deposit accounts, liquidated damages, fines, compensation and incentive fees. We recorded other operating income of RMB106 million and RMB126 million for the six months ended June 30, 2012 and 2013, respectively.

Operating Expenses

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

	For the six months ended June 30,	
	2012	2013
	(unaudited)	
	(in millions of RMB)	
Staff costs	5,511	5,741
Other general and administrative expenses	1,774	2,104
Business tax and surcharges	2,187	2,709
Depreciation and amortization expenses	669	794
Rental and property management expenses	661	812
Total operating expenses	**10,802**	**12,160**
Cost-to-income ratio[(1)]	**28.22%**	**27.93%**

Note:

(1) Calculated by dividing total operating expenses (excluding business tax and surcharges) by total operating income, prepared under IFRS.

Our operating expenses increased by 12.6% to RMB12,160 million for the six months ended June 30, 2013 compared to RMB10,802 million for the six months ended June 30, 2012, primarily due to increases in staff costs, other general and administrative expenses and business tax and surcharges. Our cost-to-income ratio decreased to 27.93% for the six months ended June 30, 2013 compared to 28.22% for the six months ended June 30, 2012.

Staff Costs

Staff costs are the largest component of our operating expenses, representing 51.0% and 47.2% of our total operating expenses for the six months ended June 30, 2012 and 2013, respectively.

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

	For the six months ended June 30,	
	2012	2013
	(unaudited)	
	(in millions of RMB)	
Salaries, bonuses and staff allowances	4,620	4,659
Others[(1)]	891	1,082
Total staff costs	**5,511**	**5,741**

Note:

(1) Primarily consist of pension and enterprise annuity, housing allowances, supplementary retirement benefits.

Staff costs increased by 4.2% to RMB5,741 million for the six months ended June 30, 2013 compared to RMB5,511 million for the six months ended June 30, 2012, primarily due to the increase in the number of our employees in connection with the expansion of our branch network.

Other General and Administrative Expenses

Other general and administrative expenses increased by 18.6% to RMB2,104 million for the six months ended June 30, 2013 compared to RMB1,774 million for the six months ended June 30, 2012, primarily due to the increase in the number of our employees and the expansion of our branch network.

Business Tax and Surcharges

Business tax is levied at 5%, primarily on our interest income from loans and advances to customers and our gross fee and commission income. In addition, aggregate surcharges of up to 15.6% of the amount of our business tax paid are levied, depending on the locality. Business tax and surcharges increased by 23.9% to RMB2,709 million for the six months ended June 30, 2013 compared to RMB2,187 million for the six months ended June 30, 2012, primarily due to an increase in our interest income and gross fee and commission income subject to these tax and surcharges.

Depreciation and Amortization Expenses

Depreciation and amortization expenses increased by 18.7% to RMB794 million for the six months ended June 30, 2013 compared to RMB669 million for the six months ended June 30, 2012, primarily due to the expansion of our branch network.

Rental and Property Management Expenses

Rental and property management expenses increased by 22.8% to RMB812 million for the six months ended June 30, 2013 compared to RMB661 million for the six months ended June 30, 2012, primarily due to the expansion of our branch network.

Impairment Losses on Assets

There is no difference between the amount of the allowance for impairment losses reported in our financial statements prepared in accordance with IFRS and the amount reported in our PRC GAAP financial statements. There is no difference between the methodologies of allowance for impairment losses prepared under IFRS and PRC GAAP. As of December 31, 2010, 2011 and 2012 and June 30, 2013, our allowance for impairment losses calculated according to IFRS also meet the requirements of the PBOC's guidelines.

The following table sets forth, for the periods indicated, the principal components of our impairment losses on assets.

	For the six months ended June 30,	
	2012	2013
	(unaudited)	
	(in millions of RMB)	
Impairment losses:		
Loans and advances to customers	2,410	2,266
Held-to-maturity investments	8	(33)
Other assets[(1)]	21	17
Total	**2,439**	**2,250**

Note:

(1) Primarily consist of impairment losses on other receivables, financial leasing receivables, interest receivables, deposits and placements with banks and other financial institutions and other assets.

Allowance for impairment losses primarily consists of allowance on loans and other assets. Impairment losses on our assets decreased by 7.7% to RMB2,250 million for the six months ended June 30, 2013 compared to RMB2,439 million for the six months ended June 30, 2012, primarily due to decreases in our impairment losses on (i) loans and advances to customers, (ii) held-to-maturity investments and (iii) other assets. The decrease in our impairment losses on loans and advances to customers was primarily due to the decrease in the provision ratio for assets that are collectively assessed for impairment. The decrease in our impairment losses on held-to-maturity investments was primarily due to the decrease in the provision ratio for our held-to-maturity investments. The decrease in our impairment losses on other assets was primarily due to decreases in the impairment losses on financial leasing receivables and other receivables.

For details on our allowance for impairment losses on loans and relevant changes, see "Assets and Liabilities – Assets – Allowance for Impairment Losses on Loans and Advances to Customers."

Income Tax

The following table sets forth, for the periods indicated, the reconciliation between the income tax calculated at the statutory income tax rate applicable to our profit before tax and our actual income tax.

	For the six months ended June 30,	
	2012	2013
	(unaudited)	
	(in millions of RMB)	
Profit before tax	**17,290**	**19,428**
Income tax calculated at statutory rate	4,323	4,857
Non-deductible expenses[(1)]	147	293
Non-taxable income[(2)]	(146)	(378)
Adjustment for prior years	30	(283)
Income tax	**4,354**	**4,489**
Effective tax rate	**25.18%**	**23.11%**

Notes:

(1) Primarily consist of non-deductible staff costs and other operating expenses.

(2) Primarily consists of interest income from PRC central government bonds.

Our income tax expense increased by 3.1% to RMB4,489 million for the six months ended June 30, 2013 compared to RMB4,354 million for the six months ended June 30, 2012. Our effective tax rate decreased to 23.11% for the six months ended June 30, 2013 as compared to 25.18% for the same period in 2012.

The following table sets forth, for the periods indicated, the components of our income tax.

	For the six months ended June 30,	
	2012	2013
	(unaudited)	
	(in millions of RMB)	
Current income tax	4,190	4,854
Deferred income tax	134	(82)
Adjustment for prior years	30	(283)
Income tax	**4,354**	**4,489**

Net Profit

As a result of all the foregoing factors, our net profit increased by 15.5% to RMB14,939 million for the six months ended June 30, 2013, compared to RMB12,936 million for the six months ended June 30, 2012.

Years Ended December 31, 2010, 2011 and 2012

Net Interest Income

Net interest income is the largest component of our operating income, representing 85.2%, 85.4% and 83.7% of our operating income for the years ended December 31, 2010, 2011 and 2012, respectively.

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

	For the year ended December 31,		
	2010	2011	2012
	(in millions of RMB)		
Interest income	54,156	77,884	103,971
Interest expense	(23,733)	(38,444)	(53,708)
Net interest income	**30,423**	**39,440**	**50,263**

Our net interest income increased by 27.4% to RMB50,263 million in 2012 compared to RMB39,440 million in 2011, primarily as a result of a 33.5% increase in our interest income to RMB103,971 million in 2012 compared to RMB77,884 million in 2011, partially offset by a 39.7% increase in our interest expense to RMB53,708 million in 2012 compared to RMB38,444 million in 2011.

Our net interest income increased by 29.6% to RMB39,440 million in 2011 from RMB30,423 million in 2010, primarily as a result of a 43.8% increase in our interest income to RMB77,884 million in 2011 compared to RMB54,156 million in 2010, partially offset by a 62.0% increase in our interest expense to RMB38,444 million in 2011 compared to RMB23,733 million in 2010.

The table below sets forth, for the years indicated, the average balances of our assets and liabilities, the related interest income or expense and average yields (for assets) or average costs (for liabilities). The average balances of interest-earning assets and interest-bearing liabilities are the average of the daily balances. The average balances of non-interest earning assets, non-interest bearing liabilities and the allowance for impairment losses are the average of the balances at January 1 and December 31 for the years indicated.

	For the year ended December 31,								
	2010			2011			2012		
	Average balance(8)	Interest income	Average yield	Average balance(8)	Interest income	Average yield	Average balance(8)	Interest income	Average yield
	(in millions of RMB, except percentages)								
Assets									
Loans and advances to customers	734,238	36,941	5.03%	849,126	50,919	6.00%	983,834	65,520	6.66%
Debt securities investments(1)	168,393	5,766	3.42	210,928	7,821	3.71	295,557	13,689	4.63
Deposits with the central bank(2)	146,337	2,107	1.44	209,141	3,106	1.49	262,644	3,901	1.49
Deposits with banks and other financial institutions	61,388	1,400	2.28	61,526	3,030	4.92	54,707	1,943	3.55
Financial assets held under resale agreements and placements with banks and other financial institutions	284,404	7,744	2.72	251,079	13,008	5.18	370,230	18,918	5.11
Total interest-earning assets	**1,394,760**	**53,958**	**3.87%**	**1,581,800**	**77,884**	**4.92%**	**1,966,972**	**103,971**	**5.29%**
Interest expense adjustment on re-discounted bills(3)		198			–			–	
Allowance for impairment losses	(22,652)			(25,527)			(29,514)		
Non-interest earning assets(4)	89,927			102,147			104,394		
Total assets	**1,462,035**	**54,156**		**1,658,420**	**77,884**		**2,041,852**	**103,971**	

	For the year ended December 31,								
	2010			2011			2012		
	Average balance(8)	Interest expense	Average cost	Average balance(8)	Interest expense	Average cost	Average balance(8)	Interest expense	Average cost
	(in millions of RMB, except percentages)								
Liabilities									
Deposits from customers(5)	935,146	14,554	1.56%	1,115,498	23,446	2.10%	1,283,275	31,750	2.47%
Deposits from banks and other financial institutions	284,157	6,702	2.36	256,435	11,593	4.52	403,044	16,890	4.19
Financial assets sold under repurchase agreements and placements from banks and other financial institutions	73,706	1,571	2.13	77,057	2,656	3.45	101,703	3,419	3.36
Debt securities issued	18,540	859	4.63	16,000	753	4.71	42,576	1,953	4.59
Total interest-bearing liabilities	**1,311,549**	**23,686**	**1.81%**	**1,464,990**	**38,448**	**2.62%**	**1,830,598**	**54,012**	**2.95%**
Interest expense adjustment on re-discounted bills(3)		198			–			–	
Fair value change of structured deposits		(151)			(4)			(304)	
Non-interest bearing liabilities	73,265			76,335			58,875		
Total liabilities	**1,384,814**	**23,733**		**1,541,325**	**38,444**		**1,889,473**	**53,708**	
Net interest income		**30,423**			**39,440**			**50,263**	
Net interest spread(6)		**2.06%**			**2.30%**			**2.34%**	
Net interest margin(7)		**2.17%**			**2.49%**			**2.54%**	

Notes:

(1) Consist of available-for-sale debt securities, held-to-maturity debt securities, debt securities held for trading and debt securities classified as receivables.

(2) Primarily consist of required deposit reserves and surplus deposit reserves.

(3) Interest expense adjustment on re-discounted bills represents the adjustment for interest expense on re-discounted bills. In prior years, the interest income from discounted bills and the interest expense on re-discounted bills were both recorded on a gross basis, but for yield analysis purpose, the interest income from discounted bills is presented on net basis. Therefore, we made such adjustment to reconcile the difference. From the first quarter of 2011, we changed the accounting treatment and the interest income from discounted bills and the interest expense on re-discounted bills has been recorded on a net basis which is consistent with the yield analysis.

(4) Consist of cash, positive fair value of derivatives, assets held for wealth management, interest receivable and other assets.

(5) Consist of corporate deposits, retail deposits and structured deposits.

(6) Calculated as the difference between the average yield on total interest-earning assets and the average cost of total interest-bearing liabilities.

(7) Calculated by dividing net interest income (including the impact of fair value change of structured deposits) by the average balance of total interest-earning assets.

(8) Represents the average of the daily balances during the period.

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

	For the year ended December 31,					
	2011 vs. 2010			2012 vs. 2011		
	Increase/ (decrease) due to		Net increase/ (decrease)(3)	Increase/ (decrease) due to		Net increase/ (decrease)(3)
	Volume(1)	Rate(2)		Volume(1)	Rate(2)	
	(in millions of RMB)					
Assets						
Loans and advances to customers	6,889	7,089	13,978	8,971	5,630	14,601
Debt securities investments	1,577	478	2,055	3,920	1,948	5,868
Deposits with the central bank	933	66	999	795	–	795
Deposits with banks and other financial institutions	7	1,623	1,630	(242)	(845)	(1,087)
Financial assets held under resale agreements and placements with banks and other financial institutions	(1,727)	6,991	5,264	6,088	(178)	5,910
Sub-total	7,679	16,247	23,926	19,532	6,555	26,087
Interest expense adjustment on re-discounted bills			(198)			–
Changes in interest income			**23,728**			**26,087**
Liabilities						
Deposits from customers	3,927	4,965	8,892	4,301	4,003	8,304
Deposits from banks and other financial institutions	(1,253)	6,144	4,891	6,144	(847)	5,297
Financial assets sold under repurchase agreements and placements from banks and other financial institutions	116	969	1,085	829	(66)	763
Debt securities issued	(120)	14	(106)	1,219	(19)	1,200
Sub-total	2,670	12,092	14,762	12,493	3,071	15,564
Interest expense adjustment on re-discounted bills			(198)			–
Fair value change of structured deposits			147			(300)
Changes in interest expense			**14,711**			**15,264**

Notes:

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

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

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

Interest Income

2012 Compared to 2011. Our interest income increased by 33.5% to RMB103,971 million in 2012 compared to RMB77,884 million in 2011, primarily due to an increase of 24.4% in the average balance of our interest-earning assets to RMB1,966,972 million in 2012 compared to RMB1,581,800 million in 2011, and an increase in the average yield on our interest-earning assets to 5.29% in 2012 compared to 4.92% in 2011. The increase in the average balance of our interest-earning assets was primarily due to (i) an increase in the average balance of our loans and advances to customers from RMB849,126 million in 2011 to RMB983,834 million in 2012, (ii) an increase in the average balance of financial assets held under resale agreements and placements with banks and other financial institutions from RMB251,079 million in 2011 to RMB370,230 million in 2012, (iii) an increase in the average balance of our debt securities investments from RMB210,928 million in 2011 to RMB295,557 million in 2012, and (iv) an increase in the average balance of our deposits with the central bank from RMB209,141 million in 2011 to RMB262,644 million in 2012. The increase in the average balance of our interest-earning assets was partially offset by a decrease in the average balance of our deposits with banks and other financial institutions from RMB61,526 million in 2011 to RMB54,707 million in 2012. The increase in the average yield on our interest-earning assets primarily reflected increases in the average yield of loans and advances to customers and in the average yield of debt securities investments.

2011 Compared to 2010. Our interest income increased by 43.8% to RMB77,884 million in 2011 from RMB54,156 million in 2010, primarily due to an increase in the average balance of our interest-earning assets to RMB1,581,800 million in 2011 from RMB1,394,760 million in 2010 and an increase in the average yield on our interest-earning assets to 4.92% in 2011 from 3.87% in 2010. The increase in the average balance of our interest-earning assets was primarily due to (i) an increase in the average balance of loans and advances to customers from RMB734,238 million in 2010 to RMB849,126 million in 2011, (ii) an increase in the average balance of debt securities investment from RMB168,393 million in 2010 to RMB210,928 million in 2011, and (iii) an increase in the average balance of deposits with the central bank from RMB146,337 million in 2010 to RMB209,141 million in 2011. The increase in the average balance of our interest-earning assets was partially offset by the decrease in the average balance of financial assets held under resale agreements and placements with banks and other financial institutions from RMB284,404 million in 2010 to RMB251,079 million in 2011. The increase in the average yield of our interest-earning assets primarily reflected the increases in the average yield of financial assets held under resale agreements and placements with banks and other financial institutions, the average yield of our deposits with banks and other financial institutions, the average yield of our loans and advances to customers and the average yield of our debt securities investments.

Interest Income from Loans and Advances to Customers

Interest income from loans and advances to customers is the largest component of our interest income, representing 68.2%, 65.4% and 63.0% of our interest income in 2010, 2011 and 2012, respectively.

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

	For the year ended December 31,								
	2010			2011			2012		
	Average balance(1)	Interest income	Average yield	Average balance(1)	Interest income	Average yield	Average balance(1)	Interest income	Average yield
	(in millions of RMB, except percentages)								
Corporate loans	531,756	27,065	5.09%	618,144	36,992	5.98%	686,359	46,526	6.78%
Retail loans	173,511	8,833	5.09	217,959	12,667	5.81	271,390	17,017	6.27
Discounted bills	28,971	1,043	3.60	13,023	1,260	9.68	26,085	1,977	7.58
Total loans and advances to customers	**734,238**	**36,941**	**5.03%**	**849,126**	**50,919**	**6.00%**	**983,834**	**65,520**	**6.66%**

Note:

(1) Represents the average of the daily balances during the period.

2012 Compared to 2011. Interest income from loans and advances to customers increased by 28.7% to RMB65,520 million in 2012 compared to RMB50,919 million in 2011, primarily as a result of (i) an increase in the average balance to RMB983,834 million in 2012 compared to RMB849,126 million in 2011, and (ii) an increase in the average yield to 6.66% in 2012 compared to 6.00% in 2011. The increase in the average balance of our loans and advances to customers was largely in line with our business growth and expansion. The increase in the average yield on our loans and advances to customers was primarily due to our efforts to optimize the loan portfolio and the continued enhancement of our loan pricing power.

2011 Compared to 2010. Interest income from loans and advances to customers increased by 37.8% to RMB50,919 million in 2011 from RMB36,941 million in 2010, primarily as a result of an increase in the average balance to RMB849,126 million in 2011 from RMB734,238 million in 2010 and an increase in the average yield to 6.00% in 2011 compared to 5.03% in 2010. The increase in the average balance of our loans and advances to customers was primarily due to our continued business scale expansion. The increase in the average yield on loans and advances to customers was primarily due to (i) our adjustment of loan portfolio and improvement of our customer base, (ii) the enhancement of our loan pricing power, and (iii) the impact of increases in the PBOC benchmark interest rate since the second half of 2010.

The largest component of our interest income from loans and advances to customers has been interest income from corporate loans, representing 73.3%, 72.6% and 71.0% of our total interest income from loans and advances to customers for the years ended December 31, 2010, 2011 and 2012, respectively.

2012 Compared to 2011. Interest income from corporate loans increased by 25.8% to RMB46,526 million in 2012 compared to RMB36,992 million in 2011, primarily due to (i) an increase of 11.0% in the average balance to RMB686,359 million in 2012 compared to RMB618,144 million in 2011, and (ii) an increase in the average yield to 6.78% in 2012 compared to 5.98% in 2011. The increase in the average balance reflected the overall expansion of our corporate banking business. The increase in the average yield on our corporate loans was primarily due to (i) the increase in the proportion of our loans to SME customers to our total corporate loans, over which we have greater pricing power and which generally provide higher yields, (ii) the enhancement of our loan pricing power resulting in a higher average interest rate for the new corporate loans we granted in 2012, and (iii) a higher average interest rate for certain corporate loans we re-priced in the first half of 2012 as a result of the delayed impact of the increases in the PBOC benchmark interest rate in 2011.

Interest income from our retail loans increased by 34.3% to RMB17,017 million in 2012 compared to RMB12,667 million in 2011, primarily due to (i) an increase of 24.5% in the average balance to RMB271,390 million in 2012 compared to RMB217,959 million in 2011, and (ii) an increase in the average yield to 6.27% in 2012 compared to 5.81% in 2011. The increase in the average balance reflected the overall expansion of our retail banking business, in particular the growth of our micro-enterprise loan and credit card businesses. The increase in the average yield on retail loans was primarily due to (i) the adjustment of our retail loan portfolio to increase the proportion of our micro-enterprise loans, which provide higher yields, (ii) the enhancement of our loan pricing power resulting in a higher average interest rate for the new retail loans we granted in 2012, and (iii) a higher average interest rate for certain retail loans we re-priced in the first half of 2012 as a result of the delayed impact of the increases in the PBOC benchmark interest rate in 2011.

Interest income from discounted bills increased by 56.9% to RMB1,977 million in 2012 compared to RMB1,260 million in 2011, primarily due to a substantial increase in the average balance, partially offset by a decrease in the average yield. The average balance of discounted bills increased by 100.3% to RMB26,085 million in 2012 from RMB13,023 million in 2011, primarily due to the adjustment of our overall asset portfolio at the beginning of 2012 to allocate more fund resources to discounted bills which had higher yields. The average yield on discounted bills decreased to 7.58% in 2012 compared to 9.68% in 2011, primarily due to the overall decrease in the interest rate of the PRC's inter-bank money market.

2011 Compared to 2010. Interest income from corporate loans increased by 36.7% to RMB36,992 million in 2011 compared to RMB27,065 million in 2010, primarily due to (i) a 16.2% increase in the average balance to RMB618,144 million in 2011 compared to RMB531,756 million in 2010, and (ii) an increase in the average yield to 5.98% in 2011 compared to 5.09% in 2010. The increase in the average balance reflected the overall expansion of our corporate banking business. The increase in the average yield on our corporate loans was primarily due to (i) our efforts to adjust our corporate loan portfolio to increase the proportion of our loans to SMEs, which have higher yields, (ii) greater loan pricing power, and (iii) the impact of the increases in the PBOC benchmark interest rate since the second half of 2010.

Interest income from our retail loans increased by 43.4% to RMB12,667 million in 2011 compared to RMB8,833 million in 2010, primarily due to (i) an increase of 25.6% in the average balance to RMB217,959 million in 2011 compared to RMB173,511 million in 2010, and (ii) an increase in the average yield to 5.81% in 2011 compared to 5.09% for in 2010. The increase in the average balance was primarily due to our efforts to expand our retail banking business. The increase in the average yield on retail loans was primarily due to (i) an adjustment of our product mix to focus on the growth of products with higher yields, such as commercial mortgage loans and personal business loans, (ii) greater loan pricing power, and (iii) the impact of the increases in the PBOC benchmark interest rate since the second half of 2010.

Interest income from discounted bills increased by 20.8% to RMB1,260 million in 2011 compared to RMB1,043 million in 2010, primarily due to a significant increase in the average yield, partially offset by a substantial decrease in the average balance. The average balance of discounted bills substantially decreased by 55.0% to RMB13,023 million in 2011 from RMB28,971 million in 2010, primarily due to adjustments to our loan portfolio. The average yield on discounted bills significantly increased to 9.68% in 2011 compared to 3.60% in 2010, primarily due to the tightened market liquidity since the second half of 2010 as a result of the increases in the PBOC benchmark interest rate, resulting in an increase in market interest rates.

Interest Income from Debt Securities Investments

Interest income from debt securities investments represents 10.6%, 10.0% and 13.2% of our interest income for the years ended December 31, 2010, 2011 and 2012, respectively.

2012 Compared to 2011. Interest income from debt securities investments increased by 75.0% to RMB13,689 million in 2012 compared to RMB7,821 million in 2011, primarily due to an increase of 40.1% in the average balance to RMB295,557 million in 2012 compared to RMB210,928 million in 2011 and an increase in the average yield on our debt securities investments to 4.63% in 2012 compared to 3.71% in 2011. The increase in the average balance reflected the expansion and diversification of our debt securities investments business. The increase in the average yield was primarily due to the adjustment of our investment portfolios to allocate our fund resources to debt securities with higher yields, including debt securities classified as receivables.

2011 Compared to 2010. Interest income from debt securities investments increased by 35.6% to RMB7,821 million in 2011 compared to RMB5,766 million in 2010, primarily due to (i) an increase in the average balance by 25.3% to RMB210,928 million in 2011 compared to RMB168,393 million in 2010, and (ii) an increase in the average yield on our debt securities investments to 3.71% in 2011 compared to 3.42% in 2010. The increase in the average balance was primarily due to our enhanced efforts to promote the development of our debt securities investment portfolio. The increase in the average yield was primarily due to the increase in market interest rates as a result of the increases in the PBOC benchmark interest rate, the effect of which was partially offset by our efforts to shorten the average maturity of our investment portfolio so as to increase our flexibility in allocating funds.

Interest Income from Deposits with the Central Bank

2012 Compared to 2011. Interest income from deposits with the central bank increased by 25.6% to RMB3,901 million in 2012 compared to RMB3,106 million in 2011, primarily due to an increase in the average balance by 25.6% to RMB262,644 million in 2012 compared to RMB209,141 million in 2011. The increase in the average balance of deposits with the central bank was due to an increase in our required deposit reserves, reflecting an increase in our deposits from customers, partially offset by the decrease in the required deposit reserve ratio, which was lowered twice by the PBOC in 2012.

2011 Compared to 2010. Interest income from deposits with the central bank increased by 47.4% to RMB3,106 million in 2011 compared to RMB2,107 million in 2010, primarily due to (i) an increase of 42.9% in the average balance to RMB209,141 million in 2011 compared to RMB146,337 million in 2010, and (ii) a slight increase in the average yield to 1.49% in 2011 compared to 1.44% in 2010. The increase in the average balance was primarily due to an increase in our required deposit reserves, reflecting (i) an increase in our deposits from customers, and (ii) the PBOC's multiple increases of the required deposit reserve ratios during this period. The increase in the average yield was primarily due to an increase in our required deposit reserves in proportion to our total deposits with the central bank, which had a higher average yield than that of our surplus deposit reserves deposited with the central bank.

Interest Income from Deposits with Banks and Other Financial Institutions

2012 Compared to 2011. Interest income from deposits with banks and other financial institutions decreased by 35.9% to RMB1,943 million in 2012 compared to RMB3,030 million in 2011, primarily due to (i) a decrease in the average yield to 3.55% in 2012 compared to 4.92% in 2011 and (ii) a decrease in the average balance to RMB54,707 million in 2012 compared to RMB61,526 million in 2011. The decrease in the average yield on our deposits with banks and other financial institutions was primarily due to a decrease in the PRC inter-bank money market interest rate in 2012 as a result of the increased market liquidity. The decrease in the average balance of our deposits with banks and other financial institutions was primarily due to the reallocation of our fund resources to products with higher yields while meeting our liquidity needs.

2011 Compared to 2010. Interest income from deposits with banks and other financial institutions increased by 116.4% to RMB3,030 million in 2011 compared to RMB1,400 million in 2010, primarily due to a significant increase of the average yield to 4.92% in 2011 compared to 2.28% in 2010, while the average balance slightly increased to RMB61,526 million in 2011 compared to RMB61,388 million in 2010. The significant increase in the average yield of deposits with banks and other financial institutions was primarily due to an increase in the interest rates in the inter-bank money market as a result of the increases in the PBOC benchmark interest rate and the adjustment of the PBOC's monetary policy since the second half of 2010.

Interest Income from Financial Assets Held Under Resale Agreements and Placements with Banks and Other Financial Institutions

For the years ended December 31, 2010, 2011 and 2012, interest income from financial assets held under resale agreements and placements with banks and other financial institutions represented 14.3%, 16.7% and 18.2% of our total interest income, respectively.

2012 Compared to 2011. Interest income from financial assets held under resale agreements and placements with banks and other financial institutions increased by 45.4% to RMB18,918 million in 2012 compared to RMB13,008 million in 2011, primarily due to an increase in the average balance to RMB370,230 million in 2012 compared to RMB251,079 million in 2011, partially offset by a decrease in the average yield to 5.11% in 2012 compared to 5.18% in 2011. The decrease in the average yield on financial assets held under resale agreements and placements with banks and other financial institutions was primarily due to a lower inter-bank money market interest rate as a result of the two consecutive downward adjustments of the benchmark interest rate by the PBOC in 2012. The increase in average balance of financial assets held under resale agreements and placements with banks and other financial institutions was primarily due to the reallocation of our fund resources to products with higher yields while meeting our liquidity needs.

2011 Compared to 2010. Interest income from financial assets held under resale agreements and placements with banks and other financial institutions significantly increased by 68.0% to RMB13,008 million in 2011 compared to RMB7,744 million in 2010, primarily due to a significant increase in the average yield to 5.18% in 2011 compared to 2.72% in 2010, partially offset by a decrease in the average balance. The significant increase in the average yield on financial assets held under resale agreements and placements with banks and other financial institutions was primarily due to an increase in market interest rates as a result of the increases in the PBOC benchmark interest rate and the adjustment of the PBOC's monetary policy since the second half of 2010. The average balance of financial assets held under resale agreements and placements with banks and other financial institutions decreased by 11.7% to RMB251,079 million in 2011 compared to RMB284,404 million in 2010, which was due to the reallocation of our fund resources.

Interest Expense

2012 Compared to 2011. Interest expense increased by 39.7% to RMB53,708 million in 2012 compared to RMB38,444 million in 2011, primarily due to a 25.0% increase in the average balance of interest-bearing liabilities and an increase in the average cost of interest-bearing liabilities to 2.95% in 2012 compared to 2.62% in 2011. The increase in the average cost on our interest-bearing liabilities was primarily due to an increase in the average cost of deposits from customers, partially offset by the decreases in the average costs of (i) deposits from banks and other financial institutions, (ii) financial assets sold under repurchase agreements and placements from banks and other financial institutions, and (iii) debt securities issued.

2011 Compared to 2010. Interest expense increased by 62.0% to RMB38,444 million in 2011 compared to RMB23,733 million in 2010, primarily due to an increase in the average balance of interest-bearing liabilities, coupled with an increase in the average cost on interest-bearing liabilities to 2.62% in 2011 compared to 1.81% in 2010. The increase in the average cost on our interest-bearing liabilities primarily reflected (i) an increase in average cost of deposits from customers, (ii) a significant increase in the average cost of deposits from banks and other financial institutions, and (iii) a significant increase in the average cost of financial assets sold under repurchase agreements and placements from banks and other financial institutions.

Interest Expense on Deposits from Customers

Interest expense on deposits from customers represented 61.3%, 61.0% and 59.1% of our total interest expense for the years ended December 31, 2010, 2011 and 2012, respectively.

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

	For the year ended December 31,								
	2010			2011			2012		
	Average balance[1]	Interest expense	Average cost	Average balance[1]	Interest expense	Average cost	Average balance[1]	Interest expense	Average cost
	(in millions of RMB, except percentages)								
Corporate deposits									
Time	418,148	9,858	2.36%	521,242	16,436	3.15%	613,263	22,207	3.62%
Demand	360,439	2,293	0.64	392,606	2,985	0.76	403,535	3,043	0.75
Subtotal	778,587	12,151	1.56	913,848	19,421	2.13	1,016,798	25,250	2.48
Retail deposits									
Time	89,234	1,809	2.03	100,733	2,462	2.44	118,072	3,752	3.18
Demand	46,902	169	0.36	58,167	302	0.52	68,942	358	0.52
Subtotal	136,136	1,978	1.45	158,900	2,764	1.74	187,014	4,110	2.20
Structured deposits[2]									
Corporate	9,698	240	2.47	12,906	400	3.10	19,964	635	3.18
Retail	10,725	185	1.72	29,844	861	2.89	59,499	1,755	2.95
Subtotal	20,423	425	2.08	42,750	1,261	2.95	79,463	2,390	3.01
Total deposits from customers	**935,146**	**14,554**	**1.56%**	**1,115,498**	**23,446**	**2.10%**	**1,283,275**	**31,750**	**2.47%**

Notes:

(1) Represents the average of the daily balances during the period.

(2) Structured deposits are all time deposits.

The largest component of our interest expense on total deposits from customers has been interest expense on corporate deposits, representing 83.5%, 82.8% and 79.5% of our interest expense on total deposits from customers for the years ended December 31, 2010, 2011 and 2012, respectively.

2012 Compared to 2011. Interest expense on total deposits from customers increased by 35.4% to RMB31,750 million in 2012 compared to RMB23,446 million in 2011, primarily due to an increase of 15.0% in the average balance, coupled with an increase in the average cost to 2.47% in 2012 compared to 2.10% in 2011. The increase in the average balance of total deposits from customers was primarily due to our marketing efforts to attract corporate and retail deposits. The increase in the average cost of our total deposits from customers was primarily because (i) the PBOC raised the interest rate ceiling of deposits in 2012, and (ii) the proportion of the total average balance of corporate and retail time deposits in the average balance of our total deposits from customers increased from 55.8% in 2011 to 57.0% in 2012, with the average cost of our corporate and retail time deposits being higher than that of our corporate and retail demand deposits.

Interest expense on corporate deposits increased by 30.0% to RMB25,250 million in 2012 compared to RMB19,421 million in 2011, primarily due to (i) an increase in the average balance by 11.3% to RMB1,016,798 million in 2012 compared to RMB913,848 million in 2011, and (ii) an increase in the average cost to 2.48% in 2012 compared to 2.13% in 2011. The increase in the average balance was primarily due to our marketing efforts to promote our innovative products, such as the cash management and enterprise annuity products, to attract corporate deposits. The increase in the average cost of our corporate deposits was primarily due to (i) the rise of the interest rate ceiling of deposits to 110% of the PBOC benchmark deposit interest rate since June 8, 2012, and (ii) an increase in the proportion of our corporate time deposits in our total corporate deposits, which had a higher average cost than the corporate demand deposits.

Interest expense on retail deposits increased by 48.7% to RMB4,110 million in 2012 compared to RMB2,764 million in 2011, primarily due to (i) an increase in the average balance by 17.7% to RMB187,014 million in 2012 compared to RMB158,900 million in 2011, and (ii) an increase in the average cost to 2.20% in 2012 compared to 1.74% in 2011. The increase in the average balance was primarily due to (i) our efforts to promote innovative products to attract retail deposits, and (ii) our continued network expansion. The increase in the average cost was primarily due to (i) the rise of the interest rate ceiling of deposits in 2012, and (ii) the increase in the proportion of our retail deposits with longer maturity terms which had higher interest rates.

Interest expense on structured deposits significantly increased by 89.5% to RMB2,390 million in 2012 compared to RMB1,261 million in 2011, primarily due to (i) an increase in the average balance by 85.9% to RMB79,463 million in 2012 compared to RMB42,750 million in 2011, and (ii) an increase in the average cost to 3.01% in 2012 compared to 2.95% in 2011. The average balance of our structured deposits increased, primarily reflecting the innovation of our wealth management products and expansion of our wealth management business. The average cost of our structured deposits increased mainly because we offered our customer higher yields in order to expand our customer base in light of the intensified competition in this market.

2011 Compared to 2010. Interest expense on total deposits from customers increased by 61.1% to RMB23,446 million in 2011 compared to RMB14,554 million in 2010, primarily due to an increase of 19.3% in the average balance, coupled with an increase in the average cost to 2.10% in 2011 compared to 1.56% in 2010. The increase in the average balance of total deposits from customers was primarily due to our continued efforts in expanding our deposit customer base and our branch network. The increase in the average cost on our total deposits from customers was primarily due to (i) the impact of the increases in the PBOC benchmark interest rates since the second half of 2010, and (ii) the increase in the proportion of the average balance of corporate and retail time deposits to the average balance of our total deposits from customers from 54.3% in 2010 to 55.8% in 2011, with the average cost on our corporate and retail time deposits being higher than our corporate and retail demand deposits.

Interest expense on corporate deposits increased by 59.8% to RMB19,421 million in 2011 compared to RMB12,151 million in 2010, due to (i) an increase in the average balance by 17.4% to RMB913,848 million in 2011 compared to RMB778,587 million in 2010, and (ii) an increase in the average cost to 2.13% in 2011 compared to 1.56% in 2010. The increase in the average balance was primarily due to our strengthened marketing efforts in corporate deposits. The increase in the average cost of our corporate deposits was primarily due to (i) the impact of the increases in the PBOC benchmark interest rate since the second half of 2010, and (ii) an increase in the proportion of our corporate time deposits in our total corporate deposits, which resulted in a higher average cost on our total corporate deposits.

Interest expense on retail deposits increased by 39.7% to RMB2,764 million in 2011 compared to RMB1,978 million in 2010, primarily due to (i) an increase in the average balance by 16.7% to RMB158,900 million in 2011 compared to RMB136,136 million in 2010, and (ii) an increase in the average cost to 1.74% in 2011 compared to 1.45% in 2010. The increase in the average cost was primarily due to the multiple increases of the PBOC benchmark interest rates since the second half of 2010, the effect of which was partially offset by an increase in the proportion of our retail demand deposits, which have a lower average cost compared to our retail time deposits.

Interest expense on structured deposits significantly increased by 196.7% to RMB1,261 million in 2011 compared to RMB425 million in 2010, primarily due to (i) a significant increase of 109.3% in the average balance to RMB42,750 million in 2011 compared to RMB20,423 million in 2010, and (ii) a significant increase in the average cost to 2.95% in 2011 compared to 2.08% in 2010. The increase in the average balance of our structured deposits was primarily due to (i) the increased market demand for such products and (ii) our enhanced marketing efforts for structured deposits, with the aim of obtaining more high net-worth customers. The increase in the average cost of our structured deposits was primarily due to the impact of the overall increase in market interest rates.

Interest Expense on Deposits from Banks and Other Financial Institutions

2012 Compared to 2011. Interest expense on deposits from banks and other financial institutions increased by 45.7% to RMB16,890 million in 2012 compared to RMB11,593 million in 2011, primarily due to an increase in the average balance by 57.2% to RMB403,044 million in 2012 compared to RMB256,435 million in 2011, partially offset by the decrease in the average cost from 4.52% in 2011 to 4.19% in 2012. The increase in the average balance of our deposits from banks and other financial institutions was primarily because we adjusted our overall liabilities structure to obtain funds at lower costs while meeting our liquidity needs. The decrease in the average cost of our deposits from banks and other financial institutions was primarily due to a decrease in the interest rate of the PRC inter-bank money market.

2011 Compared to 2010. Interest expense on deposits from banks and other financial institutions increased by 73.0% to RMB11,593 million in 2011 compared to RMB6,702 million in 2010, primarily due to a significant increase in the average cost to 4.52% in 2011 compared to 2.36% in 2010, partially offset by a decrease in the average balance by 9.8% to RMB256,435 million in 2011 compared to RMB284,157 million in 2010. The significant increase in the average cost of our deposits from banks and other financial institutions was primarily due to the increase in the inter-bank interest rates in the PRC inter-bank money market. The decrease in the average balance of our deposits from banks and other financial institutions was due to a more optimized asset-liability allocation.

Interest Expense of Financial Assets Sold under Repurchase Agreements and Placements from Banks and Other Financial Institutions

2012 Compared to 2011. Interest expense on financial assets sold under repurchase agreements and placements from banks and other financial institutions increased by 28.7% to RMB3,419 million in 2012 compared to RMB2,656 million in 2011, primarily due to an increase in the average balance by 32.0% to RMB101,703 million in 2012 compared to RMB77,057 million in 2011, partially offset by a decrease in the average cost to 3.36% in 2012 compared to 3.45% in 2011. The average balance of our financial assets sold under repurchase agreements and placements from banks and other financial institutions increased in 2012 mainly because we adjusted our overall liabilities structure to obtain funds at lower costs while meeting our liquidity needs. The decrease in the average cost of our financial assets sold under repurchase agreements and placements from banks and other financial institutions was primarily due to a decrease in the interest rate of the PRC inter-bank money market.

2011 Compared to 2010. Interest expense on financial assets sold under repurchase agreements and placements from banks and other financial institutions increased by 69.1% to RMB2,656 million in 2011 compared to RMB1,571 million in 2010, primarily due to a significant increase in the average cost to 3.45% in 2011 compared to 2.13% in 2010, coupled with a slight increase in the average balance by 4.5% to RMB77,057 million in 2011 compared to RMB73,706 million in 2010. The significant increase in the average cost of our financial assets sold under repurchase agreements and placements from banks and other financial institutions was primarily due to increases in market interest rates as a result of the increases in the PBOC benchmark interest rate and the adjustment of the PBOC's monetary policy since the second half of 2010.

Net Interest Spread and Net Interest Margin

2012 Compared to 2011. Our net interest spread increased to 2.34% in 2012 compared to 2.30% in 2011, primarily due to an increase of 37 basis points in the average yield on our interest-earning assets to 5.29% in 2012 compared to 4.92% in 2011, partially offset by an increase of 33 basis points in the average cost of our interest-bearing liabilities to 2.95% in 2012 compared to 2.62% in 2011. Our net interest margin increased by 5 basis points to 2.54% in 2012 compared to 2.49% in 2011, because our net interest income increased by 27.4% while the average balance of our interest-earning assets increased at a slower rate by only 24.4% in 2012 compared to 2011. The increases in our net interest spread and net interest margin were primarily due to the following reasons: (i) we further optimized our loan portfolio by allocating more fund resources to products with higher yields and improved our loan pricing power; and (ii) the increase in the average yield on our interest-earning assets exceeded the increase in the average cost on our interest-bearing liabilities.

2011 Compared to 2010. Our net interest spread increased to 2.30% in 2011 compared to 2.06% in 2010, primarily due to an increase of 105 basis points in the average yield on our interest-earning assets to 4.92% in 2011 compared to 3.87% in 2010, which was partially offset by an increase of 81 basis points in the average cost of our interest-bearing liabilities to 2.62% in 2011 compared to 1.81% in 2010. Our net interest margin increased by 32 basis points to 2.49% in 2011 compared to 2.17% in 2010, because our net interest income increased by 29.6% while the average balance of our interest-earning assets increased at a slower rate by only 13.4% in 2011 compared to 2010. The increases in our net interest spread and net interest margin were primarily due to the following reasons: (i) our further improvement of our loan portfolio through the increase of SME loans which have higher yields and the expansion of our retail banking business, (ii) greater loan pricing power as a result of the increase in the upward fluctuation rate of new loans and term repricing loans, (iii) the increase in the benchmark interest rate of the PBOC and (iv) the overall increase in the inter-bank market interest rate.

Net Fee and Commission Income

Net fee and commission income represented 13.2%, 15.1% and 15.8% of our total operating income for the years ended December 31, 2010, 2011 and 2012, respectively. The following table sets forth, for the years indicated, the principal components of our net fee and commission income.

	For the year ended December 31,		
	2010	2011	2012
	(in millions of RMB)		
Fee and commission income			
Bank card service fees	988	1,808	3,360
Underwriting and advisory fees	997	1,443	1,594
Settlement and clearing fees	940	1,376	1,405
Wealth management service fees	948	993	1,547
Acceptance and guarantee fees	486	649	610
Agency service fees	339	505	651
Custody and other fiduciary business fees	193	352	558
Others[(1)]	190	255	269
Subtotal	5,081	7,381	9,994
Fee and commission expenses	(372)	(408)	(515)
Net fee and commission income	**4,709**	**6,973**	**9,479**

Note:

(1) Primarily consist of management fees from trade finance limits and fees from leasing business.

Our net fee and commission income increased by 35.9% to RMB9,479 million in 2012 compared to RMB6,973 million in 2011, which in turn increased by 48.1% compared to RMB4,709 million in 2010. These increases were mainly due to the increase in bank card service fees, wealth management service fees, custody and other fiduciary business fees and underwriting and advisory fees.

Bank Card Service Fees

Bank card service fees increased by 85.8% to RMB3,360 million in 2012 compared to RMB1,808 million in 2011, which in turn increased by 83.0% compared to RMB988 million in 2010. The overall significant increase in bank card service fees from 2010 to 2012 was primarily due to an increase in transaction fees received from our credit card holders as a result of the (i) significant increases in the number of credit cards issued by us and the transaction volume of our credit card holders and (ii) our increasing focus on products with higher yields.

Underwriting and Advisory Fees

Underwriting and advisory fees increased to RMB1,594 million in 2012 compared to RMB1,443 million in 2011, which in turn increased from RMB997 million in 2010. The overall increase from 2010 to 2012 was primarily due to the continued efforts to develop our investment banking business. However, the increase in the fees from 2011 to 2012 slowed down primarily because we adjusted our fee rates in light of the market and regulatory conditions.

Settlement and Clearing Fees

Settlement and clearing fees slightly increased by 2.1% to RMB1,405 million in 2012 compared to RMB1,376 million in 2011, which in turn increased by 46.4% compared to RMB940 million in 2010. The significant increase in settlement and clearing fees in 2011 was primarily due to increases in the number of customers and the transaction volume as a result of our continued marketing and product development efforts in respect of our settlement and cash management business. The increase in 2012 slowed down primarily because we adjusted our fee rates in light of the market and regulatory conditions.

Wealth Management Service Fees

Wealth management service fees increased by 55.8% to RMB1,547 million in 2012 compared to RMB993 million in 2011, primarily due to the launch of our new wealth management products in 2012. The fees in turn slightly increased by 4.7% from RMB948 million in 2010, primarily because we adjusted our fee rates in light of the market and regulatory conditions.

Acceptance and Guarantee Fees

Acceptance and guarantee fees decreased by 6.0% to RMB610 million in 2012 compared to RMB649 million in 2011, primarily because we adjusted our fee rates in light of the market and regulatory conditions. The fees in turn increased by 33.5% from RMB486 million in 2010, primarily due to the growth of our loan commitment and bank acceptance bills business.

Agency Service Fees

Agency service fees amounted to RMB651 million in 2012, RMB505 million in 2011 and RMB339 million in 2010. The increase from 2010 to 2012 was primarily due to the substantial development of our agency services in connection with the distribution of insurance, mutual fund products, trust business, debt securities as well as agency trading of gold.

Custody and Other Fiduciary Business Fees

Custody and other fiduciary business fees increased by 58.5% to RMB558 million in 2012 from RMB352 million in 2011, which in turn increased by 82.4% from RMB193 million in 2010, primarily due to an increase in the amount of assets under our custody attributable to our increased marketing efforts to key customers.

Other Fees

In 2012, our income from other fees was RMB269 million, representing an increase of 5.5% compared to RMB255 million in 2011, which in turn represented an increase of 34.2% compared to RMB190 million in 2010. The overall increase from 2010 to 2012 was primarily due to increases in the fees from our leasing business. However, the increase in other fees from 2011 to 2012 slowed down primarily because we adjusted our fee rates in light of the market and regulatory conditions.

Fee and Commission Expenses

Fee and commission expenses increased by 26.2% to RMB515 million in 2012 from RMB408 million in 2011, which in turn increased by 9.7% from RMB372 million in 2010. The increase from 2010 to 2012 was primarily due to an increase in fee expenses incurred by inter-bank transactions of our bank cards.

Other Net Income/(Loss)

The following table sets forth, for the years indicated, the principal components of our other net income/(loss).

	For the year ended December 31,		
	2010	2011	2012
	(in millions of RMB)		
Net gain/(loss) arising from investment securities	326	(115)	75
Net trading loss	(347)	(1,063)	(238)
Foreign exchange gain	360	760	208
Other operating income	257	203	283
Total other net income/(loss)	**596**	**(215)**	**328**

2012 Compared to 2011. We recorded other net income of RMB328 million in 2012 compared to a net loss of RMB215 million in 2011, primarily due to (i) a net gain arising from investment securities, as compared to a net loss in 2011, (ii) a smaller net trading loss in 2012 as compared to 2011, and (iii) an increase in the other operating income in 2012 as compared to 2011, partially offset by a decrease in the foreign exchange gain as compared to the foreign exchange gain in 2011.

2011 Compared to 2010. We recorded other net loss of RMB215 million in 2011 compared to a net income of RMB596 million in 2010, primarily due to (i) a net loss arising from investment securities compared to a net gain in 2010, and (ii) a larger net trading loss in 2011 compared to in 2010, partially offset by an increase in foreign exchange gain in 2011.

Net Gain/(Loss) Arising from Investment Securities

We recorded net gains on investment securities of RMB75 million and RMB326 million in 2012 and 2010, respectively, whereas we recorded a net loss arising from investment securities of RMB115 million in 2011. The net gain on investment securities in 2012 was primarily due to (i) our investment in new investment securities products in 2012, and (ii) the gains on the disposal of our investment securities as a result of price increases in these investment securities. The net loss on investment securities in 2011 was primarily due to the disposal of a portion of our debt securities, the prices of which declined as a result of the rises in the market interest rates in response to the increases in the PBOC benchmark interest rate since the second half of 2010. Our net gain arising from investment securities in 2010 was primarily due to the gains on the disposal of RMB-denominated bonds.

Net Trading Loss

We recorded a net trading loss of RMB238 million, RMB1,063 million and RMB347 million in 2012, 2011 and 2010, respectively. The net trading loss in 2011 and 2010 were primarily due to loss from the revaluation of the fair value of (i) the interest rate swap products held by us and (ii) foreign exchange swap products held by us. The net trading loss in 2012 was primarily due to the decrease in the fair value of short-term securities investments as the market expected that the interest rates would remain stable or increase since the second half of 2012.

Net Foreign Exchange Gain

We recorded a net foreign exchange gain of RMB208 million, RMB760 million and RMB360 million in 2012, 2011 and 2010, respectively. The decrease in foreign exchange gain in 2012 compared to 2011 was primarily because we recorded loss arising from the revaluation of the fair value of certain foreign exchange swaps products upon their maturity at the end of 2012, which was recognized as foreign exchange loss. The increase in foreign exchange gain in 2011 compared to 2010 was primarily because (i) according to the nature of the foreign exchange swap products, for which we recorded net trading loss in 2011, we recorded the corresponding foreign exchange gain from these products, and (ii) our foreign exchange settlement business grew rapidly and the Renminbi continued to appreciate against other currencies along with the PRC government's implementation of foreign exchange rate reform.

Other Operating Income

We recorded other operating income of RMB283 million, RMB203 million and RMB257 million in 2012, 2011 and 2010, respectively. The increase in other operating income in 2012 compared to 2011 was primarily due to (i) an increase of RMB30 million in other income from business operation, (ii) an increase of RMB17 million in investment property rental income and (iii) an increase of RMB12 million in the gain from disposal of non-liquidity assets. The decrease in our other operating income in 2011 compared to 2010 was mainly due to a decrease in our income from suspended deposit accounts.

Operating Expenses

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

	For the year ended December 31,		
	2010	2011	2012
	(in millions of RMB, except percentages)		
Staff costs	7,417	8,599	10,401
Other general and administrative expenses	3,480	3,985	4,926
Business tax and surcharges	2,431	3,448	4,551
Depreciation and amortization	877	1,117	1,394
Rental and property management expenses	921	1,140	1,413
Total operating expenses	**15,126**	**18,289**	**22,685**
Cost-to-income ratio(1)	**35.53%**	**32.12%**	**30.19%**

Note:

(1) Calculated by dividing total operating expenses (excluding business tax and surcharges) by total operating income, prepared under IFRS.

Our operating expenses increased by 24.0% to RMB22,685 million in 2012 compared to RMB18,289 million in 2011, which in turn increased by 20.9% from RMB15,126 million in 2010. Our cost-to-income ratio (excluding business tax and surcharges) was 30.19%, 32.12% and 35.53% in 2012, 2011 and 2010, respectively. The overall increase in our operating expenses from 2010 to 2012 was primarily due to the expansion of our branch network, the increase in the number of our employees and the growth of our business, which in turn increased our staff costs, other general and administrative expenses and business tax and surcharges during these periods. The overall decrease in our cost-to-income ratio from 2010 to 2012 was primarily due to a greater increase in our operating income than that of our operating expenses during this period.

Staff Costs

Staff costs are the largest component of our operating expenses, representing 49.0%, 47.0% and 45.8% of our operating expenses for the years ended December 31, 2010, 2011 and 2012, respectively.

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

	For the year ended December 31,		
	2010	2011	2012
	(in millions of RMB)		
Salaries, bonuses and staff allowances	6,183	6,978	8,497
Others[(1)]	1,234	1,621	1,904
Total staff costs	**7,417**	**8,599**	**10,401**

Note:

(1) Primarily consist of pension and enterprise annuity, housing allowances and supplementary retirement benefits.

Staff costs increased by 21.0% to RMB10,401 million in 2012 compared to RMB8,599 million in 2011, which in turn increased by 15.9% compared to RMB7,417 million in 2010, primarily due to the increase in the number of our employees, which was in line with our business expansion.

Other General and Administrative Expenses

Other general and administrative expenses increased by 23.6% to RMB4,926 million in 2012 compared to RMB3,985 million in 2011, which in turn increased by 14.5% from RMB3,480 million in 2010, primarily due to our business expansion.

Business Tax and Surcharges

Business tax is levied at 5% primarily on our interest income from loans and advances to customers and our gross fee and commission income. In addition, aggregate surcharges of up to 15.6% of the amount of our business tax paid are levied, depending on the locality. Business tax and surcharges increased by 32.0% to RMB4,551 million in 2012 compared to RMB3,448 million in 2011, which in turn increased by 41.8% from RMB2,431 million in 2010, primarily due to an increase in our interest income and fee and commission income subject to business tax and surcharges.

Depreciation and Amortization

Depreciation and amortization increased by 24.8% to RMB1,394 million in 2012 compared to RMB1,117 million in 2011, which in turn increased by 27.4% compared to RMB877 million in 2010, primarily due to the increases in the amount of depreciation of fixed assets and the amortization of long-term assets as a result of the continued expansion of our branch network.

Rental and Property Management Expenses

Rental and property management expenses increased by 23.9% to RMB1,413 million in 2012 from RMB1,140 million in 2011, which in turn increased by 23.8% compared to RMB921 million in 2010, primarily due to the continued expansion of our branch network.

Impairment Losses on Assets

Impairment losses on assets increased by 56.7% to RMB5,795 million in 2012 compared to RMB3,698 million in 2011, primarily due to the significant increase in impairment losses on loans and advances to customers, partially offset by the decreases in impairment losses on held-to-maturity investments and other receivables. The following table sets forth, for the years indicated, the principal components of our impairment losses on assets.

	For the year ended December 31,		
	2010	2011	2012
	(in millions of RMB)		
Impairment losses on:			
Loans and advances to customers	3,254	3,420	5,690
Held-to-maturity investments	50	143	30
Available-for-sale financial assets	9	–	–
Other receivables	116	57	(40)
Financial leasing receivables	28	86	82
Other assets[(1)]	34	(8)	33
Total	**3,491**	**3,698**	**5,795**

Note:

(1) Primarily consist of impairment losses on interest receivables and deposits and placements with banks and other financial institutions.

Allowance for impairment losses primarily consists of allowance on loans and other assets. Impairment losses on our loans and advances to customers increased by 66.4% to RMB5,690 million in 2012 compared to RMB3,420 million in 2011, which in turn increased by 5.1% from RMB3,254 million in 2010. The significant increase in impairment losses on our loans and advances to customers in 2012 as compared to 2011 was primarily due to (i) the overall increase in the balance of our loans and advances to customers during this period, and (ii) an increase in the level of our allowance made for the relevant loan portfolios based on our assessment of the risks associated with certain loans.

For details on changes in our allowance for loans and advances to customers, see "Assets and Liabilities – Assets – Allowance for Impairment Losses on Loans and Advances to Customers."

Income Tax

The following table sets forth, for the years indicated, the reconciliation between the income tax calculated at the statutory income tax rate applicable to our profit before tax and our actual income tax.

	For the year ended December 31,		
	2010	2011	2012
	(in millions of RMB, except percentages)		
Profit before tax	**17,111**	**24,211**	**31,590**
Income tax at statutory rate[(1)]	4,278	6,053	7,898
Non-deductible expenses[(2)]	299	306	588
Non-taxable income[(3)]	(264)	(361)	(548)
Adjustment for prior years	4	128	32
Income tax	**4,317**	**6,126**	**7,970**
Effective tax rate	**25.23%**	**25.30%**	**25.23%**

Notes:

(1) 25% during each of the years ended December 31, 2010, 2011 and 2012.

(2) Primarily consist of non-deductible staff costs and other operating expenses.

(3) Primarily consists of interest income from PRC central government bonds.

Our income tax expense increased by 30.1% to RMB7,970 million in 2012 from RMB6,126 million in 2011, which in turn increased by 41.9% from RMB4,317 million in 2010, which was generally in line with the growth rate of our profit before tax. Our effective income tax rates in 2010, 2011 and 2012 were 25.23%, 25.30% and 25.23%, respectively, which in each year was slightly higher than the statutory income tax rate.

The following table sets forth, for the years indicated, the components of our income tax.

	For the year ended December 31,		
	2010	2011	2012
	(in millions of RMB)		
Current income tax	4,758	6,691	8,512
Deferred income tax	(445)	(693)	(574)
Adjustment for prior years	4	128	32
Income tax	**4,317**	**6,126**	**7,970**

Net Profit

Primarily as a result of all the foregoing factors, our net profit increased by 30.6% to RMB23,620 million in 2012 compared to RMB18,085 million in 2011, which in turn increased by 41.4% from RMB12,794 million in 2010.

SUMMARY SEGMENT OPERATING RESULTS

We have three principal business segments, namely corporate banking, retail banking and treasury operations, which operate through our branches in eight geographical regions, including our Head Office, Yangtze River Delta, Pearl River Delta, Bohai Rim, Central China, Northeastern China, Western China and Hong Kong. Our internal organizational structure and internal financial reporting systems are organized both along the above business lines and geographical lines based on our branch structure, and we regularly evaluate the performance of each of our business segments and branches and their respective contributions to our operating income. In recent years, we have strengthened the analysis of our internal financial reporting and performance evaluation of our business lines.

Internal charges and transfer prices are determined with reference to market rates and are reflected in the performance of each segment. Interest income and expense earned from independent third parties are referred to as "external net interest income/(expense)." Net interest income and expense arising from internal charges and transfer pricing adjustments are referred to as "internal net interest income/(expense)."

Summary Business Segment Information

Our principal business segments are corporate banking, retail banking and treasury operations. For a description of products and services included in these business segments, see "Business – Our Principal Businesses."

Six Months Ended June 30, 2013 Compared to Six Months Ended June 30, 2012

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

	For the six months ended June 30,									
	2012					2013				
	Corporate banking	Retail banking	Treasury operations	Others	Total	Corporate banking	Retail banking	Treasury operations	Others	Total
	(unaudited)									
	(in millions of RMB)									
External net interest income[1]	13,821	5,599	5,888	–	25,308	12,367	7,677	6,010	–	26,054
Internal net interest income/(expense)[2]	4,059	(347)	(3,712)	–	–	6,060	(2,453)	(3,607)	–	–
Net interest income	**17,880**	**5,252**	**2,176**	**–**	**25,308**	**18,427**	**5,224**	**2,403**	**–**	**26,054**
Net fee and commission income	**2,250**	**2,611**	**77**	**–**	**4,938**	**2,660**	**4,613**	**76**	**–**	**7,349**
Other net income/(loss)	190	97	(55)	53	285	196	47	136	56	435
Total operating income	**20,320**	**7,960**	**2,198**	**53**	**30,531**	**21,283**	**9,884**	**2,615**	**56**	**33,838**
Operating expenses	(6,759)	(3,873)	(160)	(10)	(10,802)	(7,361)	(4,494)	(291)	(14)	(12,160)
Impairment losses on assets	(1,796)	(635)	(8)	–	(2,439)	(1,324)	(960)	34	–	(2,250)
Profit before tax	**11,765**	**3,452**	**2,030**	**43**	**17,290**	**12,598**	**4,430**	**2,358**	**42**	**19,428**

Notes:

(1) Represents net interest income from each segment's external customers or activities.

(2) Represents net interest income/(expense) attributable to each segment's transactions with other segments.

The increases in profit before tax for our corporate banking business and retail banking business were in line with our overall business expansion.

The profit before tax for our corporate banking business increased by 7.1% to RMB12,598 million for the six months ended June 30, 2013 compared to RMB11,765 million for the six months ended June 30, 2012, primarily due to an increase in net interest income, partially offset by an increase in operating expenses.

The profit before tax for our retail banking business increased by 28.3% to RMB4,430 million for the six months ended June 30, 2013 compared to RMB3,452 million for the six months ended June 30, 2012, primarily due to an increase in external net interest income and net fee and commission income, partially offset by increases in operating expenses and impairment losses on assets.

The profit before tax for our treasury operations increased by 16.2% to RMB2,358 million for the six months ended June 30, 2013 compared to RMB2,030 million for the six months ended June 30, 2012, primarily due to an increase in net interest income and other net income and a decrease in impairment losses on assets.

Years Ended December 31, 2010, 2011 and 2012

The following table sets forth, for the years indicated, our operating results for each of our principal business segments.

	For the year ended December 31,														
	2010					2011					2012				
	Corporate banking	Retail banking	Treasury operations	Others	Total	Corporate banking	Retail banking	Treasury operations	Others	Total	Corporate banking	Retail banking	Treasury operations	Others	Total
	(in millions of RMB)														
External net interest income[1]	16,111	6,688	7,624	–	30,423	19,069	9,374	10,997	–	39,440	25,586	12,686	11,991	–	50,263
Internal net interest income/ (expense)[2]	6,559	(678)	(5,881)	–	–	9,095	(629)	(8,466)	–	–	10,536	(2,115)	(8,421)	–	–
Net interest income	**22,670**	**6,010**	**1,743**	**–**	**30,423**	**28,164**	**8,745**	**2,531**	**–**	**39,440**	**36,122**	**10,571**	**3,570**	**–**	**50,263**
Net fee and commission income	**2,566**	**2,129**	**14**	**–**	**4,709**	**3,604**	**3,267**	**102**	**–**	**6,973**	**3,928**	**5,419**	**132**	**–**	**9,479**
Other net income/(loss)	317	61	171	47	596	292	67	(643)	69	(215)	460	(1)	(250)	119	328
Total operating income	**25,553**	**8,200**	**1,928**	**47**	**35,728**	**32,060**	**12,079**	**1,990**	**69**	**46,198**	**40,510**	**15,989**	**3,452**	**119**	**60,070**
Operating expenses	(9,445)	(5,538)	(105)	(38)	(15,126)	(11,482)	(6,594)	(179)	(34)	(18,289)	(13,925)	(8,268)	(449)	(43)	(22,685)
Impairment losses on assets	(2,576)	(856)	(59)	–	(3,491)	(3,252)	(303)	(143)	–	(3,698)	(4,431)	(1,334)	(30)	–	(5,795)
Profit before tax	13,532	1,806	1,764	9	17,111	17,326	5,182	1,668	35	24,211	22,154	6,387	2,973	76	31,590

Notes:

(1) Represents net interest income from each segment's external customers or activities.

(2) Represents net interest income/(expense) attributable to each segment's transactions with other segments.

Our corporate banking business recorded a profit before tax of RMB13,532 million in 2010, RMB17,326 million in 2011 and RMB22,154 million in 2012, representing a CAGR of 28.0%. The increase in the profit before tax in 2012 compared to 2011 was primarily due to the increases in net interest income and net fee and commission income, partially offset by the increases in operating expenses and impairment losses on assets. Impairment losses on assets in our corporate banking business increased to RMB4,431 million in 2012 compared to RMB3,252 million in 2011, primarily due to (i) an increase in the balance of our corporate loans during this period, and (ii) an increase in the level of our allowance made for the relevant loan portfolios based on our assessment of the risks associated with certain loans. The increase in the profit before tax in 2011 compared to 2010 was primarily due to substantial increases in net interest income and net fee and commission income, partially offset by increases in operating expenses and impairment losses on assets. Impairment losses on assets in our corporate banking business increased to RMB3,252 million in 2011 compared to RMB2,576 million in 2010, primarily due to an increase in the balance of our corporate loans.

Our retail banking recorded a profit before tax of RMB 6,387 million in 2012, an increase of 23.3% compared to RMB5,182 million in 2011, primarily due to the increases in net interest income and net fee and commission income, partially offset by the increases in operating expenses and impairment losses on assets. The increases in the net interest income, net fee and commission income and operating expenses from our retail banking business were generally in line with the overall expansion of our retail banking business. Impairment losses on assets in our retail banking business significantly increased to RMB1,334 million in 2012 compared to RMB303 million in 2011, primarily due to (i) an increase in the balance of our retail loans, and (ii) an increase in our level of allowance for impairment losses made for retail loans based on our overall assessment of the risks associated with retail loans. Our retail banking recorded a profit before tax of RMB5,182 million in 2011, an increase of 186.9% compared to RMB1,806 million in

2010, primarily due to (i) a significant increase in net interest income, (ii) a significant increase in net fee and commission income and (iii) a decrease in impairment losses on assets, partially offset by an increase in operating expenses. The increase in the net interest income from our retail loans was primarily due to (i) our efforts to expand our retail banking business, (ii) the adjustment of our retail banking product mix by allocating more resources to our personal business loans and commercial property mortgage loans, which carry higher interest rates and (iii) the impact of increases in the benchmark interest rate by the PBOC since the second half of 2010. Impairment losses on assets in our retail banking business decreased by 64.6% to RMB303 million in 2011 compared to RMB856 million in 2010, primarily due to the improvement of the asset quality of our retail loans.

Our treasury operations business recorded a profit before tax of RMB2,973 million in 2012, a significant increase of 78.2% compared to RMB1,668 million in 2011, primarily due to (i) an increase in the net interest income, (ii) a decrease in other net loss and (iii) a decrease in impairment losses on assets, partially offset by the increases in operating expenses. Net interest income of our treasury operations increased by 41.1% to RMB3,570 million in 2012 compared to RMB2,531 million in 2011, primarily due to an increase in the interest income from the investments. Our treasury operations business recorded a profit before tax of RMB1,668 million in 2011, a decrease of 5.4% compared to RMB1,764 million in 2010, primarily due to a decrease in other net income and increases in operating expenses and impairment losses on assets, partially offset by an increase in interest income from our treasury operations.

Summary Geographical Segment Information

In presenting information on the basis of geographical segments, operating income is allocated based on the location of the branch that generated the revenue. For purposes of presentation, we categorize this information into regions. The following table sets forth, for the periods indicated, the total operating income attributable to each of these geographical regions. For a description of our geographical regions, see "Definitions and Conventions."

	For the year ended December 31,						For the six months ended June 30,			
	2010		2011		2012		2012		2013	
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
							(unaudited)			
	(in millions of RMB, except percentages)									
Head Office[(1)]	2,708	7.6%	5,477	11.8%	9,602	16.0%	5,372	17.6%	6,343	18.7%
Yangtze River Delta	8,496	23.8	10,017	21.7	11,982	19.9	6,032	19.7	6,347	18.8
Bohai Rim	8,090	22.6	9,784	21.2	11,721	19.5	5,794	19.0	6,513	19.2
Central	4,965	13.9	6,336	13.7	8,259	13.7	4,096	13.4	4,426	13.1
Pearl River Delta	4,697	13.1	6,086	13.2	7,603	12.7	3,867	12.7	4,094	12.1
Northeastern	2,321	6.5	3,005	6.5	3,714	6.2	1,858	6.1	1,879	5.6
Western	4,451	12.5	5,493	11.9	7,189	12.0	3,512	11.5	4,221	12.5
Hong Kong	–	–	–	–	–	–	–	–	15	0.0
Total operating income	**35,728**	**100.0%**	**46,198**	**100.0%**	**60,070**	**100.0%**	**30,531**	**100.0%**	**33,838**	**100.0%**

Note:

(1) Includes operating income from our treasury operation and income from our credit card business.

Our operating income generated in the regions of Yangtze River Delta, Bohai Rim and Pearl River Delta together represented 51.4% and 50.1% of our total operating income for the six months ended June 30, 2012 and for the six months ended June 30, 2013, respectively. Our operating income from our Head

Office increased by 18.1% to RMB6,343 million for the six months ended June 30, 2013 from RMB5,372 million for the six months ended June 30, 2012, primarily due to the expansion of our credit card business.

Our operating income generated in the regions of Yangtze River Delta, Bohai Rim and Pearl River Delta together represented 59.5%, 56.1% and 52.1% of our operating income for the years ended December 31, 2010, 2011 and 2012, respectively. Our operating income from our Head Office increased by 75.3% to RMB9,602 million in 2012 from RMB5,477 million in 2011, which in turn increased by 102.3% from RMB2,708 million in 2010. The overall increase in our operating income from our Head Office from 2010 to 2012 was primarily due to the continued expansion of our credit card business.

CASH FLOWS

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

	For the year ended December 31,			For the six months ended June 30,	
	2010	2011	2012	2012	2013
				(unaudited)	
	(in millions of RMB)				
Net cash flows from/(used in) operating activities	13,660	46,333	272,005	(11,660)	75,640
Net cash flows (used in)/from investing activities	(52,152)	24,196	(321,031)	(60,230)	(96,660)
Net cash flows from/(used in) financing activities	13,816	(4,410)	30,402	30,823	(12,434)
Effect of foreign exchange rate changes on cash and cash equivalents	(147)	(539)	(108)	86	(257)
Net (decrease)/increase in cash and cash equivalents	**(24,823)**	**65,580**	**(18,732)**	**(40,981)**	**(33,711)**

Cash Flows from Operating Activities

Cash inflows from our operating activities are primarily attributable to changes in (i) deposits from customers and (ii) deposits from banks and other financial institutions. We had a net increase in deposits from customers of RMB255,551 million, RMB162,100 million, RMB201,663 million and RMB127,750 million, for the years ended December 31, 2010, 2011 and 2012 and for the six months ended June 30, 2013, respectively. For the year ended December 31, 2010, the net decrease in deposits from banks and other financial institutions was RMB34,046 million. The net increase in deposits from banks and other financial institutions for the years ended December 31, 2011 and 2012 and for the six months ended June 30, 2013 was RMB73,413 million, RMB256,934 million and RMB36,561 million, respectively. To a lesser extent, cash inflows from our operating activities are also attributable to changes in financial assets sold under repurchase agreements. For the years ended December 31, 2011 and 2012, the net increase in financial assets sold under repurchase agreements was RMB28,050 million and RMB33,798 million, respectively. For the year ended December 31, 2010 and for the six months ended June 30, 2013, the net decrease in financial assets sold under repurchase agreements was RMB1,981 million and RMB2,281 million, respectively.

Cash outflows from our operating activities are primarily attributable to changes in loans and advances to customers, which had a net increase of RMB131,341 million, RMB112,186 million, RMB134,003 million and RMB83,644 million for the years ended December 31, 2010, 2011 and 2012 and for the six months ended June 30, 2013, respectively. For a discussion of increases in our loans and advances to customers from December 31, 2010 to June 30, 2013, see "Assets and Liabilities – Assets – Loans and Advances to Customers." To a lesser extent, cash outflows from our operating activities are also attributable to changes in (i) deposits with the central bank, banks and other financial institutions, (ii) placements with banks and other financial institutions and (iii) the net increase in financial assets held under resale agreements. The net increase in deposits with the central bank, banks and other financial institutions for the years ended December 31, 2010, 2011 and 2012 and for the six months ended June 30, 2013 was RMB33,592 million, RMB59,764 million, RMB37,475 million and RMB54,434 million, respectively. The net increase in placements with banks and other financial institutions for the years ended December 31, 2010, 2011 and 2012 and for the six months ended June 30, 2013 was RMB7,079 million, RMB27,463 million, RMB34,083 million and RMB33,435 million, respectively. The net increase in financial assets held under resale lease for the years ended December 31, 2010, 2011 and 2012 was RMB49,277 million, RMB37,829 million and RMB23,764 million, respectively. We had a net decrease in financial assets held under resale lease for the six months ended June 30, 2013 of RMB50,230 million.

For the six months ended June 30, 2013, we had a net cash inflow from operating activities of RMB75,640 million, in contrast to a net cash outflow of RMB11,660 million for the six months ended June 30, 2012. The increase in our cash inflows from our operating activities was primarily due to increases in deposits from customers and in placements from banks and other financial institutions. The increase in our cash outflows from our operating activities was primarily due to increases in loans and advances to customers and in deposits with the central bank, banks and other financial institutions.

Our net cash inflows from operating activities increased to RMB272,005 million in 2012 compared to RMB46,333 million in 2011, primarily due to an increase in our operating liabilities by 112.2% to RMB482,702 million in 2012 from RMB227,514 million in 2011, partially offset by an increase in our operating assets by 18.5% to RMB251,445 million in 2012 from RMB212,180 million in 2011. The increase in our operating liabilities was primarily due to the greater amount of net increase in deposits from banks and other financial institutions and the greater amount of net increase in deposits from customers. The increase in our operating assets was primarily due to the greater amount of net increase in loans and advances to customers and an increase in other operating assets.

Our net cash inflows from operating activities increased to RMB46,333 million in 2011 compared to RMB13,660 million in 2010, primarily due to (i) an increase in our operating liabilities by 6.7% to RMB227,514 million in 2011 from RMB213,180 million in 2010, and (ii) a decrease in operating assets by 4.4% to RMB212,180 million in 2011 from RMB221,844 million in 2010. The increase in operating liabilities was primarily due to the greater amount of net increase in deposits from banks and other financial institutions and the greater amount of net increase in financial assets sold under repurchase agreements, partially offset by the lesser amount of net increase in deposits from customers. The decrease in operating assets from our operating activities was primarily due to the lesser amount of net increase in loans and advances to customers and the lesser amount of net increase in financial assets held under resale agreements.

Cash Flows from Investing Activities

Cash inflows from our investing activities are primarily attributable to the proceeds from disposals and redemptions of our investments. The proceeds from disposal and redemption of investments for the years ended December 31, 2010, 2011 and 2012 and for the six months ended June 30, 2013 amounted to RMB280,879 million, RMB424,752 million, RMB326,171 million and RMB163,421 million, respectively.

Our cash outflows from investing activities are primarily attributable to payments on acquisition of investments. Our payments on acquisition of investments for the years ended December 31, 2010, 2011 and 2012 and for the six months ended June 30, 2013 amounted to RMB330,894 million, RMB398,629 million, RMB644,507 million and RMB259,309 million, respectively.

Cash Flows from Financing Activities

Our cash inflows from financing activities are primarily attributable to proceeds from capital injections from Shareholders (including our A Share initial public offering and private placements) and proceeds from the issuance of new debt securities. We received RMB21,323 million as capital injections from our Shareholders in 2010. We received RMB36,700 million as proceeds from our issuances of new debt securities in 2012, consisting of RMB30,000 million as proceeds from financial bonds and RMB6,700 million as proceeds from subordinated debts. See "– Capital Resources – Debt Securities Issued". We did not issue any debt securities in 2010 and 2011.

Our cash outflows from financing activities are primarily attributable to cash dividends paid to Shareholders, interest paid on debt securities issued and repayments of subordinated debts issued. The aggregate amounts of the cash dividends paid by us to our Shareholders in 2010, 2011 and 2012 and for six months ended June 30, 2013 were RMB1,167 million, RMB3,674 million, RMB5,528 million and RMB2,256 million, respectively. The interest paid by us to holders of our subordinated debts in 2010, 2011 and 2012 and for the six months ended June 30, 2013 were RMB870 million, RMB736 million, RMB770 million and RMB2,208 million, respectively. In 2010 and in the six months ended June 30, 2013, we repaid an aggregate principal amount of RMB5,550 million and RMB8,000 million, respectively, for part of our subordinated debts upon their maturity.

LIQUIDITY

We fund our loan and investment portfolios principally by our deposits from customers. Although a majority of our deposits from customers have been short-term deposits, deposits from customers have been, and we believe they will continue to be, a stable source of our funding. Deposits from customers with remaining maturities of one year or less represented 89.6%, 87.8%, 86.6% and 86.1% of total deposits from customers as of December 31, 2010, 2011 and 2012 and June 30, 2013, respectively. For additional information about our short-term liabilities and sources of funds, see "Assets and Liabilities – Liabilities and Sources of Funds" and "Supervision and Regulation – PRC Banking Supervision and Regulation – Other Operational and Risk Management Ratios."

We manage liquidity primarily by monitoring the maturities of our assets and liabilities in an effort to ensure that we have sufficient funds to meet obligations as they become due. We have been focusing on maintaining stable sources of funding and increasing our deposits from customers. Furthermore, to meet our liquidity management requirements, we hold a significant amount of highly liquid assets, such as PBOC bills and PRC central government bonds, and financial assets with short maturities, such as financial assets held under resale agreements, short-term debt securities and discounted bills.

If further liquidity requirements arise, we have access to the inter-bank money market. See "Risk Management – Liquidity Risk Management."

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

	As of June 30, 2013							
	Indefinite	Repayable on demand	Within 1 month (inclusive)	Between 1 month and 3 months (inclusive)	Between 3 months and 12 months (inclusive)	Between 1 year and 5 years (inclusive)	More than 5 years	Total
	(in millions of RMB)							
Assets								
Cash and deposits with the central bank	280,850	30,858	–	–	–	–	–	311,708
Deposits with banks and other financial institutions	–	12,425	8,360	33,336	13,129	6,620	–	73,870
Placements with banks and other financial institutions	–	–	27,081	47,603	53,304	9,072	–	137,060
Financial assets held under resale agreements	–	–	101,955	46,768	32,661	–	–	181,384
Loans and advances to customers, net	9,672	92,185	58,713	119,109	400,799	216,232	181,955	1,078,665
Investments, net[1]	99	–	10,163	60,776	109,270	307,543	86,718	574,569
Others[2]	18,546	17	7,911	22,298	23,332	40,596	1,212	113,912
Total assets	**309,167**	**135,485**	**214,183**	**329,890**	**632,495**	**580,063**	**269,885**	**2,471,168**
Liabilities								
Deposits from banks and other financial institutions	–	106,390	318,389	78,739	57,804	2,800	–	564,122
Placements from banks and other financial institutions	–	21	19,922	10,094	10,185	–	–	40,222
Financial assets sold under repurchase agreements	–	4	71,723	317	173	–	–	72,217
Deposits from customers	–	630,378	186,620	168,673	352,367	214,973	1,680	1,554,691
Debt securities issued	–	–	–	–	8,000	30,000	6,700	44,700
Others[3]	8,759	1,083	19,292	25,046	8,849	4,938	183	68,150
Total liabilities	**8,759**	**737,876**	**615,946**	**282,869**	**437,378**	**252,711**	**8,563**	**2,344,102**
Liquidity gap	**300,408**	**(602,391)**	**(401,763)**	**47,021**	**195,117**	**327,352**	**261,322**	**127,066**
Notional amount of derivative financial instruments	**–**	**–**	**48,771**	**33,592**	**98,733**	**56,000**	**2,497**	**239,593**

Notes:

(1) Consist of debt securities (net), equity instruments (net), fixed-rate mortgages and debt securities classified as receivables.

(2) Primarily consist of interest receivables, positive fair value of derivatives, fixed assets, intangible assets, deferred tax assets and goodwill.

(3) Primarily consist of negative fair value of derivatives, accrued staff costs, taxes payable, interests payable and provisions.

CAPITAL RESOURCES

Shareholders' Equity

The following table sets forth, between the dates indicated, the components of the changes in our total equity attributable to Shareholders.

	Shareholders' equity
	(in millions of RMB)
As of December 31, 2010	**81,463**
Share capital	–
Capital reserve	427
Surplus reserve	1,792
General reserve	2,245
Retained earnings	10,206
Non-controlling interests	17
As of December 31, 2011	**96,150**
Share capital	–
Capital reserve	(70)
Surplus reserve	2,334
General reserve	14,186
Retained earnings	1,693
Non-controlling interests	29
As of December 31, 2012	**114,322**
Share capital	–
Capital reserve	120
Surplus reserve	–
General reserve	–
Retained earnings	12,572
Non-controlling interests	52
As of June 30, 2013	**127,066**

Debt Securities Issued

On April 25, 2008, we issued RMB6 billion principal amount of subordinated debts, including (i) RMB3.5 billion principal amount of first fixed-rate subordinated debt which matures on April 28, 2018 and bears interest at 5.85% per year for the first five years and (ii) RMB2.5 billion principal amount of first floating rate subordinated debt which matures on April 28, 2018 and bears interest at a floating rate based on the PBOC's one-year time deposits rate plus an interest margin of 1.66%. On April 28, 2013, we redeemed these subordinated debts in full.

On June 27, 2008, we issued RMB2 billion second fixed rate subordinated debt which matures on June 30, 2018 and bears interest at 5.92% per year for the first five years. On June 30, 2013, we redeemed these subordinated debts in full.

On December 15, 2008, we issued RMB5 billion third fixed rate subordinated debt which matures on December 17, 2018 and bears interest at 4.05% per year for the first five years. We have announced on November 15, 2013 that we would exercise our redemption option on December 17, 2013 to fully redeem the RMB5 billion ten-year fixed rate subordinated debt issued on December 15, 2008.

On March 13, 2009, we issued RMB3 billion first fixed rate subordinated debt which matures on March 17, 2019 and bears interest at 3.75% per year for the first five years; the interest rate for the remaining term increases to 6.75% per year if the debt is not redeemed by us by March 17, 2014.

On March 28, 2012, we issued RMB20 billion fixed rate financial bonds with a term of five years bearing coupon rate of 4.20%.

On March 28, 2012, we issued RMB10 billion floating rate financial bonds with a term of five years bearing interest at a floating rate based on the PBOC's one-year time deposits rate plus a margin of 0.95%.

On June 7, 2012, we issued RMB6.7 billion fixed-rate subordinated debt with a term of fifteen years bearing coupon rate of 5.25%, which we can choose to redeem at the nominal amount on June 8, 2022.

As of December 31, 2010, 2011 and 2012 and June 30, 2013, the fair value of the total debt securities issued by us amounted to RMB15,889 million, RMB15,742 million, RMB51,823 million and RMB46,107 million, respectively.

Capital Adequacy

Our core capital, supplementary capital and risk-weighted assets are calculated in accordance with the requirements under the Capital Adequacy Regulations and the Rules Governing Capital Management of Commercial Banks (Provisional) (商業銀行資本管理辦法(試行)), when applicable, issued by the CBRC.

The following table sets forth, as of the dates indicated, certain information relating to our capital adequacy, calculated in accordance with the Capital Adequacy Regulations effective through the year ended December 31, 2012.

	As of December 31,		
	2010	2011	2012
	(in millions of RMB, except percentages)		
Core capital adequacy ratio	8.15%	7.89%	8.00%
Capital adequacy ratio	11.02%	10.57%	10.99%
Components of capital base			
Core capital:	**77,638**	**90,772**	**111,977**
Share capital	40,435	40,435	40,435
Capital reserve	19,901	20,328	20,258
Surplus reserve and general reserve	14,066	18,103	34,623
Retained earnings	3,138	11,791	16,517
Non-controlling interests	98	115	144
Supplementary capital:	**28,477**	**31,922**	**42,928**
General provision for doubtful debts	12,477	15,922	20,228
Long-term subordinated debts	16,000	16,000	22,700
Total capital base before deductions	**106,115**	**122,694**	**154,905**
Deductions:	**(2,803)**	**(2,803)**	**(2,802)**
Goodwill	(1,281)	(1,281)	(1,281)
Unconsolidated equity investments	(2)	(2)	(1)
Others	(1,520)	(1,520)	(1,520)
Total capital base after deductions[(1)]	**103,312**	**119,891**	**152,103**
Risk-weighted assets[(2)]	**937,387**	**1,133,906**	**1,383,605**

Notes:

(1) Also referred to in this prospectus as "regulatory capital."

(2) The balances of risk-weighted assets include an amount equal to 12.5 times the Group's market risk capital.

As of December 31, 2010, 2011 and 2012, our capital adequacy ratio was 11.02%, 10.57% and 10.99%, respectively, and our core capital adequacy ratio was 8.15%, 7.89% and 8.00%, respectively, in compliance with CBRC requirements. See "Supervision and Regulation – PRC Banking Supervision and Regulation – Supervision Over Capital Adequacy – Supervision on capital adequacy level by the CBRC" and "Supervision and Regulation – PRC Banking Supervision and Regulation – Principal Regulators – CBRC."

On June 7, 2012, the CBRC promulgated the Rules Governing Capital Management of Commercial Banks (Provisional) (商業銀行資本管理辦法(試行)), the requirements of which will result in changes in our capital adequacy ratios. See "Risk Factors – Risks Relating to Our Business – We may face difficulties in meeting regulatory requirements relating to capital adequacy in the future" and "Supervision and Regulation – PRC Banking Supervision and Regulation – Supervision Over Capital Adequacy."

The following table sets forth, as of June 30, 2013, certain information relating to our capital adequacy, calculated in accordance with the above requirements.

	As of June 30, 2013
	(in millions of RMB, except percentages)
Core tier-one capital adequacy ratio	**7.77%**
Tier-one capital adequacy ratio	**7.77%**
Capital adequacy ratio	**10.55%[1]/9.67%**
Core tier-one capital, net	**125,229**
Tier-one capital, net	**125,232**
Net capital	**155,754**
Risk-weighted assets for credit risk	1,510,903
Risk-weighted assets for market risk	12,197
Risk-weighted assets for operational risk	88,306
Total risk-weighted assets	**1,611,406**

Note:

(1) Calculated in accordance with the superseded Capital Adequacy Regulations (資本充足率管理辦法), which was no longer a regulatory requirement as of January 1, 2013 and is presented here for illustrative purposes only.

CREDIT COMMITMENTS

Our credit commitments primarily consist of loan commitments, credit card commitments, acceptances, letters of guarantee, letters of credit and financial guarantees. Loan commitments are our commitments to extend credit. Acceptances consist of undertakings to pay bills of exchange issued by us. Letters of guarantee, letters of credit and financial guarantees are provided to guarantee the performance of our customers to third parties. The following table sets forth the contractual amounts of our credit commitments as of the dates indicated.

	As of December 31,			As of June 30,
	2010	2011	2012	2013
	(in millions of RMB)			
Loan commitments				
Original contractual maturity within one year	19,115	13,709	8,249	12,797
Original contractual maturity more than one year (inclusive)	33,913	30,508	38,267	40,014
Credit card commitments	31,381	43,426	61,839	57,728
Subtotal	84,409	87,643	108,355	110,539
Acceptances	262,318	318,730	407,585	449,404
Letters of guarantee	46,898	59,280	45,417	48,629
Letters of credit	56,206	86,910	114,003	123,386
Guarantees	1,161	1,161	761	361
Total	**450,992**	**553,724**	**676,121**	**732,319**

As of December 31, 2010, 2011 and 2012 and June 30, 2013, our credit commitments were RMB450,992 million, RMB553,724 million, RMB676,121 million and RMB732,319 million, respectively. The increases in our credit commitments were primarily due to the increases in our acceptances, credit card commitments and letters of credit.

TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

The following table sets forth the face value of our known contractual obligations by remaining contract maturity classified into the categories specified below as of June 30, 2013.

	As of June 30, 2013			
	Less than 1 year	Between 1 and 5 years	More than 5 years	Total
	(in millions of RMB)			
On-balance sheet				
Subordinated debts issued	–	–	14,700	14,700
Financial bonds	–	30,000	–	30,000
Total	**–**	**30,000**	**14,700**	**44,700**
Off-balance sheet				
Operating lease commitments	1,356	5,031	2,662	9,049
Redemption obligations	3,173	5,499	–	8,672
Capital commitments approved or contracted for	946	277	–	1,223
Total	**5,475**	**10,807**	**2,662**	**18,944**

SELECTED UNAUDITED FINANCIAL INFORMATION AS OF AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2013

Under the rules of the Shanghai Stock Exchange on which our A Shares are listed, we are required to publish reports containing unaudited financial statements as of and for the nine months ended September 30 of each year. Because we published certain financial statements as of and for the nine months ended September 30, 2013 in the PRC prior to the date of this prospectus, we have included the condensed consolidated statement of financial position as of September 30, 2013, the condensed consolidated statement of the comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows, each for the nine months ended September 30, 2013, together with selected explanatory notes of our Group prepared in accordance with IFRS in Appendix II to this prospectus. KPMG, our independent reporting accountants and auditors, have conducted a review on such financial information in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

Condensed Results of Operations for the Nine Months Ended September 30, 2012 and 2013

The condensed, consolidated results of operations for the nine months ended September 30, 2013 and 2012 set forth below are derived from Appendix II to this prospectus. You should read the following information in conjunction with Appendix II to this prospectus. Our results of operations for the nine months ended September 30, 2013 may not be indicative of our results of operations for the full year ending December 31, 2013.

Net Interest Income

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

	For the nine months ended September 30,	
	2012	2013
	(unaudited) (in millions of RMB)	
Interest income	76,629	89,015
Interest expense	(38,698)	(50,477)
Net interest income	**37,931**	**38,538**

Our net interest income increased by 1.6% to RMB38,538 million for the nine months ended September 30, 2013 compared to RMB37,931 million for the nine months ended September 30, 2012, as a result of a 16.2% increase in our interest income to RMB89,015 million for the nine months ended September 30, 2013 compared to RMB76,629 million for the nine months ended September 30, 2012, partially offset by a 30.4% increase in our interest expense to RMB50,477 million for the nine months ended September 30, 2013 compared to RMB38,698 million for the nine months ended September 30, 2012.

The following table sets forth, for the periods indicated, the average balances of our assets and liabilities and the related interest income or expense and average yields (for assets) or average costs (for liabilities). The average balances of interest-earning assets and interest-bearing liabilities are the average of the daily balances. The average balances of non-interest earning assets, non-interest bearing liabilities and the allowance for impairment losses are the average of the balances at September 30 for the periods indicated.

	For the nine months ended September 30,					
	2012			2013		
	Average balance(7)	Interest income	Average yield(8)	Average balance(7)	Interest income	Average yield(8)
	(unaudited)					
	(in millions of RMB, except percentages)					
Assets						
Loans and advances to customers	966,862	48,724	6.72%	1,115,349	52,037	6.22%
Debt securities investments(1)	248,629	8,371	4.49	557,530	20,834	4.98
Deposits with the central bank(2)	257,526	2,850	1.48	301,870	3,367	1.49
Deposits with banks and other financial institutions	54,343	1,682	4.13	45,399	975	2.86
Financial assets held under resale agreements and placements with banks and other financial institutions	380,791	15,002	5.25	337,939	11,802	4.66
Total interest-earning assets	**1,908,151**	**76,629**	**5.35%**	**2,358,087**	**89,015**	**5.03%**
Allowance for impairment losses	(29,570)	–		(30,978)	–	
Non-interest earning assets(3)	170,045	–		135,931	–	
Total assets	**2,048,626**	**76,629**		**2,463,040**	**89,015**	

	For the nine months ended September 30,					
	2012			2013		
	Average balance[7]	Interest expense	Average cost[8]	Average balance[7]	Interest expense	Average cost[8]
	(unaudited)					
	(in millions of RMB, except percentages)					
Liabilities						
Deposits from customers[4]	1,260,350	23,477	2.48%	1,481,861	27,548	2.48%
Deposits from banks and other financial institutions	372,433	11,648	4.17	569,942	19,415	4.54
Financial assets sold under repurchase agreements and placements from banks and other financial institutions	101,629	2,588	3.40	107,090	2,547	3.17
Debt securities issued	39,177	1,342	4.57	48,663	1,637	4.49
Total interest-bearing liabilities	**1,773,589**	**39,055**	**2.94%**	**2,207,556**	**51,147**	**3.09%**
Fair value change of structured deposits	–	(357)		–	(670)	
Non-interest-bearing liabilities	64,006	–		58,271	–	
Total liabilities	**1,837,595**	**38,698**		**2,265,827**	**50,477**	
Net interest income		**37,931**			**38,538**	
Net interest spread[5]		**2.41%**			**1.94%**	
Net interest margin[6] ...		**2.63%**			**2.14%**	

Notes:

(1) Consist of available-for-sale debt securities, held-to-maturity debt securities, debt securities held for trading and debt securities classified as receivables.

(2) Primarily consist of required deposit reserves and surplus deposit reserves.

(3) Consist of cash, positive fair value of derivatives, assets held for wealth management products, interest receivable and other assets.

(4) Consist of corporate deposits, retail deposits and structured deposits.

(5) Calculated as the difference between the average yield on total interest-earning assets (calculated on an annualized basis) and the average cost of total interest-bearing liabilities (calculated on an annualized basis).

(6) Calculated by dividing net interest income (including the impact of fair value change of structured deposits) by the average balance of total interest-earning assets on an annualized basis.

(7) Represents the average of the daily balances during the period.

(8) Calculated on an annualized basis.

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

	For the nine months ended September 30, 2013 vs. 2012		
	Increase/(decrease) due to		Net increase/ (decrease)[3]
	Volume[1]	Rate[2]	
	(unaudited) (in millions of RMB)		
Assets			
Loans to customers	6,928	(3,615)	3,313
Debt securities investments	11,543	920	12,463
Deposits with the central bank	495	22	517
Deposits with banks and other financial institutions	(192)	(515)	(707)
Financial assets held under resale agreements and placements with banks and other financial institutions	(1,497)	(1,703)	(3,200)
Changes in interest income	**17,277**	**(4,891)**	**12,386**
Liabilities			
Deposits from customers	4,435	(364)	4,071
Deposits from banks and other financial institutions	6,728	1,039	7,767
Financial assets sold under repurchase agreements and placements from banks and other financial institutions	130	(171)	(41)
Debt securities issued	319	(24)	295
Sub-total	11,612	480	12,092
Fair value change of structured deposits			(313)
Changes in interest expense			**11,779**

Notes:

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

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

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

Interest Income

Our interest income increased by 16.2% to RMB89,015 million for the nine months ended September 30, 2013 compared to RMB76,629 million for the nine months ended September 30, 2012, primarily due to an increase of 23.6% in the average balance of our interest-earning assets to RMB2,358,087 million for the nine months ended September 30, 2013 compared to RMB1,908,151 million for the nine months ended September 30, 2012, partially offset by a decrease in the average yield on our interest-earning assets to 5.03% for the nine months ended September 30, 2013 compared to 5.35% for the nine months ended September 30, 2012. The increase in the average balance of our interest-earning assets was primarily due to an increase in the average balance of (i) our debt securities investments, (ii) our loans and advances to customers, and (iii) our deposits with the central bank. The increase in the average balance of our interest-earning assets was partially offset by a decrease in the average balance of (i) financial assets held under resale agreements and placements with banks and other financial institutions and (ii) our deposits with banks and other financial institutions.

The decrease in the average yield on our interest-earning assets was primarily due to decreases in the average yield of (i) our loans and advances to customers, (ii) our deposits with banks and other financial institutions, and (iii) our financial assets held under resale agreements and placements with banks and other financial institutions, partially offset by an increase in the average yield of our debt securities investments.

Interest Income from Loans to Customers

Interest income from loans and advances to customers is the largest component of our interest income, representing 63.6% and 58.5% of our interest income for the nine months ended September 30, 2012 and 2013, respectively.

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

	For the nine months ended September 30,					
	2012			2013		
	Average balance(1)	Interest income	Average yield(2)	Average balance(1)	Interest income	Average yield(2)
	(unaudited) (in millions of RMB, except percentages)					
Corporate loans	680,972	34,836	6.82%	741,933	35,011	6.29%
Retail loans	259,030	12,187	6.27	351,537	16,010	6.07
Discounted bills	26,860	1,701	8.44	21,879	1,016	6.19
Total loans to customers	**966,862**	**48,724**	**6.72%**	**1,115,349**	**52,037**	**6.22%**

Notes:

(1) Represents the average of the daily balances during the period.

(2) Calculated on an annualized basis.

Interest income from loans and advances to customers increased by 6.8% to RMB52,037 million for the nine months ended September 30, 2013 compared to RMB48,724 million for the nine months ended September 30, 2012, primarily as a result of an increase in the average balance to RMB1,115,349 million for the nine months ended September 30, 2013 compared to RMB966,862 million for the nine months ended September 30, 2012, partially offset by the decrease in the average yield of our total loans and advances to customers to 6.22% for the nine months ended September 30, 2013 compared to 6.72% for the nine months ended September 30, 2012. The increase in the average balance of our loans and advances to customers was primarily due to our continued business expansion. The decrease in the average yield on our loans and advances to customers was primarily due to the decrease in the average yields of our corporate loans, retail loans and discounted bills.

The largest component of our interest income from loans and advances to customers is the interest income from our corporate loans, representing 71.5% and 67.3% of our total interest income from loans and advances to customers for the nine months ended September 30, 2012 and 2013, respectively.

Interest income from corporate loans remained relatively stable at RMB35,011 million for the nine months ended September 30, 2013 compared to RMB34,836 million for the nine months ended September 30, 2012. The average balance increased by 9.0% to RMB741,933 million for the nine months ended September 30, 2013 from RMB680,972 million for the nine months ended September 30, 2012, reflecting the overall expansion of our corporate banking business. Such increase in the average balance was offset by a decrease in the average yield to 6.29% for the nine months ended September 30, 2013 compared to 6.82% for the nine months ended September 30, 2012, primarily due to the impact of two consecutive decreases in the PBOC benchmark interest rate since the second half of 2012.

Interest income from our retail loans increased by 31.4% to RMB16,010 million for the nine months ended September 30, 2013 compared to RMB12,187 million for the nine months ended September 30, 2012, primarily due to an increase of 35.7% in the average balance to RMB351,537 million for the nine months ended September 30, 2013 compared to RMB259,030 million for the nine months ended September 30, 2012. The increase in the average balance reflected the overall expansion of our retail banking business. The decrease in the average yield on retail loans was primarily due to the impact of two consecutive decreases in the PBOC benchmark interest rate since the second half of 2012.

Interest income from discounted bills decreased by 40.3% to RMB1,016 million for the nine months ended September 30, 2013 compared to RMB1,701 million for the nine months ended September 30, 2012, primarily due to a decrease in the average balance and the average yield. The average balance of discounted bills decreased by 18.5% to RMB21,879 million for the nine months ended September 30, 2013 from RMB26,860 million for the nine months ended September 30, 2012, primarily due to adjustments to our loan portfolio. The average yield on discounted bills decreased to 6.19% for the nine months ended September 30, 2013 compared to 8.44% for the nine months ended September 30, 2012, primarily due to an increase in the proportion of short term discounted bills, which have greater liquidity and carry lower yields.

Interest Income from Debt Securities Investments

Interest income from debt securities investments represented 10.9% and 23.4% of our total interest income for the nine months ended September 30, 2012 and 2013, respectively.

Interest income from debt securities investments increased significantly by 148.9% to RMB20,834 million for the nine months ended September 30, 2013 compared to RMB8,371 million for the nine months ended September 30, 2012, primarily due to a significant increase in the average balance by 124.2% to RMB557,530 million for the nine months ended September 30, 2013 compared to RMB248,629 million for the nine months ended September 30, 2012. The increase in the average balance was primarily due to the adjustment of our investment portfolio to allocate our fund resources to products with higher yields, including debt securities classified as receivables.

Interest Income from Deposits with the Central Bank

Interest income from deposits with the central bank increased by 18.1% to RMB3,367 million for the nine months ended September 30, 2013 compared to RMB2,850 million for the nine months ended September 30, 2012, primarily due to an increase in the average balance by 17.2% to RMB301,870 million for the nine months ended September 30, 2013 compared to RMB257,526 million for the nine months ended September 30, 2012. The increase in the average balance was primarily due to an increase in our required deposit reserves, reflecting an increase in our deposits from customers, partially offset by a decrease in the required deposit reserve ratio.

Interest Income from Deposits with Banks and other Financial Institutions

Interest income from deposits with banks and other financial institutions decreased by 42.0% to RMB975 million for the nine months ended September 30, 2013 compared to RMB1,682 million for the nine months ended September 30, 2012, primarily due to (i) a decrease in the average yield to 2.86% for nine months ended September 30, 2013 compared to 4.13% for the nine months ended September 30, 2012 and (ii) a decrease in the average balance to RMB45,399 million for nine months ended September 30, 2013 compared to RMB54,343 million for the nine months ended September 30, 2012. The decrease in the average yield of deposits with banks and other financial institutions was primarily due to an increase in the proportion of short term deposits with banks and other financial institutions, which have greater liquidity and carry lower yields. The decrease in the average balance was primarily due to the reallocation of our fund resources to products with higher yields while meeting our liquidity needs.

Interest Income from Financial Assets Held under Resale Agreements and Placements with Banks and other Financial Institutions

For the nine months ended September 30, 2012 and 2013, interest income from financial assets held under resale agreements and placements with banks and other financial institutions represented 19.6% and 13.3% of our total interest income, respectively.

Interest income from financial assets held under resale agreements and placements with banks and other financial institutions decreased by 21.3% to RMB11,802 million for the nine months ended September 30, 2013 compared to RMB15,002 million for the nine months ended September 30, 2012, primarily due to (i) a decrease in the average yield to 4.66% for the nine months ended September 30, 2013 compared to 5.25% for the nine months ended September 30, 2012 and (ii) a decrease in the average balance to RMB337,939 million for nine months ended September 30, 2013 compared to RMB380,791 million for the nine months ended September 30, 2012. The decrease in the average yield on financial assets held under resale agreements and placements with banks and other financial institutions was primarily due to an increase in the proportion of short term financial assets held under resale agreements and placements with banks and other financial institutions, which have greater liquidity and carry lower yields. The decrease in average balance of financial assets held under resale agreements and placements with banks and other financial institutions was primarily due to the reallocation of our fund resources to products with higher yields while meeting our liquidity needs.

Interest Expense

Interest expense increased by 30.4% to RMB50,477 million for the nine months ended September 30, 2013 compared to RMB38,698 million for the nine months ended September 30, 2012, primarily due to a 24.5% increase in the average balance of interest-bearing liabilities to RMB2,207,556 million for the nine months ended September 30, 2013 compared to RMB1,773,589 million for the nine months ended September 30, 2012 and an increase in the average cost of interest-bearing liabilities to 3.09% for the nine months ended September 30, 2013 compared to 2.94% for the nine months ended September 30, 2012. The increase in the average cost on our interest-bearing liabilities was primarily due to the increases in the average cost of structured deposits and the average cost of deposits from banks and other financial institutions.

Interest Expense on Deposits from Customers

Interest expense on deposits from customers (including structured deposits) represented 60.7% and 54.6% of our total interest expense for the nine months ended September 30, 2012 and 2013, respectively.

The following table sets forth, for the periods indicated, the average balance, interest expense and average cost for our corporate deposits, retail deposits and structured deposits by product type.

	For the nine months ended September 30,					
	2012			2013		
	Average balance(1)	Interest expense	Average cost(2)	Average balance(1)	Interest expense	Average cost(2)
	(unaudited) (in millions of RMB, except percentages)					
Corporate deposits						
Time	600,972	16,465	3.65%	705,307	18,140	3.43%
Demand	400,132	2,306	0.77	417,902	2,184	0.70
Subtotal	1,001,104	18,771	2.50	1,123,209	20,324	2.41
Retail deposits						
Time	116,197	2,750	3.16	136,803	3,397	3.31
Demand	67,301	267	0.53	83,514	306	0.49
Subtotal	183,498	3,017	2.19	220,317	3,703	2.24
Structured deposits(3)						
Corporate	19,788	430	2.90	40,846	1,247	4.07
Retail	55,960	1,259	3.00	97,489	2,274	3.11
Subtotal	75,748	1,689	2.97	138,335	3,521	3.39
Total deposits from customers	**1,260,350**	**23,477**	**2.48%**	**1,481,861**	**27,548**	**2.48%**

Notes:

(1) Represents the average of the daily balances during the period.

(2) Calculated on an annualized basis.

(3) Structured deposits are all time deposits.

The largest component of our interest expense on deposits from customers has been interest expense on corporate deposits, representing 80.0% and 73.8% of our total interest expense on deposits from customers for the nine months ended September 30, 2012 and 2013, respectively.

Interest expense on total deposits from customers increased by 17.3% to RMB27,548 million for the nine months ended September 30, 2013 compared to RMB23,477 million for the nine months ended September 30, 2012, primarily due to an increase of 17.6% in the average balance to RMB1,481,861 million for the nine months ended September 30, 2013 compared to RMB1,260,350 million for the nine months ended September 30, 2012. The average cost on total deposits from customers remained stable at 2.48% for the nine months ended September 30, 2012 and 2013. The increase in the average balance was primarily due to our marketing efforts to attract corporate and retail deposits.

Interest expense on corporate deposits increased by 8.3% to RMB20,324 million for the nine months ended September 30, 2013 compared to RMB18,771 million for the nine months ended September 30, 2012, primarily due to an increase in the average balance by 12.2% to RMB1,123,209 million for the nine months ended September 30, 2013 compared to RMB1,001,104 million for the nine months ended September 30, 2012, partially offset by a decrease in the average cost to 2.41% for the nine months ended September 30, 2013 compared to 2.50% for the nine months ended September 30, 2012. The increase in the average balance was primarily due to an increase in corporate deposits as a result of our increased marketing efforts. The decrease in the average cost of our corporate deposits was primarily due to the impact of two consecutive decreases in the PBOC benchmark interest rates since the second half of 2012.

Interest expense on retail deposits increased by 22.7% to RMB3,703 million for the nine months ended September 30, 2013 compared to RMB3,017 million for the nine months ended September 30, 2012, primarily due to (i) an increase in the average balance by 20.1% to RMB220,317 million for the nine months ended September 30, 2013 compared to RMB183,498 million for the nine months ended September 30, 2012, and (ii) an increase in the average cost to 2.24% for the nine months ended September 30, 2013 compared to 2.19% for the nine months ended September 30, 2012. The increase in the average balance was primarily due to our efforts to expand our business in the retail sector. The increase in the average cost was primarily because (i) the PBOC raised the interest rate ceiling of deposits in 2012 and (ii) the average balance of retail time deposits, which have a higher average cost than retail demand deposits, increased by 17.7% to RMB136,803 million for the nine months ended September 30, 2013 from RMB116,197 million for the nine months ended September 30, 2012.

Interest expense on structured deposits significantly increased by 108.5% to RMB3,521 million for the nine months ended September 30, 2013 compared to RMB1,689 million for the nine months ended September 30, 2012, primarily due to (i) an increase in the average balance by 82.6% to RMB138,335 million for the nine months ended September 30, 2013 compared to RMB75,748 million for the nine months ended September 30, 2012, and (ii) an increase in the average cost to 3.39% for the nine months ended September 30, 2013 compared to 2.97% for the nine months ended September 30, 2012. The increase in the average balance of our structured deposits was primarily due to (i) the increased market demand for such products and (ii) our enhanced marketing efforts for structured deposits, with the aim of obtaining more high net-worth customers. The increase in the average cost of our structured deposits was primarily due to the higher market interest rates for such products.

Interest Expense on Deposits from Banks and Other Financial Institutions

Interest expense on deposits from banks and other financial institutions increased by 66.7% to RMB19,415 million for the nine months ended September 30, 2013 compared to RMB11,648 million for the nine months ended September 30, 2012, primarily due to (i) an increase in the average balance by 53.0% to RMB569,942 million for the nine months ended September 30, 2013 compared to RMB372,433 million for the nine months ended September 30, 2012, and (ii) an increase in the average cost to 4.54% for the nine months ended September 30, 2013 compared to 4.17% for the nine months ended September 30, 2012. The increase in the average balance of our deposits from banks and other financial institutions was primarily due to the expansion of our inter-bank business operations. The increase in the average cost of our deposits from banks and other financial institutions was primarily due to the increase in the interest rates of the PRC inter-bank money market since the second quarter of 2013.

Interest Expense on Financial Assets Sold under Repurchase Agreements and Placements from Banks and Other Financial Institutions

Interest expense on financial assets sold under repurchase agreements and placements from banks and other financial institutions slightly decreased by 1.6% to RMB2,547 million for the nine months ended September 30, 2013 compared to RMB2,588 million for the nine months ended September 30, 2012, primarily due to a decrease in the average cost to 3.17% for the nine months ended September 30, 2013 compared to 3.40% for the nine months ended September 30, 2012, which was partially offset by an increase in the average balance by 5.4% to RMB107,090 million for the nine months ended September 30, 2013 from RMB101,629 million for the nine months ended September 30, 2012. The decrease in the average cost of our financial assets sold under repurchase agreements and placements from banks and other financial institutions was primarily due to an increase in the proportion of short term financial assets sold under repurchase agreements and placements from banks and other financial institutions, which have greater liquidity and carry lower costs. The increase in the average balance of our financial assets sold under repurchase agreements and placements from banks and other financial institutions was primarily due to the reallocation of our fund resources while meeting our liquidity needs.

Net Interest Spread and Net Interest Margin

Our net interest spread decreased to 1.94% for the nine months ended September 30, 2013 compared to 2.41% for the nine months ended September 30, 2012, primarily due to (i) a decrease of 32 basis points in the average yield on our interest-earning assets to 5.03% for the nine months ended September 30, 2013 compared to 5.35% for the nine months ended September 30, 2012 and (ii) an increase of 15 basis points in the average cost of our interest-bearing liabilities to 3.09% for the nine months ended September 30, 2013 compared to 2.94% for the nine months ended September 30, 2012.

Our net interest margin decreased by 49 basis points to 2.14% for the nine months ended September 30, 2013 compared to 2.63% for the nine months ended September 30, 2012, because while our net interest income increased by 1.6%, the average balance of our interest-earning assets increased at a greater rate by 23.6% for the nine months ended September 30, 2013 compared to the nine months ended September 30, 2012.

The decrease in our net interest spread was primarily due to the overall decrease in the average yields on our loans and other financial assets, accompanied by the overall increase in the average costs of our interest-bearing liabilities. The decrease in our net interest margin was primarily due to lesser growth in our net interest income as compared to the growth in our average balance of interest-earning assets.

Net Fee and Commission Income

Net fee and commission income represented 15.0% and 22.7% of our total operating income for the nine months ended September 30, 2012 and 2013, respectively. The following table sets forth, for the periods indicated, the principal components of our net fee and commission income.

	For the nine months ended September 30,	
	2012	2013
	(unaudited) (in millions of RMB)	
Fee and commission income		
Bank card service fees	2,116	5,108
Underwriting and advisory fees	1,166	1,516
Settlement and clearing fees	1,103	1,281
Wealth management service fees	999	1,729
Agency service fees	499	448
Acceptance and guarantee fees	464	672
Custody and other fiduciary business fees	430	608
Others[(1)]	250	276
Subtotal	7,027	11,638
Fee and commission expenses	(350)	(532)
Net fee and commission income	**6,677**	**11,106**

Note:

(1) Primarily consist of management fees from trade finance limits and fees from the leasing business.

Our net fee and commission income increased by 66.3% to RMB11,106 million for the nine months ended September 30, 2013 compared to RMB6,677 million for the nine months ended September 30, 2012, primarily due to the increases in bank card service fees, underwriting and advisory fees, settlement and clearing fees, wealth management service fees, acceptance and guarantee fees and custody and other fiduciary business fees, partially offset by a decrease in agency service fees.

Bank Card Service Fees

Bank card service fees significantly increased by 141.4% to RMB5,108 million for the nine months ended September 30, 2013 compared to RMB2,116 million for the nine months ended September 30, 2012, primarily due to an increase in transaction fees received from our credit card holders as a result of (i) our increased focus on products with higher yields and (ii) the increases in the number of credit cards issued by us and the transaction volume of our credit card holders.

Settlement and Clearing Fees

Settlement and clearing fees increased by 16.1% to RMB1,281 million for the nine months ended September 30, 2013 compared to RMB1,103 million for the nine months ended September 30, 2012, primarily due to increases in the number of customers and the transaction volume as a result of our continued marketing and product development efforts in respect of our settlement and cash management business.

Underwriting and Advisory Fees

Underwriting and advisory fees increased by 30.0% to RMB1,516 million for the nine months ended September 30, 2013 compared to RMB1,166 million for the nine months ended September 30, 2012, primarily due to the growth in fees from our short-term commercial paper business and the continued strengthening of our cooperation with companies in other industries, including finance leasing, trusts, automobile financing and other banking institutions.

Wealth Management Service Fees

Wealth management service fees increased significantly by 73.1% to RMB1,729 million for the nine months ended September 30, 2013 compared to RMB999 million for the nine months ended September 30, 2012, primarily due to the growth of our wealth management business.

Agency Service Fees

Agency service fees decreased by 10.2% to RMB448 million for the nine months ended September 30, 2013 compared to RMB499 million for the nine months ended September 30, 2012, primarily due to agency service fees recognized for the nine months ended September 30, 2012 for a service provided to a government institution.

Acceptance and Guarantee Fees

Acceptance and guarantee fees increased by 44.8% to RMB672 million for the nine months ended September 30, 2013 compared to RMB464 million for the nine months ended September 30, 2012, primarily due to the growth of our bank acceptance bills business.

Custody and Other Fiduciary Business Fees

Custody and other fiduciary business fees increased by 41.4% to RMB608 million for the nine months ended September 30, 2013 compared to RMB430 million for the nine months ended September 30, 2012, primarily due to the continued expansion of our custodian business.

Other Fees

Other fees increased by 10.4% to RMB276 million for the nine months ended September 30, 2013 compared to RMB250 million for the nine months ended September 30, 2012, primarily due to the increase in fees from our leasing business.

Fee and Commission Expenses

Fee and commission expenses increased by 52.0% to RMB532 million for the nine months ended September 30, 2013 compared to RMB350 million for the nine months ended September 30, 2012, primarily due to the increase in bank card transaction fees resulting from inter-bank transactions.

Other Net Loss

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

	For the nine months ended September 30,	
	2012	2013
	(unaudited) (in millions of RMB)	
Net gain arising from investment securities	40	94
Net trading loss	(371)	(1,358)
Net foreign exchange gain	33	292
Other operating income	148	204
Total other net loss	**(150)**	**(768)**

Other net loss significantly increased to RMB768 million for the nine months ended September 30, 2013 from RMB150 million for the nine months ended September 30, 2012, primarily due to (i) a significant increase in net trading loss to RMB1,358 million for the nine months ended September 30, 2013 from RMB371 million for the nine months ended September 30, 2012, partially offset by a significant increase in foreign exchange gain to RMB292 million for the nine months ended September 30, 2013 from RMB33 million for the nine months ended September 30, 2012.

Net Gain Arising from Investment Securities

Our net gain on investment securities significantly increased to RMB94 million for the nine months ended September 30, 2013, compared to RMB40 million for the nine months ended September 30, 2012. The increase in net gain from investment securities for the nine months ended September 30, 2013 was primarily due to the gains from the disposal of available-for-sale bonds.

Net Trading Loss

Our net trading loss significantly increased to RMB1,358 million for the nine months ended September 30, 2013 from RMB371 million for the nine months ended September 30, 2012. The increase in net trading loss for the nine months ended September 30, 2013 was primarily due to the depreciation of the U.S. dollar against the Renminbi since the second quarter of 2013 and the decrease in the fair value of the corresponding derivative financial instruments for foreign exchange rate, resulting in revaluation losses.

Net Foreign Exchange Gain

Our net foreign exchange gain significantly increased to RMB292 million for the nine months ended September 30, 2013 from RMB33 million for the nine months ended September 30, 2012. The significant increase in the net foreign exchange gain was primarily due to the appreciation of the Renminbi against the U.S. dollar and the increase in trading volume during the same period. There has generally been an inverse correlation between our net trading gain/loss and net foreign exchange loss/gain.

Other Operating Income

We recorded other operating income of RMB148 million and RMB204 million for the nine months ended September 30, 2012 and 2013, respectively.

Operating Expenses

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

	For the nine months ended September 30,	
	2012	2013
	(unaudited)	
	(in millions of RMB, except percentages)	
Staff costs	7,466	7,939
Other general and administrative expenses	2,984	3,461
Business tax and surcharges	3,278	4,167
Depreciation and amortization expenses	1,019	1,202
Rental and property management expenses	1,022	1,257
Total operating expenses	**15,769**	**18,026**
Cost-to-income ratio[(1)]	**28.10%**	**28.36%**

Note:

(1) Calculated by dividing total operating expenses (excluding business tax and surcharges) by total operating income, prepared under IFRS.

Our operating expenses increased by 14.3% to RMB18,026 million for the nine months ended September 30, 2013 compared to RMB15,769 million for the nine months ended September 30, 2012, primarily due to increases in staff costs, other general and administrative expenses and business tax and surcharges. Our cost-to-income ratio slightly increased to 28.36% for the nine months ended September 30, 2013 compared to 28.10% for the nine months ended September 30, 2012.

Staff Costs

Staff costs are the largest component of our operating expenses, representing 47.3% and 44.0% of our total operating expenses for the nine months ended September 30, 2012 and 2013, respectively.

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

	For the nine months ended September 30,	
	2012	2013
	(unaudited)	
	(in millions of RMB)	
Salaries, bonuses and staff allowances	6,103	6,304
Others[(1)]	1,363	1,635
Total staff costs	**7,466**	**7,939**

Note:

(1) Primarily consist of pension and enterprise annuity, housing allowances and supplementary retirement benefits.

Staff costs increased by 6.3% to RMB7,939 million for the nine months ended September 30, 2013 compared to RMB7,466 million for the nine months ended September 30, 2012, primarily due to the increase in the number of our employees in connection with the expansion of our branch network.

Other General and Administrative Expenses

Other general and administrative expenses increased by 16.0% to RMB3,461 million for the nine months ended September 30, 2013 compared to RMB2,984 million for the nine months ended September 30, 2012, primarily due to the increase in the number of our employees and the expansion of our branch network.

Business Tax and Surcharges

Business tax is levied at 5% primarily on our interest income from loans and advances to customers and our gross fee and commission income. In addition, aggregate surcharges of up to 15.6% of the amount of our business tax paid are levied, depending on the locality. Business tax and surcharges increased by 27.1% to RMB4,167 million for the nine months ended September 30, 2013 compared to RMB3,278 million for the nine months ended September 30, 2012, primarily due to an increase in our interest income and gross fee and commission income subject to these tax and surcharges.

Depreciation and Amortization Expenses

Depreciation and amortization expenses increased by 18.0% to RMB1,202 million for the nine months ended September 30, 2013 compared to RMB1,019 million for the nine months ended September 30, 2012, primarily due to the expansion of our branch network.

Rental and property management expenses

Rental and property management expenses increased by 23.0% to RMB1,257 million for the nine months ended September 30, 2013 compared to RMB1,022 million for the nine months ended September 30, 2012, primarily due to the expansion of our branch network and the increase in market rates for our leases.

Impairment Losses on Assets

The following table sets forth, for the periods indicated, the principal components of our impairment losses on assets.

	For the nine months ended September 30,	
	2012	2013
	(unaudited) (in millions of RMB)	
Impairment losses on:		
Loans and advances to customers	3,282	3,202
Held-to-maturity investments	44	(30)
Other assets[(1)]	40	115
	3,366	**3,287**

Note:

(1) Primarily consist of impairment losses on other receivables, financial leasing receivables, interest receivables, deposits and placements with banks and other financial institutions and available-for-sale financial assets and off-balance sheet credit assets.

Impairment losses on our assets slightly decreased by 2.3% to RMB3,287 million for the nine months ended September 30, 2013 compared to RMB3,366 million for the nine months ended September 30, 2012, primarily due to decreases in our impairment losses on our loans and held-to-maturity investments. The decrease in our impairment losses on held-to-maturity investments was primarily due to the decrease in the provision ratio for our held-to-maturity investments. The increase in our impairment losses on other assets was primarily due to increases in the impairment losses on off-balance sheet credit assets.

For details on our allowance for impairment losses on loans and relevant changes, see "Assets and Liabilities – Assets – Allowance for Impairment Losses on Loans and Advances to Customers."

Income Tax

The following table sets forth, for the periods indicated, the reconciliation between the income tax calculated at the statutory income tax rate applicable to our profit before tax and our actual income tax.

	For the nine months ended September 30,	
	2012	2013
	(unaudited)	
	(in millions of RMB, except percentages)	
Profit before tax	**25,323**	**27,563**
Income tax at statutory rate[(1)]	6,331	6,891
Non-deductible expenses[(2)]	353	(170)
Non-taxable income[(3)]	(447)	(572)
Adjustment for prior years	30	(286)
Income tax	**6,267**	**5,863**
Effective tax rate	**24.75%**	**21.27%**

Notes:

(1) 25% during each of the periods ended September 30, 2012 and 2013.

(2) Primarily consist of non-deductible staff costs and other operating expenses.

(3) Primarily consists of interest income from PRC central government bonds.

Our income tax expense decreased by 6.4% to RMB5,863 million for the nine months ended September 30, 2013 compared to RMB6,267 million for the nine months ended September 30, 2012. Our effective tax rate was 21.27% for the nine months ended September 30, 2013 as compared to 24.75% for the same period in 2012.

The following table sets forth, for the periods indicated, the components of our income tax.

	For the nine months ended September 30,	
	2012	2013
	(unaudited)	
	(in millions of RMB)	
Current income tax	6,285	6,156
Deferred income tax	(48)	(7)
Adjustment for prior years	30	(286)
Income tax	**6,267**	**5,863**

Net Profit

Primarily as a result of all the foregoing factors, our net profit increased by 13.9% to RMB21,700 million for the nine months ended September 30, 2013 compared to RMB19,056 million for the nine months ended September 30, 2012.

SUMMARY SEGMENT OPERATING RESULTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2013

For a discussion of our business segments and geographic regions, see "– Summary Segment Operating Results."

Summary Business Segment Information

Our principal business segments are corporate banking, retail banking and treasury operations. For a description of products and services included in these business segments, see "Business – Our Principal Businesses."

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

	For the nine months ended September 30,									
	2012					2013				
	Corporate banking	Retail banking	Treasury operations	Others	Total	Corporate banking	Retail banking	Treasury operations	Others	Total
	(unaudited) (in millions of RMB)									
External net interest income(1)	19,919	9,038	8,974	–	37,931	17,057	12,343	9,138	–	38,538
Internal net interest income/(expense)(2)	7,582	(1,379)	(6,203)	–	–	9,282	(3,483)	(5,799)	–	–
Net interest income	**27,501**	**7,659**	**2,771**	**–**	**37,931**	**26,339**	**8,860**	**3,339**	**–**	**38,538**
Net fee and commission income	**3,032**	**3,533**	**112**	**–**	**6,677**	**3,844**	**7,166**	**96**	**–**	**11,106**
Other net income/(expense)	265	(21)	(476)	82	(150)	44	(413)	(510)	111	(768)
Total operating income	**30,798**	**11,171**	**2,407**	**82**	**44,458**	**30,227**	**15,613**	**2,925**	**111**	**48,876**
Operating expenses	(9,676)	(5,747)	(326)	(20)	(15,769)	(10,857)	(6,708)	(442)	(19)	(18,026)
Impairment losses on assets	(2,161)	(1,161)	(44)	–	(3,366)	(1,872)	(1,446)	31	–	(3,287)
Profit before tax	**18,961**	**4,263**	**2,037**	**62**	**25,323**	**17,498**	**7,459**	**2,514**	**92**	**27,563**

Notes:

(1) Represents net interest income from each segment's external customers or activities.

(2) Represents net interest income/(expense) attributable to each segment's transactions with other segments.

The increases in profit before tax for our retail banking business and treasury operations were in line with our overall expansion of business.

The profit before tax for our corporate banking business decreased by 7.7% to RMB17,498 million for the nine months ended September 30, 2013 compared to RMB18,961 million for the nine months ended September 30, 2012, primarily due to a decrease in net interest income and an increase in operating expenses, partially offset by an increase in net fee and commission income.

The profit before tax for our retail banking business increased by 75.0% to RMB7,459 million for the nine months ended September 30, 2013 compared to RMB4,263 million for the nine months ended September 30, 2012, primarily due to increases in net interest income and net fee and commission income, partially offset by an increase in operating expenses.

The profit before tax for our treasury operations increased by 23.4% to RMB2,514 million for the nine months ended September 30, 2013 compared to RMB2,037 million for the nine months ended September 30, 2012, primarily due to an increase in net interest income, partially offset by an increase in operating expenses.

Summary Geographical Segment Information

In presenting information on the basis of geographical segments, operating income is allocated based on the location of the branch that generated the revenue. For purposes of presentation, we categorize this information into regions. The following table sets forth, for the periods indicated, the total operating income attributable to each of these geographical regions. For a description of our geographical regions, see "Definitions and Conventions."

	For the nine months ended September 30,			
	2012		2013	
	Amount	% of Total	Amount	% of Total
	(unaudited) (in millions of RMB, except percentages)			
Head Office[(1)]	5,502	12.4%	9,715	19.9%
Yangtze River Delta	9,159	20.6	8,933	18.3
Bohai Rim	9,237	20.8	9,337	19.1
Central	6,302	14.2	6,418	13.1
Pearl River Delta	5,929	13.3	5,768	11.8
Northeastern	2,865	6.4	2,583	5.3
Western	5,464	12.3	6,102	12.5
Hong Kong	–	–	20	0.0
Total operating income	**44,458**	**100.0%**	**48,876**	**100.0%**

Note:

(1) Includes operating income from our treasury operation and income from our credit card business.

Operating income generated in the regions of Yangtze River Delta, Bohai Rim and Pearl River Delta together represented 54.7% and 49.2% of our total operating income for the nine months ended September 30, 2012 and 2013, respectively. Operating income from our Head Office increased by 76.6% to RMB9,715 million for the nine months ended September 30, 2013 from RMB5,502 million for the nine months ended September 30, 2012, primarily due to the expansion of our credit card business.

CASH FLOWS

The following table sets forth our cash flows for the periods indicated. See "Appendix II – Unaudited Interim Financial Information – Unaudited Condensed Consolidated Cash Flow Statement."

	For the nine months ended September 30,	
	2012	2013
	(unaudited) (in millions of RMB)	
Net cash flows from operating activities	99,894	15,275
Net cash flows used in investing activities	(153,593)	(44,625)
Net cash flows from/(used in) financing activities	30,610	(12,048)
Effect of foreign exchange rate changes on cash and cash equivalents	(16)	(189)
Net decrease in cash and cash equivalents	**(23,105)**	**(41,587)**

Cash Flows from Operating Activities

Cash inflows from operating activities are primarily attributable to (i) the net increase in deposits from customers and (ii) the net increase in placements from banks and other financial institutions. The net increase in deposits from customers for the nine months ended September 30, 2013 was RMB195,166 million compared to a net increase of RMB189,260 million for the same period in 2012. For the nine months ended September 30, 2013, the net increase in placements from banks and other financial institutions was RMB28,949 million, compared to RMB4,963 million for the same period in 2012.

Cash outflows from operating activities are primarily attributable to (i) the net increase in loans and advances to customers, (ii) the net increase in deposits with the central bank, banks and other financial institutions and (iii) the net increase in placements with banks and other financial institutions. The net increase in loans and advances to customers for the nine months ended September 30, 2013 and the same period in 2012 was RMB121,735 million and RMB107,753 million, respectively. The net increase in deposits with the central bank, banks and other financial institutions for the nine months ended September 30, 2013 and the same period in 2012 was RMB50,835 million and RMB25,465 million, respectively. The net increase in placements with banks and other financial institutions for the nine months ended September 30, 2013 and the same period in 2012 was RMB22,537 million and RMB43,256 million, respectively.

For the nine months ended September 30, 2013 and the same period in 2012, we had a net cash inflow from operating activities of RMB15,275 million and RMB99,894 million, respectively, primarily due to changes in (i) deposits from banks and other financial institutions and (ii) financial assets sold under repurchase agreements, partially offset by changes in (i) other operating assets and (ii) financial assets held under resale agreements. We recorded a net decrease in deposits from banks and other financial institutions of RMB15,295 million in the nine months ended September 30, 2013 compared to a net increase of RMB220,379 million in the same period in 2012. We recorded a net decrease in financial assets sold under repurchase agreements of RMB20,439 million in the nine months ended September 30, 2013 compared to a net increase of RMB10,267 million in the same period in 2012. The net increase in other operating assets for the nine months ended September 30, 2013 and the same period in 2012 was RMB9,007 million and RMB102,886 million, respectively. We recorded a net decrease in financial assets held under resale agreements of RMB6,352 million in the nine months ended September 30, 2013 compared to a net increase of RMB79,332 million in the same period in 2012.

Cash Flows from Investing Activities

Cash inflows from our investing activities are primarily attributable to the proceeds from disposals and redemptions of our investments. The proceeds from disposal and redemption of investments for the nine months ended September 30, 2013 and the same period in 2012 amounted to RMB205,678 million and RMB294,443 million, respectively.

Our cash outflows from investing activities are primarily attributable to payments on acquisition of investments. Our payments on acquisition of investments for the nine months ended September 30, 2013 and the same period in 2012 amounted to RMB248,950 million and RMB447,146 million, respectively.

Cash Flows from Financing Activities

Our cash inflows from financing activities are primarily attributable to proceeds from debt securities issued. We received RMB481 million and RMB36,700 million as proceeds from debt securities issued for the nine months ended September 30, 2013 and the same period in 2012, respectively.

Our cash outflows from financing activities are primarily attributable to (i) principal paid on redemption of debt securities, (ii) dividends paid and (iii) interest paid on debt securities issued. The principal paid on redemption of debt securities for the nine months ended September 30, 2013 and the same period in 2012 was RMB8,000 million and nil, respectively. The dividends paid for the nine months ended September 30, 2013 and the same period in 2012 was RMB2,348 million and RMB5,528 million, respectively. The interest paid on debt securities issued for the nine months ended September 30, 2013 and the same period in 2012 was RMB2,211 million and RMB562 million, respectively.

CAPITAL RESOURCES

Shareholders' Equity

Our total shareholders' equity increased to RMB132,346 million as of September 30, 2013 from RMB114,322 million as of December 31, 2012 due to an increase in retained earnings of RMB19,319 million and an increase in non-controlling interests of RMB66 million, partially offset by a decrease in capital reserve of RMB1,361 million.

Debt Securities Issued

As of September 30, 2013, we had subordinated debts and financial bonds issued in aggregate principal amounts of RMB14.7 billion and RMB30.0 billion, respectively. Further details are set forth in the section headed "– Indebtedness."

As of September 30, 2013, the fair value of the total debt securities issued by us amounted to RMB43.6 billion. We have announced on November 15, 2013 that we would exercise our redemption option on December 17, 2013 to fully redeem the RMB5 billion ten-year fixed rate subordinated debt issued on December 15, 2008.

Capital Adequacy

The following table sets forth, as of September 30, 2013, certain information relating to our capital adequacy, calculated in accordance with the Rules Governing Capital Management of Commercial Banks (Provisional) (商業銀行資本管理辦法(試行)).

	As of September 30, 2013
	(in millions of RMB, except percentages)
Core tier-one capital adequacy ratio	**7.89%**
Tier-one capital adequacy ratio	**7.89%**
Capital adequacy ratio	**9.65%**
Core tier-one capital, net	**130,507**
Tier-one capital, net	**130,511**
Net capital	**159,723**
Risk-weighted assets for credit risk	1,552,258
Risk-weighted assets for market risk	13,890
Risk-weighted assets for operational risk	88,306
Total risk-weighted assets	**1,654,454**

CREDIT COMMITMENTS

The following table sets forth the contractual amounts of our credit commitments as of the date indicated.

	As of September 30, 2013
	(unaudited) (in millions of RMB)
Loan commitments	
Original contractual maturity within one year	10,227
Original contractual maturity more than one year (inclusive)	42,755
Credit card commitments	58,774
Subtotal	111,756
Acceptances	455,403
Letters of guarantee	49,621
Letters of credit	126,735
Guarantees	361
Total	**743,876**

TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

The following table sets forth the face value of our known contractual obligations by remaining contract maturity classified into the categories specified below as of September 30, 2013.

	As of September 30, 2013			
	Less than 1 year	Between 1 and 5 years	More than 5 years	Total
	(unaudited) (in millions of RMB)			
On-balance sheet				
Subordinated debts issued	–	–	14,700	14,700
Financial bonds	–	30,000	–	30,000
Certificates of deposit issued	481	–	–	481
Total	**481**	**30,000**	**14,700**	**45,181**
Off-balance sheet				
Operating lease commitments	1,343	5,320	2,829	9,492
Redemption obligations	387	7,811	–	8,198
Capital commitments approved or contracted for	783	903	–	1,686
Total	**2,513**	**14,034**	**2,829**	**19,376**

QUANTITATIVE AND QUALITATIVE ANALYSIS OF MARKET RISK

Market risk is the risk of loss, with respect to our activities, arising from adverse movements in market rates. These include, but are not limited to, interest rates, foreign exchange rates, commodity prices and stock prices. We are primarily exposed to market risk in our treasury operations business. We divide the transactions into the banking books and the trading books and identify, measure, monitor and perform controls over the relevant market risks based on the nature and characteristics of these books. Trading books refer to investments that we intend to sell in the near term to generate gains from actual or expected short-term price fluctuations or to control risk exposure. Banking books represent business other than trading books. Sensitivity analysis, scenario analysis and foreign exchange exposure analysis are the major tools employed by us to measure and monitor the market risk in our trading books. Sensitivity gap analysis, stress testing and effective duration analysis are the major tools used by us to monitor the market risk of our non-trading businesses.

Interest Rate Risk

Our interest rate exposures mainly relate to repricing risk in our commercial banking business and the risk of our treasury positions. Repricing risk, which is also known as "maturity mismatch risk," is the most common form of interest rate risk, which is caused by the differences in timing between the maturities (related to fixed interest rate instruments) or repricing (related to floating interest rate instruments) of assets, liabilities and off-balance sheet items. The mismatch of repricing timing causes our income or intrinsic economic value to vary with the movement in interest rates.

Trading interest rate risk mainly arises from the treasury's trading account portfolios. Interest rate risk is monitored by using the effective duration analysis. We employ other supplementary methods to measure the interest rate sensitivity, which is expressed as changes in the investment portfolios' fair value given a 100 basis points (1%) movement in the interest rates.

Repricing Gap Analysis

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

	As of June 30, 2013					
	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Non-interest-bearing	Total
	(in millions of RMB)					
Assets						
Cash and deposits with the central bank	294,908	–	–	–	16,800	311,708
Deposits with banks and other financial institutions	62,783	11,020	–	–	67	73,870
Placements with banks and other financial institutions	74,176	53,792	9,092	–	–	137,060
Financial assets held under resale agreements	148,723	32,661	–	–	–	181,384
Loans and advances to customers, net	364,515	688,705	21,998	3,447	–	1,078,665
Investments, net(1)	86,236	113,247	290,353	84,526	207	574,569
Others(2)	35,971	15,082	28,360	–	34,499	113,912
Total assets	**1,067,312**	**914,507**	**349,803**	**87,973**	**51,573**	**2,471,168**
Liabilities						
Deposits from banks and other financial institutions	559,100	5,022	–	–	–	564,122
Placements from banks and other financial institutions	30,016	10,185	–	–	21	40,222
Financial assets sold under repurchase agreements	72,040	173	–	–	4	72,217
Deposits from customers	982,285	376,321	189,520	1,680	4,885	1,554,691
Debt securities issued	–	18,000	20,000	6,700	–	44,700
Others(3)	28,791	1,325	941	–	37,093	68,150
Total liabilities	**1,672,232**	**411,026**	**210,461**	**8,380**	**42,003**	**2,344,102**
Re-pricing gap	**(604,920)**	**503,481**	**139,342**	**79,593**	**9,570**	**127,066**

Notes:

(1) Consist of debt securities (net), equity instruments (net), fixed-rate mortgages and debt securities classified as receivables.

(2) Primarily consist of interest receivables, positive fair value of derivatives, fixed assets, intangible assets, deferred tax assets and goodwill.

(3) Primarily consist of negative fair value of derivatives, accrued staff costs, taxes payable, interests payable and provisions.

Sensitivity Analysis

We use sensitivity analysis to measure the potential effect of changes in interest rates on our net profit and shareholder's equity. The following table sets forth, as of the dates indicated, the results of our interest rate sensitivity analysis based on our assets and liabilities as of the same date.

	As of December 31,						As of June 30,	
	2010		2011		2012		2013	
	Change in net profit	Change in shareholder's equity	Change in net profit	Change in shareholder's equity	Change in net profit	Change in shareholder's equity	Change in net profit	Change in shareholder's equity
	(in millions of RMB)							
100 basis-point increase[1]	(1,166)	(2,240)	(1,224)	(2,286)	(3,333)	(5,978)	(4,584)	(7,402)
100 basis-point decrease[1] ...	1,150	2,264	1,227	2,344	3,351	6,190	4,610	7,618

Note:

(1) Interest rates for certain products are below 1%. This is for reference only.

Based on our assets and liabilities as of June 30, 2013, if interest rates had increased by 100 basis points, our net profit for the 12 months following June 30, 2013 would have decreased by approximately RMB4,584 million, and the shareholder's equity would have decreased by approximately RMB7,402 million. If interest rates had decreased by 100 basis points, our net profit for the 12 months following June 30, 2013 would have increased by approximately RMB4,610 million, and the shareholder's equity would have increased by approximately RMB7,618 million.

The sensitivity analysis above is based on a static interest rate risk profile of our assets and liabilities. This analysis measures only the impact of changes in interest rates within one year, showing how annualized net profit or loss and shareholders' equity would have been affected by repricing of the assets and liabilities within the one-year period. The sensitivity analysis is based on the following assumptions: (i) interest rate movements as of December 31, 2010, 2011 and 2012 and June 30, 2013 apply to all derivative and non-derivative financial instruments; (ii) as of December 31, 2010, 2011 and 2012 and June 30, 2013, an interest rate movement of 100 basis points is based on the assumption of interest rate movements over the next 12 months; (iii) there is a parallel shift in the yield curve with the changes in interest rates; (iv) there are no other changes to the assets and liabilities portfolio; (v) other variables (including exchange rates) remain unchanged; and (vi) the analysis does not take into account the effect of risk management measures taken by us.

Due to the adoption of the aforementioned assumptions, the actual changes in our net profit or loss and shareholders' equity caused by an increase or decrease in interest rates might vary from the estimated results of this sensitivity analysis.

Exchange Rate Risk

Our foreign currency exposure mainly arises from the foreign currency portfolio within the treasury's proprietary investments and other foreign currency exposures. We manage foreign currency risk by foreign exchange spot, forward and swap transactions and matching our foreign currency-denominated assets with corresponding liabilities in the same currencies.

The following table sets forth, as of June 30, 2013, our assets and liabilities by currency.

	As of June 30, 2013			
	RMB	USD	Others	Total
	(in millions of RMB equivalent)			
Assets				
Cash and deposits with the central bank	308,058	3,236	414	311,708
Deposits with banks and other financial institutions	68,909	2,634	2,327	73,870
Placements with banks and other financial institutions	124,684	11,478	898	137,060
Financial assets held under resale agreements	181,355	–	29	181,384
Loans and advances to customers, net	1,034,927	42,545	1,193	1,078,665
Investments, net	572,811	1,638	120	574,569
Others	107,113	–	6,799	113,912
Total assets	**2,397,857**	**61,531**	**11,780**	**2,471,168**
Liabilities				
Deposits from banks and other financial institutions	(563,441)	(659)	(22)	(564,122)
Placements from banks and other financial institutions	(13,179)	(24,660)	(2,383)	(40,222)
Financial assets sold under repurchase agreements	(72,217)	–	–	(72,217)
Deposits from customers	(1,495,631)	(50,034)	(9,026)	(1,554,691)
Debt securities issued	(44,700)	–	–	(44,700)
Other liabilities	(59,663)	(8,196)	(291)	(68,150)
Total liabilities	**(2,248,831)**	**(83,549)**	**(11,722)**	**(2,344,102)**
Net balance sheet position	**149,026**	**(22,018)**	**58**	**127,066**
Credit commitments	695,773	33,539	3,007	732,319
Derivatives	(20,374)	12,901	6,924	(549)

The appreciation of Renminbi to the U.S. dollar or any other foreign currency will result in a decrease in the value of our assets which are denominated in foreign currencies. See "Risk Factors – Risks Relating to China – We are subject to the PRC government controls on currency conversion and may be affected by the risks relating to fluctuations in exchange rates in the future."

The following table sets forth, as of the dates indicated, the changes in our net profit and shareholder's equity caused by appreciation or depreciation by 1% of Renminbi's exchange rates to U.S. dollars as of the dates indicated.

	As of December 31,						As of June 30,	
	2010		2011		2012		2013	
	Change in net profit	Change in shareholder's equity	Change in net profit	Change in shareholder's equity	Change in net profit	Change in shareholder's equity	Change in net profit	Change in shareholder's equity
	(in millions of RMB)							
100 basis-point appreciation	2	2	2	2	(22)	(22)	(3)	(3)
100 basis-point depreciation	(2)	(2)	(2)	(2)	22	22	3	3

Certain Information of Financial Derivatives

In managing our interest rate risk and exchange rate risk, including such risks arising from our transactions with customers, we use certain financial derivatives. Financial derivatives are recognized and measured at fair value, primarily including interest rate swaps, foreign currency forwards and foreign currency swaps, and we do not treat these derivative instruments as hedging instruments under IAS 39. Interest rate swaps are agreements between us and a counter-party where one stream of future interest payments is exchanged for another based on a specified principal amount. Foreign currency forwards transactions are purchases or sales of foreign currencies at an exchange rate established at the date of transaction but with payment and delivery at a specified future date. Foreign currency swaps are transactions in which we and a counter-party simultaneously enter into a spot currency exchange contract and a forward exchange contract.

The following table sets forth, as of the dates indicated, the notional amounts and the fair value of our financial derivatives.

	As of December 31,									As of June 30,		
	2010			2011			2012			2013		
	Notional amount	Fair value Assets	Fair value Liabilities	Notional amount	Fair value Assets	Fair value Liabilities	Notional amount	Fair value Assets	Fair value Liabilities	Notional amount	Fair value Assets	Fair value Liabilities
	(in millions of RMB)											
Interest rate derivatives												
Interest rate swaps	84,908	2,277	(2,213)	132,463	1,604	(2,080)	128,086	944	(1,065)	84,056	632	(580)
Bond options	66	–	–	–	–	–	–	–	–	–	–	–
Subtotal	**84,974**	**2,277**	**(2,213)**	**132,463**	**1,604**	**(2,080)**	**128,086**	**944**	**(1,065)**	**84,056**	**632**	**(580)**
Currency derivatives												
Foreign currency forwards	21,907	97	(72)	48,876	270	(297)	17,067	122	(173)	24,490	168	(223)
Foreign currency swaps	73,640	647	(672)	76,317	384	(682)	127,329	611	(623)	131,047	760	(913)
Subtotal	**95,547**	**744**	**(744)**	**125,193**	**654**	**(979)**	**144,396**	**733**	**(796)**	**155,537**	**928**	**(1,136)**
Credit derivatives investments												
Credit default swaps	600	4	(3)	400	4	(3)	200	–	–	–	–	–
Total	**181,121**	**3,025**	**(2,960)**	**258,056**	**2,262**	**(3,062)**	**272,682**	**1,677**	**(1,861)**	**239,593**	**1,560**	**(1,716)**

Certain Information of Financial Assets and Liabilities Accounted for at Fair Value

The following tables set forth certain information of our financial assets and liabilities accounted for at fair value.

From December 31, 2012 to June 30, 2013

	Opening balance	Profit or loss from changes in fair value	Transfer to investment revaluation reserve from changes in fair value	Release/ (charge)	Closing balance
			(in millions of RMB)		
Non-derivative financial assets					
Financial assets held for trading	29,084	(22)	–	–	31,473
Financial assets designated as at fair value through profit or loss	369	(12)	–	–	306
Available-for-sale financial assets	91,801	–	(175)	1	99,309
Subtotal	121,254	(34)	(175)	1	131,088
Fair value of derivatives	1,677	(117)	–	–	1,560
Total financial assets	**122,931**	**(151)**	**(175)**	**1**	**132,648**
Total financial liabilities	**(44,478)**	**328**	**–**	**–**	**(49,749)**

From December 31, 2011 to December 31, 2012

	Opening balance	Profit or loss from changes in fair value	Transfer to investment revaluation reserve from changes in fair value	Release/ (charge)	Closing balance
			(in millions of RMB)		
Non-derivative financial assets					
Financial assets held for trading	22,170	(117)	–	–	29,084
Financial assets designated as at fair value through profit or loss	557	(10)	–	–	369
Available-for-sale financial assets	54,403	–	(295)	–	91,801
Subtotal	77,130	(127)	(295)	–	121,254
Fair value of derivatives	2,262	(585)	–	–	1,677
Total financial assets	**79,392**	**(712)**	**(295)**	**–**	**122,931**
Total financial liabilities	**(49,540)**	**913**	**–**	**–**	**(44,478)**

From December 31, 2010 to December 31, 2011

	Opening balance	Profit or loss from changes in fair value	Transfer to investment revaluation reserve from changes in fair value	Release/ (charge)	Closing balance
			(in millions of RMB)		
Non-derivative financial assets					
Financial assets held for trading.	21,728	(20)	–	–	22,170
Financial assets designated as at fair value through profit or loss	669	38	–	–	557
Available-for-sale financial assets	77,142	–	(225)	–	54,403
Subtotal	99,539	18	(225)	–	77,130
Fair value of derivatives	3,025	(763)	–	–	2,262
Total financial assets	**102,564**	**(745)**	**(225)**	**–**	**79,392**
Total financial liabilities	**(36,430)**	**(297)**	**–**	**–**	**(49,540)**

Certain Information of Financial Assets and Liabilities Denominated in Foreign Currencies

The following tables set forth certain information of the financial assets and liabilities denominated in foreign currencies.

From December 31, 2012 to June 30, 2013

	Opening balance	Profit or loss from changes in fair value	Transfer to investment revaluation reserve from changes in fair value	Release/ (charge)	Closing balance
			(in millions of RMB)		
Cash and deposits with the central bank	3,076	–	–	–	3,650
Deposits with banks and other financial institutions	5,572	–	–	–	4,961
Placement with banks and other financial institutions	1,994	–	–	–	12,376
Financial assets held under resale agreements	29	–	–	–	29
Financial assets at fair value through profit or loss	–	–	–	–	–
Fair value of derivatives	596	(275)	–	–	323
Loans and advances to customers	35,533	–	–	(74)	43,738
Available-for-sale financial assets	766	–	(4)	–	1,146
Held-to-maturity investments	712	–	–	4	611
Total financial assets	**48,278**	**(275)**	**(4)**	**(70)**	**66,834**
Total financial liabilities	**(64,386)**	**88**	**–**	**–**	**(88,113)**

From December 31, 2011 to December 31, 2012

	Opening balance	Profit or loss from changes in fair value	Transfer to investment revaluation reserve from changes in fair value	Release/ (charge)	Closing balance
			(in millions of RMB)		
Cash and deposits with the central bank	2,885	–	–	–	3,076
Deposits with banks and other financial institutions	7,338	–	–	–	5,572
Placement with banks and other financial institutions	7,332	–	–	–	1,994
Financial assets held under resale agreements	29	–	–	–	29
Financial assets at fair value through profit or loss	–	–	–	–	–
Fair value of derivatives	1,004	(408)	–	–	596
Loans and advances to customers	23,577	–	–	(476)	35,533
Available-for-sale financial assets	771	–	18	–	766
Held-to-maturity investments	843	–	–	2	712
Total financial assets	**43,779**	**(408)**	**18**	**(474)**	**48,278**
Total financial liabilities	**(51,544)**	**866**	**–**	**–**	**(64,386)**

From December 31, 2010 to December 31, 2011

	Opening balance	Profit or loss from changes in fair value	Transfer to investment revaluation reserve from changes in fair value	Release/ (charge)	Closing balance
			(in millions of RMB)		
Cash and deposits with the central bank	1,787	–	–	–	2,885
Deposits with banks and other financial institutions	4,299	–	–	–	7,338
Placement with banks and other financial institutions	4,586	–	–	–	7,332
Financial assets held under resale agreements	31	–	–	–	29
Financial assets at fair value through profit or loss	–	–	–	–	–
Fair value of derivatives	1,294	(290)	–	–	1,004
Loans and advances to customers	22,069	–	–	(30)	23,577
Available-for-sale financial assets	922	–	(33)	–	771
Held-to-maturity investments	1,019	–	–	–	843
Total financial assets	**36,007**	**(290)**	**(33)**	**(30)**	**43,779**
Total financial liabilities	**(40,174)**	**53**	**–**	**–**	**(51,544)**

CAPITAL EXPENDITURE

Our capital expenditure from January 1, 2010 through June 30, 2013 was incurred primarily in connection with the construction and improvements of our branch outlets, purchases of ATMs, development of our information management system and purchases of computers and other electronic devices.

For the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, our capital expenditure was RMB2,435 million, RMB2,083 million, RMB2,750 million and RMB794 million respectively. As of June 30, 2013, we had authorized capital commitments of RMB1,223 million, of which RMB416 million were contracted for, and RMB807 million were authorized but not contracted for. The foregoing amounts and purposes may change depending on business conditions.

FINANCIAL RATIOS

The following table sets forth, for the periods indicated, our key financial ratios.

	For the year ended December 31,			For the six months ended June 30,
	2010	2011	2012	2013
Return on total assets[(1)]	0.86%	1.04%	1.04%	1.21%
Return on average total assets[(2)]	0.95%	1.12%	1.18%	1.26%
Return on weighted average equity[(3)]	20.99%	20.44%	22.54%	24.59%
Net interest spread[(4)]	2.06%	2.30%	2.34%	2.04%
Net interest margin[(5)]	2.17%	2.49%	2.54%	2.23%
Net fee and commission income to operating income	13.18%	15.09%	15.78%	21.72%
Cost-to-income ratio[(6)]	35.53%	32.12%	30.19%	27.93%

Notes:

(1) Represents the net profit for the year/period (including net profit attributable to non-controlling interests) as a percentage of the respective year/period end balance of total assets on an annualized basis.

(2) Represents the net profit for the year/period (including net profit attributable to non-controlling interests) as a percentage of the average balance of total assets at the respective beginning and end of the year/period on an annualized basis.

(3) Represents the net profit attributable to equity shareholders for the year/period as a percentage of the weighted average balance of total equity for the year/period, excluding non-controlling interests on an annualized basis.

(4) Calculated as the difference between the average yield on an annualized basis on total interest-earning assets and the average cost on an annualized basis on total interest-bearing liabilities.

(5) Calculated by dividing net interest income (including the impact of fair value change of structured deposits) by average interest-earning assets on an annualized basis.

(6) Calculated by dividing total operating expenses (excluding business tax and surcharges) by operating income, prepared under IFRS.

Return on total assets

Our return on total assets was 0.86%, 1.04%, 1.04% and 1.21% for the three years ended December 31, 2010, 2011 and 2012 and for the six months ended June 30, 2013, respectively. Our return on total assets from 2011 to 2012 remained stable. The increase in our return on total assets from 2010 to 2011 and from December 31, 2012 to June 30, 2013 was primarily due to the growth in our net profit outpacing the growth of our total assets. For further details of increases in our net profit and total assets during the relevant period, please refer to the sections headed "– Results of Operations" and "Assets and Liabilities – Assets", respectively.

Return on average total assets

Our return on average total assets was 0.95%, 1.12%, 1.18% and 1.26% for the three years ended December 31, 2010, 2011 and 2012 and for the six months ended June 30, 2013, respectively. The increases in our return on average total assets were largely in line with the changes in our return on total assets.

Return on weighted average equity

Our return on weighted average equity was 20.99%, 20.44%, 22.54% and 24.59% for the three years ended December 31, 2010, 2011 and 2012 and for the six months ended June 30, 2013, respectively. The increase in the return on weighted average equity from the year ended December 31, 2012 to the six months ended June 30, 2013 was primarily due to the growth of our net profit attributable to equity shareholders outpacing the growth of our weighted average balance of total equity. Our return on weighted average equity from the year ended December 31, 2010 to the year ended December 31, 2011 remained stable.

Net interest spread

Our net interest spread was 2.06%, 2.30%, 2.34% and 2.04% for the three years ended December 31, 2010, 2011 and 2012 and for the six months ended June 30, 2013, respectively. The overall increase in our net interest spread from 2010 to 2012 was primarily due to the further optimization of our loan portfolio and the increase in the average yield on our interest-earning assets exceeding the increase in the average cost on our interest-bearing liabilities. The decrease in our net interest spread from December 31, 2012 to June 30, 2013 was primarily due to (i) the negative impact on the average yield on our interest-earning assets from the decrease in the PBOC benchmark lending interest rate in 2012 and (ii) the decrease in the inter-bank market interest rate, coupled with the average costs on our interest-bearing liabilities remaining stable during the same periods as a result of strong market demand for interest-earning deposits, in spite of the decrease in the PBOC benchmark deposit interest rate in 2012. For further details of the increase in our net interest spread during the relevant period, please refer to the section headed "– Net Interest Spread and Net Interest Margin".

Net interest margin

Our net interest margin was 2.17%, 2.49%, 2.54% and 2.23% for the three years ended December 31, 2010, 2011 and 2012 and for the six months ended June 30, 2013, respectively. The overall increase in our net interest margin from 2010 to 2012 was primarily due to the growth of our net interest income outpacing the growth of our interest-earning assets. The decrease in our net interest margin from December 31, 2012 to June 30, 2013 was primarily due to the negative impact on our net interest income from (i) the decrease in the PBOC benchmark lending interest rate in 2012 and (ii) the decrease in the inter-bank market interest rate, coupled with our interest expenses remaining stable during the same periods as a result of strong market demand for interest-earning deposits, in spite of the decrease in the PBOC benchmark deposit interest rate in 2012. For further details of the increase in our net interest spread during the relevant period, please refer to the section headed "– Net Interest Spread and Net Interest Margin".

Net fee and commission income to operating income

Our net fee and commission income to operating income was 13.18%, 15.09%, 15.78% and 21.72% for the three years ended December 31, 2010, 2011 and 2012 and for the six months ended June 30, 2013, respectively. The overall increase in our net fee and commission income to operating income from 2010 to June 30, 2013 was primarily due to the higher growth in our net fee and commission income as compared to the growth in our operating income. For further details of the increase in our net fee and commission income to operating income during the relevant period, please refer to the section headed "– Net Fee and Commission Income".

Cost-to-income ratio

Our cost-to-income ratio was 35.53%, 32.12%, 30.19% and 27.93% for the three years ended December 31, 2010, 2011 and 2012 and for the six months ended June 30, 2013, respectively. The overall decrease in our cost-to-income ratio from 2010 to June 30, 2013 was primarily due to our improved operational efficiency, including, among other aspects, a refined marketing strategy based on customer segmentation.

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

In the application of our accounting policies described in Note V of the Accountants' Report included in Appendix I to this prospectus, we are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. These estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgments and key estimation uncertainty that we have made in the process of applying our accounting policies and that have the most significant effect on the amounts recognized in the Accountants' Report included in Appendix I to this prospectus.

Impairment Losses on Loans and Advances, Available-for-sale Financial Assets and Held-to-Maturity Investments

We review portfolios of loans and advances, available-for-sale financial assets and held-to-maturity investments periodically to assess whether any impairment losses exist and the amount of impairment losses if there is any indication of impairment. Objective evidence for impairment includes observable data indicating that there is a significant decrease in the estimated future cash flows for individual loans and advances, available-for-sale financial assets and held-to-maturity investments. It also includes observable data indicating adverse changes in the repayment status of the debtors, or change in national or local economic conditions that causes the default in payment.

The impairment loss for loans and advances and held-to-maturity investments that is individually assessed for impairment is the net decrease in the estimated discounted future cash flow of the assets. When the financial assets are collectively assessed for impairment, the estimate is based on historical loss experience for assets with credit risk characteristics similar to the financial assets. Historical loss experience is adjusted on the basis of the relevant observable data that reflect current economic conditions and the judgment based on our historical experience. We review the methodology and assumptions used in estimating future cash flows regularly to reduce any difference between loss estimates and actual loss.

The objective evidence of impairment for available-for-sale investments includes significant or continual decline in fair value of investment. When deciding whether there is significant or continual decline in fair value, we will consider the historical fluctuation records of the market and debtors' credit condition, financial position and performance of related industry.

Fair Value of Financial Instruments

There are no quoted prices from an active market for a number of financial instruments. The fair values for these financial instruments are established by using valuation techniques. These techniques include using recent arm's length market transactions by referring to the current fair value of similar instruments, discounted cash flow analysis and option pricing models. We have established a work flow to ensure that the valuation techniques are constructed by qualified personnel and are validated and reviewed by independent personnel. Valuation techniques are certified and calibrated before implementation to ensure the valuation result reflects the actual market conditions. Valuation models established by us make maximum use of market input and rely as little as possible on our specific data. However, it should be noted that some input, such as credit and counterparty risk and risk correlations, require our estimates. We review the above estimations and assumptions periodically and make adjustments if necessary.

The Classification of the Held-to-maturity Investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity investments, if we have the intention and ability to hold them until maturity. In evaluating whether requirements to classify a financial asset as held-to-maturity are met, we make significant judgments. Failure in correctly assessing our intention and ability to hold specific investments until maturity may result in reclassification of the whole portfolio as available-for-sale.

Income Taxes

Determining income tax provisions involves judgment on the future tax treatment of certain transactions. We carefully evaluate the tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation. Deferred tax assets are recognized for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognized to the extent that it is probable that future taxable profits will be available against which the unused tax credits can be utilized, our judgment is required to assess the probability of future taxable profits. Our assessment is constantly reviewed and additional deferred tax assets are recognized if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered.

Impairment of Non-financial Assets

Non-financial assets are reviewed regularly to determine whether the carrying amount exceeds the recoverable amount of the assets. If any such indication exists, an impairment loss is provided.

Since a market price of the asset (the asset group) cannot be obtained reliably, the fair value of the asset cannot be estimated reliably. In assessing the present value of future cash flows, significant judgments are exercised over the asset's selling price, related operating expenses and discounting rate to calculate the present value. All relevant materials which can be obtained are used for estimation of the recoverable amount, including the estimation of the selling price and related operating expenses based on reasonable and supportable assumptions.

Depreciation and Amortization

Investment properties, fixed assets and intangible assets are depreciated and amortized using the straight-line method over their estimated useful lives after taking into account residual values. The estimated useful lives are regularly reviewed to determine the depreciation and amortization costs charged in each reporting period. The estimated useful lives are determined based on historical experiences of similar assets and the estimated technical changes. If there is an indication that there has been a change in the factors used to determine the depreciation or amortization, the amount of depreciation or amortization will be revised.

INDEBTEDNESS

As of October 31, 2013, being the latest practicable date for determining our indebtedness, we had the following indebtedness:

(a) subordinated debts issued in an aggregate principal amount of RMB14.7 billion, including:

  (i) fixed rate subordinated debts of RMB5.0 billion with a term of ten years issued on December 15, 2008. The coupon rate for the first five years is 4.05%. We have an option to redeem the debts on December 17, 2013 at the nominal amount. If the debts are not redeemed by us, the coupon rate will increase to 7.05% for the next five years;

  (ii) fixed rate subordinated debts of RMB3.0 billion with a term of ten years issued on March 13, 2009. The coupon rate for the first five years is 3.75%. We have an option to redeem the debts on March 17, 2014 at the nominal amount. If the debts are not redeemed by us, the coupon rate will increase to 6.75% for the next five years; and

  (iii) fixed rate subordinated debts of RMB6.7 billion with a term of fifteen years issued on June 7, 2012. The coupon rate is 5.25%. We have an option to redeem the debts on June 8, 2022 at the nominal amount;

(b) financial bonds issued in an aggregate principal amount of RMB30.0 billion, including:

  (i) fixed rate financial bonds of RMB20.0 billion with a term of five years issued on March 28, 2012 with a coupon rate of 4.20%; and

  (ii) floating rate financial bonds of RMB10.0 billion with a term of five years issued on March 28, 2012, bearing interest at a floating rate based on the PBOC's one-year time deposits rate plus a margin of 0.95%;

(c) Certificates of deposit in an aggregate principal amount of RMB1,000.5 million;

(d) deposits from customers, deposits and placements from banks and other financial institutions, and financial assets sold under repurchase agreements that arose from the normal course of our banking business; and

(e) loan commitments, acceptances, letters of credit and letters of guarantee issued, other commitments and contingencies (including pending litigation) that arose from the normal course of banking business carried out by us.

We have announced on November 15, 2013 that we would exercise our redemption option on December 17, 2013 to fully redeem the RMB5 billion ten-year fixed rate subordinated debt issued on December 15, 2008.

Our general meeting of Shareholders approved the issuance of tier two capital debt of up to RMB20.0 billion in May 2013 and we received the approval from the CBRC for the issuance of tier two capital debt of up to RMB16.2 billion in August 2013. The issuance, schedule and size of such tier two capital debt will depend on the approval from the PBOC, the market conditions and our funding requirements.

Except for the above, we did not have, as of October 31, 2013, any outstanding mortgages, charges, debentures or other loan capital (issued or agreed to be issued), bank overdrafts, loans, liabilities under acceptance or other similar indebtedness, leasing and financial leasing commitments or any guarantees or other material contingent liabilities.

Our Directors have confirmed that there has not been any material change in the indebtedness or contingent liabilities of our Bank since October 31, 2013 and up to the Latest Practicable Date.

RULES 13.13 TO 13.19 OF THE HONG KONG LISTING RULES

Except as disclosed in this prospectus, as of the Latest Practicable Date, we confirm that we were not aware of any circumstances which would give rise to a disclosure obligation under Rule 13.13 to Rule 13.19 of the Listing Rules.

DIVIDEND POLICY

Our Board of Directors is responsible for submitting proposals in respect of dividend payments, if any, to the general meeting of Shareholders for approval. The determination of whether to pay dividends and the amount of such dividends is based on our results of operations, cash flows, financial condition, capital adequacy ratios, future business prospects, statutory and regulatory restrictions on the payment of dividends by us and other factors that our Board of Directors considers relevant. Under the PRC Company Law and our Articles of Association, all of our Shareholders holding the same class of shares have equal rights to dividends and other distributions proportionate to their shareholding. Under PRC laws, we may only pay dividends out of our distributable profit. Such distributable profit is the lower of our net profit determined under PRC GAAP or IFRS, less:

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

Prior to July 1, 2012, pursuant to relevant regulations issued by the MOF, we were required to set aside a general reserve through appropriations of profit after tax according to a certain provision ratio of the ending balance of gross risk-bearing assets to cover potential losses against our assets. In principle, the general reserve balance should not be lower than 1% of the ending balance of gross risk-bearing assets.

With effect from July 1, 2012, pursuant to the Administrative Measures on Accrual of Provisions by Financial Institutions (金融企業準備金計提管理辦法) issued by the MOF in March 2012, we are required, in principle, to set aside a general reserve not lower than 1.5% of the ending balance of our gross risk-bearing assets.

Any distributable profit that is not distributed in a given year is retained and available for distribution in subsequent years. According to our Articles of Association, unless there are special circumstances as set forth therein, we will distribute cash dividends if we record net profit for the year and positive accumulated retained earnings. We may also undertake interim profit distributions. The payment of any dividends by us must also be approved at a general meeting of Shareholders. We are prohibited from making any profit distributions to our Shareholders before recovering our accumulated losses and making appropriations to the statutory surplus reserve and the general reserve. If we make any profit distributions in violation of these rules, our Shareholders are required to return the amounts they received in such profit distributions to us. For more details, see "Appendix VI – Summary of Articles of Association – (n) Dividends and Other Methods of Distributions".

The CBRC has the discretionary authority to prohibit any bank that fails to fulfill capital adequacy ratio requirement, or has violated certain PRC banking regulations, from paying dividends and making other forms of distributions. See "Supervision and Regulation – PRC Banking Supervision and Regulation – Supervision Over Capital Adequacy – Supervision on capital adequacy level by the CBRC" and "Supervision and Regulation – PRC Banking Supervision and Regulation – Principal Regulators – CBRC." As of June 30, 2013, we had a capital adequacy ratio of 9.67% and a core tier-one capital adequacy ratio of 7.77%.

In 2011, 2012 and 2013, we declared and paid dividends of RMB3,825 million for the year 2010, RMB5,378 million for the year 2011 and RMB2,345 million for the year 2012, respectively. These dividends were declared based on the number of our A Shares in issue at the record dates in those respective years.

At our annual general meeting of Shareholders held on May 17, 2013, our Shareholders adopted a resolution that the accumulated undistributed profits prior to the Global Offering will be attributable to both our existing Shareholders and our new Shareholders after the Global Offering.

In compliance with relevant PRC laws and regulations, the requirements of the securities regulatory authorities of the jurisdictions where our Shares are listed and our Articles of Association, and in consideration of the interests of our Shareholders and our business development needs, for the years 2013 and 2014, our Board will develop an annual dividend distribution plan for submission to the annual general meeting of Shareholders for approval.

UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following statement of our unaudited pro forma adjusted consolidated net tangible assets is prepared based on our consolidated net tangible assets as of September 30, 2013 as shown in the Unaudited Interim Financial Information, the text of which is set out in Appendix II to this prospectus, adjusted as described below.

The statement of unaudited pro forma adjusted consolidated net tangible assets has been prepared to show the effect of the Global Offering on our consolidated net tangible assets at September 30, 2013 as if it had occurred on September 30, 2013.

The statement of the unaudited pro forma adjusted consolidated net tangible assets of our Bank has been prepared for illustrative purposes only and, as a result, may not give a true picture of our financial position following the completion of the Global Offering.

	Unaudited consolidated net tangible assets attributable to our equity shareholders as of September 30, 2013(1)	Estimated net proceeds from the Global Offering(2)	Unaudited pro forma adjusted consolidated net tangible assets attributable to our equity Shareholders(3)	Unaudited pro forma adjusted consolidated net tangible assets per Share(4)	
	RMB Million	RMB Million	RMB Million	RMB	HK$(5)
Based on the offer price of HK$3.83 per Offer Share...	130,312	15,058	145,370	3.19	4.03
Based on the offer price of HK$4.27 per Offer Share...	130,312	16,800	147,112	3.23	4.08

Notes:

(1) The consolidated net tangible assets as of September 30, 2013 is compiled based on the unaudited consolidated financial information included in the Unaudited Interim Financial Information set out in Appendix II to the prospectus, which is based on the unaudited consolidated net assets attributable to our equity shareholders as of September 30, 2013 of RMB132,136 million with an adjustment for intangible assets and goodwill of 543 million and RMB1,281 million, respectively, as of September 30, 2013.

(2) The estimated net proceeds from the Global Offering are based on the offer price of HK$3.83 per H share to HK$4.27 per H Share and the assumption that there are 5,080,000,000 newly issued H Shares in the Global Offering, after deduction of the underwriting fees and other related expenses payable by us, assuming that neither the Offer-Size Adjustment Option nor the Over-allotment Option is exercised and without taking into account any discretionary incentive fees.

(3) The unaudited pro forma adjusted consolidated net tangible assets do not take into account the financial results for the period from and including October 1, 2013 to the date immediately preceding the Listing Date.

(4) The unaudited pro forma adjusted consolidated net tangible assets per Share is arrived at after the adjustments referred to in note 1 above and on the basis that 45,514,790,000 Shares are issued and outstanding following the completion of the Global Offering and that neither the Offer Size Adjustment Option nor the Over-allotment Option is exercised.

(5) The conversion of Renminbi into Hong Kong dollars has been made at the rate of RMB0.79103 to HK$1.00, the exchange rate set by the PBOC prevailing on November 29, 2013. No representation is made that the Hong Kong dollar amounts have been, could have been or could be converted to Renminbi, or vice versa, at that rate, or at any other rate or at all.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that up to the date of this prospectus, other than as disclosed in this prospectus, there has been no material adverse change in our financial or trading position since June 30, 2013, being the date of our latest audited financial results as set out in the Accountants' report in Appendix I to this prospectus.

LISTING EXPENSES

We incur listing expenses in connection with the Listing, which include professional fees and underwriting commissions and fees. Assuming an Offer Price of HK$4.05 per Offer Share (being the midpoint of the indicative offer price range of HK$3.83 to HK$4.27 per Offer Share), we expect listing expenses to be borne by us to amount to approximately HK$458 million, assuming that neither the Offer-Size Adjustment Option nor the Over-allotment Option is exercised and without taking into account any discretionary incentive fees. Of the listing expenses, HK$21 million is expected to be charged to our consolidated statements of comprehensive income and HK$437 million is expected to be accounted for as a deduction from equity.

WORKING CAPITAL

Rule 8.21A(1) and Paragraph 36 of part A of Appendix 1A of the Listing Rules require this prospectus to include a statement by our Directors that, in their opinion, the working capital available to our Bank is sufficient for at least 12 months from the publication of this prospectus or, if not, how it is proposed to provide the additional working capital our Directors consider to be necessary. We are of the view that the traditional concept of "working capital" does not apply to banking businesses such as ours. We are regulated in the PRC by, among others, the PBOC and the CBRC. These regulatory authorities impose minimum capital adequacy and liquidity requirements on commercial banks operating in the PRC. Rule 8.21A(2) of the Listing Rules provides that such a working capital statement will not be required to be made by an issuer whose business is entirely or substantially that of the provision of financial services, provided that the Hong Kong Stock Exchange is satisfied that the inclusion of such a statement would not provide significant information for investors and the issuer's solvency and capital adequacy are subject to prudential supervision by another regulatory body. In view of the above, pursuant to Rule 8.21A(2) of the Listing Rules, we are not required to include a working capital statement from our Directors in this prospectus.

OVERVIEW

Our predecessor, China Everbright Bank, was a financial enterprise established in 1992 with the approval of the State Council and the PBOC. At that time, we were wholly owned by China Everbright (Group). Our Bank was converted into a joint stock limited liability company in 1997, with 131 Promoters including China Everbright (Group), China National Tobacco Corporation Yunnan Company and Asian Development Bank. Huijin became our controlling Shareholder in November 2007 and held at that time approximately 70.88% of our Shares. As of the Latest Practicable Date, Huijin owned approximately 51.16% of our total issued Shares (including the Shares held by it directly and indirectly). Immediately following the Global Offering, assuming that neither the Offer Size Adjustment Option nor the Over-allotment Option for the Global Offering is exercised, Huijin will own, directly and indirectly, approximately 44.68% of our total issued Shares. As a result of the announcement of the Proposed Restructuring, both Huijin and China Everbright (Group) are deemed as our controlling shareholders. See "Proposed Restructuring" below. As of the Latest Practicable Date, China Everbright (Group) owned approximately 5.18% of our total issued Shares. Immediately following the Global Offering, assuming that neither the Offer Size Adjustment Option nor the Over-allotment Option for the Global Offering is exercised, China Everbright (Group) will own approximately 4.52% of our total issued Shares.

Relationship with Huijin

Huijin, our controlling Shareholder, is a wholly state-owned limited liability company ultimately owned by the PRC central government and mandated by the state to invest in and hold shares in major PRC financial institutions. Huijin exercises the rights and assumes the obligations of an investor in several financial institutions including the Industrial and Commercial Bank of China Limited, China Construction Bank Corporation, Bank of China Limited, Agricultural Bank of China Limited and us on behalf of the PRC government, and implements PRC governmental policies with respect to reforms of state-owned financial institutions. Huijin does not engage in any commercial activity.

Huijin has undertaken to us that:

(1) so long as Huijin holds any of our Shares and is deemed to be a controlling Shareholder or an actual controller in accordance with the laws or listing rules of China or of the place where our Shares are listed (if our Shares are listed), it will not engage or participate in any competing commercial banking businesses in China or abroad. If Huijin engages or participates in any competing commercial banking businesses or any businesses or activities which evolve into competing commercial banking businesses in China or abroad, Huijin will immediately cease to participate in, manage or engage in such competing commercial banking businesses;

(2) if Huijin obtains any governmental approval, authorization or license to operate commercial banking businesses directly, or obtains other opportunities to operate commercial banking businesses, Huijin will immediately relinquish such approval, authorization or license, and will not operate any commercial banking businesses;

(3) notwithstanding the above undertakings (1) and (2), Huijin, as a state-owned investment vehicle established by the PRC government to invest in the financial/banking industry, may through its investments in other companies (including but not limited to its wholly owned entities, joint ventures, contractual joint ventures, or through its direct or indirect ownership of shares or other interests in such companies or enterprises) operate or participate in any competing commercial banking businesses in China or abroad; and

(4) Huijin, as a state-owned investment vehicle established by the PRC government to invest in the financial/banking industry, shall treat commercial banks it invests in on an equal footing, and will not confer upon or provide to any commercial banks any governmental approval, authorization or license to operate commercial banking businesses or business opportunities it obtains or may obtain, nor will it take advantage of its status as a holder of our Shares or the information obtained by virtue of such status to make decisions or judgments against us but in favor of other commercial banks it invests in, and will avoid such objective results arising thereunder. When exercising its Shareholder's rights in relation to the matters concerning our Bank, Huijin shall endeavor to maximize the interests of our Bank to a reasonable extent.

Relationship with China Everbright (Group)

China Everbright (Group) is a wholly state-owned company established on November 12, 1990 whose registered capital was wholly contributed by the MOF. China Everbright (Group) is a financial holding group which mainly engages in investment and management of banks, securities companies, insurance companies and other financial enterprises.

Apart from its interests in our Bank, China Everbright (Group) and its subsidiaries are not engaged in any business that competes or is likely to compete, either directly or indirectly, with our core business. As at the Latest Practicable Date, China Everbright (Group) does not have any interests (within the meaning of Rule 8.10 of the Listing Rules) in other commercial banks in the PRC apart from us.

See "Our History, Restructuring and Operational Reform – Our Shareholding and Group Structure – Relationship with China Everbright (Group) and China Everbright Limited" for details.

PROPOSED RESTRUCTURING

Along with Huijin and China Everbright (Group), we have been advised by relevant PRC authorities that the State Council has agreed in principle that appropriate adjustments should be made in order to facilitate the reorganization of China Everbright (Group), whereby certain equity interests in our Bank will be injected into China Everbright (Group) by Huijin in order to consolidate our accounts with China Everbright (Group). The Proposed Restructuring involves changes of shareholdings among our existing shareholders but does not affect the daily operation of our Bank. We made an announcement relating to the Proposed Restructuring on the Shanghai Stock Exchange on January 10, 2013. As a result of the announcement of the Proposed Restructuring, both Huijin and China Everbright (Group) are deemed as our controlling shareholders and are subject to the lock-up requirements under Rule 10.07 of the Listing Rules. For details of the lock-up undertakings of Huijin and China Everbright (Group), see "Underwriting – Underwriting Arrangements and Expenses – Undertakings".

As of the Latest Practicable Date, we have not been notified of any further information on the Proposed Restructuring. We will announce the latest progress of the Proposed Restructuring as soon as practicable upon obtaining further information from the PRC authorities. For details of the waiver application in connection with the Proposed Restructuring, see "Waivers from Strict Compliance with the Listing Rules – Waiver in Relation to Non-Disposal of Shares by Huijin."

CONNECTED TRANSACTIONS

Pursuant to Chapter 14A of the Listing Rules, after the listing of our H Shares, the transactions we have entered into with our connected persons (as defined in the Listing Rules) will constitute connected transactions.

Exempt Continuing Connected Transactions

Set forth below are details of various connected transactions between us and certain Directors, Supervisors, substantial Shareholders (including China Everbright (Group)) and/or their respective associates. These transactions are entered into on normal commercial terms in the ordinary and usual course of our business, and are exempt from the reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

Commercial Banking Services and Products Provided by us in the Ordinary and Usual Course of Business – Deposit

We provide commercial banking services and products to customers in the ordinary and usual course of our business. Such services and products include taking deposits. Customers who place deposits with us include substantial shareholders, directors, supervisors, presidents and chief executive officers of us and our subsidiaries, and former directors of us and our subsidiaries who were directors within 12 months preceding the Listing Date and their respective associates. Each of the above persons is a connected person under Chapter 14A of the Listing Rules. We expect that our connected persons will continue to place deposits with us following the listing of our H Shares, which will constitute continuing connected transactions under Chapter 14A of the Listing Rules.

The deposits placed by our connected persons are on normal commercial terms with reference to prevailing market rates.

The provision of commercial banking services and products by us to our connected persons in the ordinary and usual course of our business and on normal commercial terms that are comparable with or no more favorable than those offered to independent third parties (including other comparable employees of ours who are not connected persons) will be exempt continuing connected transactions under Rule 14A.65(4) of the Listing Rules, namely financial assistance provided by a connected person in the form of deposits placed with a listed issuer for the benefit of the listed issuer on normal commercial terms (or better to the listed issuer) where no security over the assets of the listed issuer is granted in respect of the financial assistance, and thus will be exempt from the reporting, announcement and independent shareholders' approval requirements contained in Rules 14A.35 and 14A.45 to 14A.48 of the Listing Rules.

Financial Assistances Provided by us in the Ordinary and Usual Course of Business – Loans and Credit Extension

We extend loans and credit (including but not limited to long-term loans, short-term loans, consumer loans, credit cards, mortgages, guarantees, guarantees of third-party loans, comfort letters, bill discounting facilities, subscription of corporate bonds and credit extended through financial assets held under resale agreements), in the ordinary and usual course of our business and on normal commercial terms with reference to prevailing market rates. Third parties who utilize the above products and services may include substantial shareholders, directors, supervisors, presidents and chief executive officers of us and our subsidiaries, and former directors of us and our subsidiaries who were directors within 12 months preceding the Listing Date and their respective associates. Each of the above is a connected person under Chapter 14A of the Listing Rules. We expect that we will continue to provide the above financial assistances to these connected persons following the listing of our H Shares which will constitute continuing connected transactions under Chapter 14A of the Listing Rules.

The above financial assistances provided by us to our connected persons are on normal commercial terms with reference to prevailing market rates.

The provision of the above financial assistances by us to our connected persons in the ordinary and usual course of our business and on normal commercial terms that are comparable with or no more favorable than those offered to independent third parties (including other comparable employees of ours who are not connected persons) will be exempt continuing connected transactions under Rule 14A.65(1) of the Listing Rules, namely financial assistance provided by a listed issuer in its ordinary and usual course of business for the benefit of a connected person on normal commercial terms, and thus will be exempt from all reporting, announcement and independent shareholders' approval requirements under Rules 14A.35 and 14A.45 to 14A.48 of the Listing Rules.

Trademark Licensing Agreement

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

The agreement was signed as part of the continuing efforts of China Everbright (Group), a major shareholder of us, to support our development.

As no consideration is payable under the agreement, by virtue of Rule 14A.33(3)(a) of the Listing Rules, the transactions under the Trademark Licensing Agreement are exempted from the reporting, announcement and the independent shareholders approval requirements under Chapter 14A of the Listing Rules.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT MEMBERS

Directors

The following table sets out certain information relating to our Directors.

Name	Age	Position	Appointment Date
Mr. TANG Shuangning....	59	Chairman of the Board of Directors, Non-executive Director	November 19, 2012
Mr. LUO Zhefu	60	Vice Chairman of the Board of Directors, Non-executive Director	November 19, 2012
Mr. GUO You.................	56	Executive Director, President	November 19, 2012
Mr. WU Qing	60	Executive Director	November 19, 2012
Mr. WU Jian...................	43	Non-executive Director	November 19, 2012
Ms. Narentuya................	57	Non-executive Director	November 19, 2012
Mr. WU Gang.................	54	Non-executive Director	November 19, 2012
Ms. WANG Shumin.........	57	Non-executive Director	November 19, 2012
Mr. WANG Zhongxin	58	Non-executive Director	November 19, 2012
Mr. WU Gaolian.............	61	Non-executive Director	January 21, 2013
Mr. ZHOU Daojiong	79	Independent Non-executive Director	January 21, 2013
Mr. ZHANG Xinze..........	67	Independent Non-executive Director	November 19, 2012
Mr. QIAO Zhimin	61	Independent Non-executive Director	January 7, 2013
Mr. XIE Rong	60	Independent Non-executive Director	January 7, 2013
Ms. FOK Oi Ling Catherine(1)	55	Independent Non-executive Director	October 25, 2013
Mr. WANG Wei(2)	55	Independent Non-executive Director	November 19, 2012

(1) Ms. FOK Oi Ling Catherine was elected as an Independent Non-executive Director of the Bank by the general meeting of the Shareholders on October 25, 2013, and her appointment is subject to the approval of the CBRC.

(2) Mr. WANG Wei has tendered his resignation due to work commitments. According to the relevant requirement under the PRC law, one-third of the Board shall comprise independent Directors. Therefore, the resignation of Mr. WANG Wei will take effect upon the appointment of Ms. FOK Oi Ling Catherine having been approved by the CBRC.

Mr. TANG Shuangning has served as Chairman of the Board of Directors since he joined our Bank in July 2007. Mr. TANG was appointed as Chairman of the current Board of Directors and a Non-executive Director of our Bank on November 19, 2012. Mr. TANG currently also serves as chairman of the board of directors of China Everbright (Group), China Everbright Holdings, China Everbright Limited (listed on the Hong Kong Stock Exchange, HK Stock Code: 00165) and China Everbright International Limited (listed on the Hong Kong Stock Exchange, HK Stock Code: 00257). Mr. TANG is also a director of Sun Life Everbright and a director of Everbright Securities (listed on the Shanghai Stock Exchange, SH Stock Code: 601788). Mr. TANG worked successively as the deputy chief (acting head) of the general office of the Liaoning Branch of China Construction Bank and senior executive vice president of the Shenyang Branch of China Construction Bank from August 1982 to August 1989, executive vice president of the Shenyang Branch of the PBOC and deputy head of the Shenyang Branch of SAFE from August 1989 to February 1994, president of the Shenyang Branch of the PBOC and head of the Shenyang Branch of SAFE from February 1994 to May 1997, and also worked successively as director general of the Credit Management Department, the Currency, Gold and Silver Bureau and the First Department of Bank Supervision of the PBOC from May 1997 to April 2003. From April 2003 to June 2007, Mr. TANG was vice chairman of the CBRC. Mr. TANG graduated from Dongbei University of Finance and Economics with a bachelor's degree in infrastructure, accounting and credit in 1982 and with a master's degree in economics in 1997. Mr. TANG is a senior economist as accredited by the PBOC. He is a member of the National Committee of the 11th Chinese People's Political Consultative Conference, a representative of the 12th National People's Congress, vice chairman of the Agriculture and Rural Affairs Committee of the 12th National People's Congress and a recipient of a Special Government Allowance granted by the State Council.

Mr. LUO Zhefu has served as Vice Chairman of the Board of Directors since he joined our Bank in April 2009. Mr. LUO was appointed as Vice Chairman of the current Board of Directors and a Non-executive Director of our Bank on November 19, 2012. Currently, Mr. LUO is also an executive director and the general manager of China Everbright (Group), vice chairman of the board of directors of Everbright Securities (listed on the Shanghai Stock Exchange, SH Stock Code: 601788) and a director of Sun Life Everbright. Mr. LUO previously served successively as assistant chief of the Research Office, deputy chief of the Education Department, deputy chief of the Capital Planning Department, general manager of the Planning Department, president of Shenzhen Branch, president of Hong Kong Branch and president of Beijing Branch of Agricultural Bank of China from July 1986 to November 2000. From November 2000 to December 2008, Mr. LUO served as executive vice president and an executive director of China Construction Bank (listed on the Hong Kong Stock Exchange, HK Stock Code: 00939; listed on the Shanghai Stock Exchange, SH Stock Code: 601939). Mr. LUO graduated from Trade Economy Department of Jilin Financial and Trade College in 1982 with a bachelor's degree in economics, majoring in commerce and economics, and graduated from the Finance, Commerce and Materials Economics Department of the Graduate School of the Chinese Academy of Social Sciences in 1986 with a master's degree in economics, majoring in commerce economics. Mr. LUO is a senior economist as accredited by Agricultural Bank of China. He is a member of the National Committee of the 12th Chinese People's Political Consultative Conference.

Mr. GUO You has served as an Executive Director and President of our Bank since August 2004. Mr. GUO was appointed as an Executive Director of the current Board of Directors on November 19, 2012. Mr. GUO currently also serves as vice chairman of the board of directors of China Everbright (Group). From January 1989 to January 1997, Mr. GUO worked in the SAFE and served as the deputy division chief of the Foreign Exchange Reserve Division of the Foreign Exchange Business Management Department of the SAFE, chief of the Foreign Exchange Trading Department of the Foreign Reserve Operation Center of the SAFE and deputy general manager of China Investment Corporation (Singapore) of the SAFE. From January 1997 to August 1998, Mr. GUO served as the deputy director general of the Foreign Financial Institution Supervision Department of the PBOC. Mr. GUO joined our Bank in 1998, serving as an Executive Vice President of our Bank from August 1998 to December 1999 and as Vice Chairman of the Board of Directors of our Bank from August 2004 to April 2009. He previously served as the chief executive officer of China Everbright Limited (listed on the Hong Kong Stock Exchange, HK Stock Code: 00165) from December 1999 to July 2004. During this period, Mr. GUO also served as an executive director and the deputy general manager of China Everbright (Group), standing director of our Bank, and a director of Everbright Securities (Listed on the Shanghai Stock Exchange, SH Stock Code: 601788). Mr. GUO graduated from Heihe District Normal School of Heilongjiang province majoring in English in 1980. Mr. GUO obtained a graduate certificate from the U.S. Research Institute of Yellow River University in 1989 with a major in U.S. studies, and obtained a Ph.D. in finance from Southwestern University of Finance and Economics in 2008. Mr. GUO is a senior economist as accredited by China Everbright (Group) and a representative of the 13th Beijing People's Congress.

Mr. WU Qing joined our Bank in January 2003, and has served as a Director of our Bank since November 2007. Mr. WU was appointed as an Executive Director of the current Board of Directors on November 19, 2012. Mr. WU is also the chairman of the board of directors of Everbright Financial Leasing. Mr. WU previously served as the Senior Executive Vice President and Chairman of the Board of Supervisors of our Bank. From March 1991 to January 2003, Mr. WU served successively as the executive vice president of the Beijing Branch of China Construction Bank, president of the Shanxi Branch of China Construction Bank, and general manager of the Computing Center, general manager of the Information Technology Department and general manager of the Electronic Banking Department of China Construction Bank. Mr. WU received a graduate certificate from the Correspondence School (presently the School of Continuing Education) of Renmin University of China in capital construction economics in 1986. Mr. WU is a senior economist as accredited by China Construction Bank.

Mr. WU Jian has served as a Non-executive Director of our Bank since December 2007. Mr. WU was appointed as a Non-executive Director of the current Board of Directors on November 19, 2012. Mr. WU currently also works at Huijin as the chief of Everbright Equity Division of the 2nd Banking Department and a director of China Everbright Industrial (Group) Company Ltd. Mr. WU previously served as the deputy chief of the Risk Alert Division of the Risk Management Department, the chief of the Risk Measurement Division of the Risk Management Department, assistant to the general manager of the Risk Management Department of the head office of China Construction Bank from September 2001 to December 2006 and general manager of the Risk Policy Department and chief of the Implementation Office of the New Basel Capital Accord of the head office of Shanghai Pudong Development Bank from December 2006 to December 2007. Mr. WU graduated from the School of Technology Economics and System Engineering of Tianjin University with a bachelor's degree in engineering majoring in technical economics in 1993, obtained a master's degree in engineering from Tianjin University majoring in technological economy in 1996, and obtained a Ph.D. in economics from the Institute of Economics of the Chinese Academy of Social Sciences in 1999. Mr. WU is a post-doctoral researcher at the Institute of Finance of the PBOC and he holds the title of research fellow.

Ms. Narentuya has served as a Non-executive Director of our Bank since December 2010. Ms. Narentuya was appointed as a Non-executive Director of the current Board of Directors on November 19, 2012. Ms. Narentuya currently works at Huijin. Ms. Narentuya served successively as deputy division chief of the industrial enterprise division of the Finance Department of Inner Mongolia from December 1983 to July 1988, division chief of the MOF central enterprise division residing in the Finance Department of Inner Mongolia from July 1988 to May 1995, and deputy inspector and then inspector of the MOF Inspector's Office residing in Inner Mongolia from May 1995 to October 2010. Ms. Narentuya studied at the Finance Department of Tianjin University of Finance and Economics majoring in public finance from 1975 to 1978 and received a graduate certificate from Tianjin University of Finance and Economics in 1978. Ms. Narentuya is a senior accountant as accredited by the Professional Title Reform Leading Group of the Inner Mongolia Autonomous Region and is a non-practicing member of the Chinese Institute of Certified Public Accountants.

Mr. WU Gang has served as a Non-executive Director of our Bank since December 2010. Mr. WU was appointed as a Non-executive Director of the current Board of Directors on November 19, 2012. Mr. WU currently works at Huijin. Mr. WU worked as deputy division chief of the Foreign Exchange and Foreign Affairs Department of the MOF from September 1994 to December 1995, deputy division chief and then chief of the International Cooperation Department of the MOF from December 1995 to July 1998, division chief and then deputy director general of the International Department of the MOF from July 1998 to June 2000 and deputy director general and then inspector (director-general-level) of the Department of Administration and Politics and Law of the MOF from June 2000 to October 2010. Mr. WU worked as Second Secretary of the Permanent Mission of China to the United Nations from August 1988 to February 1993. Mr. WU graduated from the Foreign Languages and Literature Department of Wuhan University in 1982 with a bachelor of arts degree, majoring in English and received a master's degree in public management from the National University of Singapore in 2004.

Ms. WANG Shumin has served as a Non-executive Director of our Bank since February 2012. Ms. Wang was appointed as a Non-executive Director of the current Board of Directors on November 19, 2012. Ms. WANG currently works at Huijin and is concurrently a director of China Securities Co., Ltd. Ms. WANG was deputy division head and then division head of the Regulation and Law Department of the MOF from June 1986 to October 1991, division head of the Policy and Law Department of the SAFE from November 1992 to May 1994. From May 1994 to August 2004, she successively served as deputy director general of the Policy and Law Department, Balance of Payments Department, and the Administration and Inspection Department of the SAFE, as well as Inspector of the SAFE and press secretary of the SAFE.

Ms. Wang served as a director of China Construction Bank (listed on the Hong Kong Stock Exchange, HK Stock Code: 00939; listed on the Shanghai Stock Exchange, SH Stock Code: 601939) from September 2004 to June 2011. Ms. WANG graduated from Zhongnan University of Economics and Law with a bachelor's degree in law in 1982. Ms. WANG serves as an arbitrator of the China International Economic and Trade Arbitration Commission. Ms. WANG is qualified to practice law in China and she also is a senior economist as accredited by the PBOC.

Mr. WANG Zhongxin has served as a Non-executive Director of our Bank since June 2012. Mr. WANG was appointed as a Non-executive Director of the current Board of Directors on November 19, 2012. Mr. WANG currently works at Huijin. Mr. WANG worked as the deputy head and then head of the Finance Department of the Finance and Trade Office of Shanxi Province and as the assistant to the mayor of Datong City, Shanxi Province from 1986 to 1993. Mr. WANG worked successively as deputy special agent at the Taiyuan Resident Office and Jinan Resident Office of the NAO, and deputy head of the preparatory group, deputy special agent and special agent at Chongqing Resident Office of the NAO from August 1993 to May 2005. Mr. WANG has been the director general of the Department of Social Security Audit of the NAO from May 2005 to March 2010 and the chief of Science and Engineering Audit Office of the NAO from March 2010 to May 2012. Mr. WANG graduated from the Accounting Department of Shanxi Finance and Economics Institute and was awarded with a regular undergraduate diploma in 1979. Mr. WANG is a senior auditor.

Mr. WU Gaolian has served as a Non-executive Director of our Bank since January 2013. He currently works at Huijin. Mr. WU previously served as deputy county chief and then executive deputy county chief of Fusong County, Jilin Province from August 1985 to March 1992. Mr. WU took various positions in People's Insurance Company of China (PICC Property and Casualty Company Limited) from March 1992 to December 2000, including general manager of Jilin Province Tonghua City branch, deputy general manager of Jilin Province branch and general manager of Guangxi Province branch. Mr. WU served as general manager of Liaoning Province branch of People's Insurance Company of China from December 2000 to July 2003. Mr. WU also served as executive vice president of the People's Insurance Company Group of China (the People's Insurance Company of China Holding Company) from July 2003 to August 2008 and as a director and president of China Reinsurance (Group) Corporation from August 2008 to August 2012. Mr. WU graduated from the Graduate School of the Chinese Academy of Social Sciences with a master's degree in April 1998, majoring in money and banking. Mr. WU is a senior economist as accredited by PICC Jilin Province branch.

Mr. ZHOU Daojiong has served as an Independent Non-executive Director of our Bank since January 2013. He also works as the counsel of the China Pacific Economic Cooperation Council (PECC) and the chairman of the PECC Financial Market Development Committee. He is also an independent director of China International Fund Management Co., Ltd., Orient Securities Company Limited, Singfor Life Insurance Co., Ltd and chairman of the China Society of Urban Economy. Mr. ZHOU served as the president of China Construction Bank (listed on the Hong Kong Stock Exchange, HK Stock Code: 00939; listed on the Shanghai Stock Exchange, SH Stock Code: 601939) and as the president of the former China Investment Bank from December 1984 to April 1994. Mr. ZHOU served as the executive deputy director of the Securities Committee of the State Council from October 1992. He also successively served as executive vice president of China Development Bank Corporation from April 1994 to March 1995, chairman of CSRC from March 1995 to June 1997 and a special inspector designated by the State Council from March 1998 to August 2000. Mr. ZHOU also served as chairman of the board of supervisors of China Construction Bank from April 1994 to August 2000. Mr. ZHOU graduated from the Party School of the Central Committee of the Communist Party of China in July 1983, with a junior college certificate, majoring in national economy. Mr. ZHOU is a senior economist.

Mr. ZHANG Xinze has served as an Independent Non-executive Director of our Bank since November 2011, and was appointed as an Independent Non-executive Director of the current Board of Directors on November 19, 2012. Mr. ZHANG is an independent director of Zhangjiagang Rural Commercial Bank Co., Ltd. and Fujian Hongbo Printing Co., Ltd. (listed on the Shenzhen Stock Exchange, Shenzhen Stock Code: 002229). Mr. ZHANG currently also serves as a director of Lubin Shuwei Management Consulting (Beijing) Co., Ltd. and the vice chairman of the China Economic Value Added Application Association. Mr. ZHANG previously served as the secretary and deputy division chief of the General Affairs Division of the General Office of the PBOC from September 1982 to March 1987, and took up different appointments between March 1987 and August 2004, including division chief of the Price Investigation Division of Survey and Statistics Department, division chief, deputy director general, and bureau-level inspector of the Economy Analysis Department of the PBOC, an inspector of the Credit Information Administration and the deputy director of the Credit Information Center of the PBOC. From August 2004 to August 2007, Mr. ZHANG served as a non-executive director of Bank of China (listed on the Hong Kong Stock Exchange, HK Stock Code: 03988; listed on the Shanghai Stock Exchange, SH Stock Code: 601988). Mr. ZHANG graduated from the Department of Finance of Renmin University of China in 1982 with a bachelor's degree in economics, majoring in finance and economics. Mr. ZHANG is a certified research fellow of the PBOC.

Mr. QIAO Zhimin has served as an Independent Non-executive Director of our Bank since January 2013. He is also an independent director of Wuhan Rural Commercial Bank. Mr. QIAO previously took various positions in Bank of China (listed on the Hong Kong Stock Exchange, HK Stock Code: 03988; listed on the Shanghai Stock Exchange, SH Stock Code: 601988) from February 1978 to July 1996, including deputy division chief of Finance and Accounting Bureau of the head office, executive vice president of the Luxembourg branch, deputy general manager of Coordination and Planning Department of the head office. Mr. QIAO worked as deputy director general of Accounts Division, deputy director general of the First Supervision Division, head (bureau-level) of the ICBC Supervision Team in the PBOC from July 1996 to July 2003. Mr. QIAO also served as director of the Accounting Department of the CBRC from July 2003 to January 2007, and vice chairman and then chairman of the board of supervisors of China Minsheng Banking Corporation (listed on the Hong Kong Stock Exchange, HK Stock Code: 001988; listed on the Shanghai Stock Exchange, SH Stock Code: 600016) from January 2007 to April 2012. Mr. QIAO graduated from the Hunan Institute of Economics with a master's degree in economics in September 1999, majoring in finance. Mr QIAO is a senior accountant.

Mr. XIE Rong has served as an Independent Non-executive Director of our Bank since January 2013. He serves as a professor at the Shanghai National Accounting Institute. He is also an independent director of Tianjin Capital Environmental Protection Group Company Limited (listed on the Hong Kong Stock Exchange, HK Stock Code: 01065; listed on the Shanghai Stock Exchange, SH Stock Code: 600874), Sinopharm Group Co., Ltd. (listed on the Hong Kong Stock Exchange, HK Stock Code: 01099), Shanghai Baosight Software Co., Ltd. (listed on the Shanghai Stock Exchange, SH Stock Code: A share, 600845, B share, 900926), Shenyin & Wanguo Securities Co., Ltd. and China Traditional Chinese Medicine Co. Limited (formerly known as Winteam Pharmaceutical Group Limited) (listed on the Hong Kong Stock Exchange, HK Stock Code: 00570) and director of SAIC Motor Corporation Limited (listed on the Shanghai Stock Exchange, SH Stock Code: 600104) and Shanghai Electric (Group) Corporation. Mr. XIE served at Shanghai University of Finance and Economics as an associate professor, professor, doctoral supervisor and associate dean of the School of Accounting from December 1985 to December 1997. During this period, Mr. XIE was also a visiting senior research fellow at the University of Warwick in the United Kingdom for one year and served as a part-time certified public accountant at Da Hua Certified Public Accountants and PricewaterhouseCoopers Da Hua CPAs Limited. Mr. XIE worked as a partner at KPMG Huazhen from December 1997 to October 2002 and the associate dean of Shanghai National Accounting Institute from October 2002 to August 2012. Mr. XIE previously worked as an independent director of China CITIC Bank Corporation Limited (listed on the Hong Kong Stock Exchange, HK Stock Code: 00998; listed on the Shanghai Stock Exchange, SH Stock Code: 601998) from February 2007 to October 2012. Mr. XIE is a member of the Steering Committee of Post-graduate Education of the Academic Degree Commission of the State Council, standing director of the China Auditing Society, standing director of the China Accounting Society, vice chairman of the Shanghai Cost Research Society and member of the Expert Consultation Committee of the SSE Corporate Governance of the Shanghai Stock Exchange. Mr. XIE graduated from the Shanghai University of Finance and Economics in January 1993 and obtained a Ph.D. in economics. Mr. XIE is a senior non-practicing certified public accountant and a recipient of a Special Government Allowance granted by the State Council.

Ms. FOK Oi Ling Catherine will serve as an Independent Non-executive Director of our Bank upon obtaining the CBRC's approval to her appointment. Ms. FOK has extensive experiences in commerce and management of retail banking business. From 1981 to 2006, she served successively in the Hongkong and Shanghai Banking Corporation Limited as manager of the International Trade Financing Division and the Commercial Credit Division, regional director of industrial and commercial banking and trade finance, chief of the Risk Management Department of retail banking, regional director of retail banking and director of wealth management and investment products for the retail banking business. Ms. Fok served as chief of retail banking business at HSBC Bank (China) Company Limited from 2006 to 2009. She served as director of business integration of Asia-Pacific Region of the Hongkong and Shanghai Banking Corporation Limited from 2010 to 2012, during which she also served as a marketing and management counsel to the retail banking business of Bank of Communications Co., Ltd. She did not hold any directorship in any listed companies in the last three years. Ms. FOK is currently the honorary chairman of the Hong Kong Chamber of Commerce in China – Shanghai, a voting member of the Hong Kong Professionals and Senior Executives Association and a member of the Finance and Economics Group under its Economic Affairs Committee, and a member of the Hong Kong Women Professional & Entrepreneurs Association. Ms. FOK graduated from the Chinese University of Hong Kong with a master's degree in business administration. She is an associate of The Hong Kong Institute of Bankers and a certified financial management planner.

Mr. WANG Wei has tendered his resignation due to work commitments and his resignation will take effect upon the appointment of Ms. FOK Oi Ling Catherine having been approved by the CBRC. He has served as an Independent Non-executive Director of our Bank since May 2008. Mr. WANG was appointed as an Independent Non-executive Director of the current Board of Directors on November 19, 2012. Mr. WANG also serves as chairman of the board of directors of China M&A Group and, concurrently, chairman of China Mergers & Acquisitions Association, independent director of Shanghai Chengtou Holding Co., Ltd. (listed on the Shanghai Stock Exchange, SH Stock Code: 600649) and independent director of Lifan Industry (Group) Company (listed on the Shanghai Stock Exchange, SH Stock Code: 601777). Mr. WANG previously worked at China Construction Bank (listed on the Hong Kong Stock Exchange, HK Stock Code: 00939; listed on the Shanghai Stock Exchange, SH Stock Code: 601939) in 1982, Bank of China (listed on the Hong Kong Stock Exchange, HK Stock Code: 03988; listed on the Shanghai Stock Exchange, SH Stock Code: 601988) from 1985 to 1987, Chemical Banking Corporation (presently J.P. Morgan Chase & Co.) from 1987 to 1988, the World Bank from 1988 to 1989 and China Southern Securities Co., Ltd. from 1992 to 1996. Mr. WANG also served as independent director of China Sports Industry Group Co., Ltd. (listed on Shanghai Stock Exchange, SH Stock Code: 600158) from September 2005 to April 2012. Mr. WANG obtained a master's degree in economics at the Financial Research Institute of the PBOC in 1985, and obtained a Ph.D. in economics from the Graduate School of Arts and Sciences of Fordham University in 1992.

Supervisors

The following table sets out certain information relating to our Supervisors.

Name	Age	Position	Appointment Date
Mr. CAI Haoyi	59	Shareholder Representative Supervisor	November 19, 2012
		Chairman of the Board of Supervisors	January 11, 2013
Mr. MU Huijun	57	Employee Representative Supervisor	November 5, 2012
		Vice Chairman of the Board of Supervisors	November 19, 2012
Mr. CHEN Shuang	46	Shareholder Representative Supervisor	November 19, 2012
Mr. WANG Pingsheng	56	Shareholder Representative Supervisor	November 19, 2012
Ms. ZHANG Chuanju........	56	Shareholder Representative Supervisor	November 19, 2012
Mr. WU Junhao	48	Shareholder Representative Supervisor	November 19, 2012
Mr. YU Erniu	64	External Supervisor	November 19, 2012
Mr. James Parks STENT ...	67	External Supervisor	November 19, 2012
Ms. CHEN Yu	48	Employee Representative Supervisor	November 5, 2012
Mr. YE Donghai	50	Employee Representative Supervisor	November 5, 2012
Mr. MA Ning....................	42	Employee Representative Supervisor	November 5, 2012

Mr. CAI Haoyi has served as a Shareholder representative Supervisor of our Bank since November 2012 and was appointed as the chairman of the Board of Supervisors of our Bank in January 2013. Mr. CAI previously served as associate dean of the Graduate Department of the Financial Research Institute, vice president of Institute of International Finance, deputy director general of Research Bureau and secretary general of Monetary Policy Committee of the PBOC from July 1986 to March 2007. Mr. CAI worked as a non-executive director of Bank of China (listed on the Hong Kong Stock Exchange, HK Stock Code: 03988; listed on the Shanghai Stock Exchange, SH Stock Code: 601988) from March 2007 to November 2012. Mr. CAI graduated from the Faculty of Economics of Peking University with a bachelor's degree in economics in July 1983, and from the Institute of International Finance of the PBOC with a master's degree in economics in July 1986. Mr. CAI graduated from the Graduate Department of the Institute of International Finance of the PBOC with a Ph.D. in economics in July 2001. Mr. CAI holds the title of researcher. Mr. CAI is a master supervisor of the PBC School of Finance at Tsinghua University, a doctoral supervisor at University of International Business and Economics, a post-doctoral supervisor at the Institute of International Finance of the PBOC, and a director of China Society for Finance and Banking. Mr. CAI is a recipient of a Special Government Allowance granted by the State Council.

Mr. MU Huijun had served as an employee representative Supervisor and Vice Chairman of the Board of Supervisors of our Bank since November 2009 (Mr. MU acted as the Chairman of the Board of Supervisors of our Bank from September 2010 to November 2012). Mr. MU has served as Vice Chairman of the Working Committee of the Labor Union of our Bank since November 2009, chairman of the board of supervisors of Everbright Financial Leasing since May 2010, director of China Everbright Investment Management Corporation and director of Shanghai Everbright Convention & Exhibition Center since June 2004. Mr. MU previously served as executive vice president of the Yantai Branch of the PBOC, division chief of the General Affairs Division and division chief of the Legislation Division of the Department of Treaties and Laws of the PBOC from November 1989 to July 2000, chief of the General Affairs Division of the Work Department of the Supervisory Committee of the Central Financial Work Committee from July 2000 to October 2001, full-time supervisor and deputy chief of the general offices of the boards of supervisors of China Everbright (Group) and China CITIC Group as appointed by the State Council from October 2001 to June 2004 and director of China Everbright (Group) and general manager of the Financial Management Department of China Everbright (Group) from June 2004 to October 2009. Mr. MU graduated from Beijing Vocational Legal College (now named as Beijing College of Politics and Law) with a diploma in law in 1985 and completed an in-service graduate program for party leaders at the Correspondence Institute of the Party School of the Central Committee of the Communist Party of China in 2000, majoring in economic management.

Mr. CHEN Shuang has served as a Shareholder representative Supervisor of our Bank since December 2007. Mr. CHEN was appointed as a Shareholder representative Supervisor of the current Board of Supervisors on November 19, 2012. Currently Mr. CHEN is director and deputy general manager of China Everbright Holdings, and, concurrently, an executive director and chief executive officer of China Everbright Limited (listed on the Hong Kong Stock Exchange, HK Stock Code: 00165). Mr. CHEN is a director of Everbright Securities Company Limited (listed on the Shanghai Stock Exchange, SH Stock Code: 601788), an independent director of Noah Holdings Limited (listed on the New York Stock Exchange, NY Stock Code: NOAH.N) and an independent non-executive director of China Nonferrous Mining Corporation Limited (listed on the Hong Kong Stock Exchange, HK Stock Code:01258). He previously served as division chief of the Legal Affairs Division of the Head Office of the Bank of Communications (listed on the Hong Hong Stock Exchange, HK Stock Code: 03328; listed on the Shanghai Stock Exchange, SH Stock Code: 601328) from December 1999 to February 2001, and deputy general manager of China Everbright Limited (listed on the Hong Kong Stock Exchange, HK Stock Code: 00165) from September 2004 to August 2007. He graduated from East China College of Political Science and Law (now named as East China University of Political Science and Law) with a master of law degree in 1992 and obtained a legal diploma from University of Hong Kong School of Professional and Continuing Education in 2003. Mr. CHEN is currently a non-official member of Financial Services Department Council, the Chairman of Chinese Financial Association of Hong Kong, the Vice Chairman of Chinese Securities Association of Hong Kong and the visiting professor of East China University of Political Science and Law. Mr. CHEN is qualified to practice law in China and is a senior economist as accredited by China Everbright (Group).

Mr. WANG Pingsheng has served as a Shareholder representative Supervisor of our Bank since November 2012. Mr. WANG is the vice chairman of the board of directors of China Reinsurance (Group) Corporation, the chairman of the board of directors of China Life Reinsurance Company Ltd., and the chairman of the board of supervisors of China Continent Property and Casualty Insurance Co., Ltd.. Mr. WANG previously served as deputy general manager of the Shenyang branch of PICC Property Insurance Company Limited, president of Shenyang Urban Cooperative Banks, chairman of the board of directors and president of Shenyang Commercial Bank, head of the Jinan Office of CIRC, director general of Shandong Supervision Bureau of CIRC and vice president of China Reinsurance (Group) Corporation. Mr. WANG graduated from the Department of Automatic Control of Northeastern Engineering School (presently, Northeastern University) in 1982 with a bachelor's degree in engineering majoring in industrial automation and obtained a master's degree in economics from Liaoning University majoring in finance in June 1999. Mr. WANG is a senior economist as accredited by PICC Group.

Ms. ZHANG Chuanju has served as a Shareholder representative Supervisor of our Bank since November 2009. Ms. ZHANG was appointed as a Shareholder representative Supervisor of the current Board of Supervisors of our Bank on November 19, 2012. Ms. ZHANG serves as deputy general manager of China Power Finance Co., Ltd. Ms. ZHANG previously served as division chief and then chief of the Finance Division of Shandong Power Service Corporation from June 1987 to April 1995, manager of the Finance Department of Shandong Luneng Xinyuan Co., Ltd. since April 1995 to September 1998, deputy chief accountant and then chief accountant of Shandong Luneng Development Group Co., Ltd. from September 1998 to December 2003 and chief accountant of Zhong Neng Power Industry Fuel Co. Ltd. from December 2003 to November 2005. Ms. ZHANG graduated from Beijing Power Economy College with a junior college diploma in accounting in 1991. Ms. ZHANG is a senior accountant as accredited by the former State Power Corporation of China.

Mr. WU Junhao has served as a Shareholder representative Supervisor of our Bank since November 2009. Mr. WU has served as a Shareholder representative Supervisor of the current Board of Supervisors of our Bank since November 19, 2012. Mr. WU serves as the manager of the Financial Management Department of Shenergy Group Co., Ltd. Mr. WU previously served as the executive deputy general manager of Shanghai New Resources Investment Consulting Company from July 2000 to October 2001, deputy general manager of Shanghai Bailitong Investment Company from October 2001 to November 2002, deputy chief of Shanghai Shenergy Assets Management Co., Ltd. from September 2003 to January 2006 and deputy chief, chief and senior chief of the Assets Management Department of Shenergy Group Co., Ltd. from January 2006 to August 2009. Mr. WU served as the deputy manager (acting head) of the Financial Management Department of Shenergy Group Co., Ltd. from August 2009 to March 2011. Mr. WU graduated from the Economic Department of East China Normal University with a bachelor's degree in economics in 1986 majoring in political economy and obtained a master's degree in management from East China Normal University in 2000.

Mr. YU Erniu was appointed as an external Supervisor of our Bank on November 19, 2012. From November 2009 to November 2012, he served as a Non-executive Director of our Bank. Mr. YU is concurrently an independent director of First-Trust Fund Management Co., Ltd. Mr. YU previously served as division chief of the Officer Appointment and Removal Division of the Personnel and Education Department of the MOF and as deputy director general and then director general of the Personnel and Education Department of the MOF from October 1987 to August 2004. From August 2004 to June 2007, Mr. YU was Huijin's nominee director of Bank of China (listed on the Hong Kong Stock Exchange, HK Stock Code: 03988; listed on the Shanghai Stock Exchange, SH Stock Code: 601988). From June 2007 to October 2009, he worked as a director, chief officer of the Human Resources Department, and chairman of the Labour Union of China Investment Corporation. Mr. YU graduated from the Chinese People's Liberation Army Air Force Political College majoring in economic management in 1996 and completed a postgraduate program in economic law from the Capital University of Economics and Business in 2001.

Mr. James Parks STENT has served as an external Supervisor of our Bank since November 19, 2012. Before that, he served as an Independent Non-executive Director of our Bank from September 2006 to November 2012. Mr. STENT previously served as assistant vice president of Citibank from 1973 to 1978, vice president of Crocker National Bank from 1979 to 1982, chief executive officer of Rama Tower Company from 1982 to 1984, director, senior vice president, executive vice president and senior executive vice president of Bank of Asia (Public Co., Ltd.) from 1984 to 2004, advisor to the International Water Management Institute in 2002, chief executive officer of WildChina Company from 2003 to 2006, an independent non-executive director of China Minsheng Bank (listed on the Hong Kong Stock Exchange, HK Stock Code: 01988; listed on the Shanghai Stock Exchange, SH Stock Code: 600016) from 2003 to 2006. He was appointed as an independent director of TMB Bank Public Company Limited (listed on the Thailand Stock Exchange, SET Stock Code: TMB) on April 12, 2013. Mr. STENT used to serve as a director of Beijing Cultural Heritage Protection Center. Mr. STENT graduated from the University of California, Berkeley in the United States with a bachelor of arts degree in 1968, and obtained a master's degree in public administration from the Woodrow Wilson School of Public and International Affairs at Princeton University in 1973.

Ms. CHEN Yu has served as an employee representative Supervisor of our Bank since July 2003. Ms. CHEN was appointed as an employee representative Supervisor of the current Board of Supervisors on November 5, 2012. Currently, Ms. CHEN is the general manager of our Planning and Finance Department, and, since May 2010, has been a director of Everbright Financial Leasing. Ms. CHEN previously served as the deputy division chief and then division chief of our Finance and Accounting Department from September 1994 to December 1998, assistant general manager, deputy general manager and then general manager of the Planning and Finance Department of the Banking Department of our Head

Office from December 1998 to January 2006, assistant to the chief of the Banking Department of our Head Office from January 2006 to September 2007, executive vice president of the Beijing Branch of the Bank from September 2007 to September 2009 and deputy general manager (acting head) of our Planning and Finance Department from September 2009 to August 2010. Ms. CHEN graduated from Beijing College of Finance and Commerce, now named Capital University of Economy and Trade, with a bachelor's degree in economics majoring in public finance in 1988 and obtained a master's degree in executive master of business administration (EMBA) from Tsinghua University.

Mr. YE Donghai has served as an employee representative Supervisor of our Bank since November 2012. He is currently the general manager of the Audit Department of our Bank. Mr. YE served as an instructor at Beijing College of Geological Management Cadre from July 1984 to August 1988. He also served as a clerk, section chief of the Planning Section and deputy division chief in the Finance Department at Beijing Normal University from May 1991 to October 1993. Mr. YE has served in several positions with our Bank, including assistant general manager (vice-general-manager-level) of the Planning and Finance Department from October 1993 to February 1995, deputy general manager (acting head) of the Finance and Accounting Department from February 1995 to June 2001, executive vice president of the Tianjin Branch from June 2001 to June 2004 and deputy general manager (acting head) and then general manager of the Audit Department (currently the Audit Department) from July 2004 to January 2007. Mr YE graduated from Renmin University of China with a master's degree in economics in March 1990. He is a senior accountant.

Mr. MA Ning has served as an employee representative Supervisor of our Bank since November 2012. He serves as executive vice president and chairman of the labor union of the Beijing Branch of our Bank. Mr. MA previously served in several positions with our Bank, including business chief of the Finance and Accounting Department from July 1998 to February 2000, assistant division chief, deputy division chief and division chief of the Finance Management Division of the Finance and Accounting Department from February 2000 to May 2006, assistant general manager and deputy general manager of the Finance and Accounting Department (presently, the Planning and Finance Department) from May 2006 to November 2009. Mr. MA graduated from Liaoning University in July 1998 with a master's degree in economics.

Save as disclosed herein, there was no information relating to the Directors and Supervisors that is required to be disclosed pursuant to Rule 13.51(2) of the Hong Kong Listing Rules.

Senior Management Members

The following table sets out certain information relating to our senior management members.

Name	Age	Position
Mr. GUO You	56	Executive Director, President
Mr. WU Qing	60	Executive Director
Mr. LIN Li	45	Senior Executive Vice President
Mr. SHAN Jianbao	59	Executive Vice President
Ms. LI Jie	55	Executive Vice President
Mr. ZHANG Huayu	55	Executive Vice President
Mr. MA Teng	55	Executive Vice President
Mr. LIU Jun	41	Executive Vice President
Mr. LU Hong	50	Executive Vice President, Board Secretary
Mr. QIU Huofa	53	Executive Vice President

For detailed biographies of Mr. GUO You and Mr. WU Qing, see "Directors" above. The biographies of other senior management personnel are as follows:

Mr. LIN Li has served successively as an Executive Vice President of our Bank since October 2010 and the Senior Executive Vice President of our Bank since July 2013. Mr. LIN has also served as a director of China UnionPay since February 2011. From March 2005 to December 2008, Mr. LIN served as a director, secretary to the board of directors, general office director and deputy director, chief of the Reform and Development Steering Group Office and chief of the Legal Department of China Everbright (Group). During the same period, he also served successively as deputy chief and chief of the Office of Executive Directors of China Everbright Holdings, chairman of the board of supervisors of China Everbright Investment Management Co., Ltd., chairman of the board of directors of Everbright Real Estate Co., Ltd. and director of Sun Life Everbright. From July 1990 to September 1999, Mr. LIN was successively employed by China Raw Materials Investment Corporation and China Development Bank. Mr. LIN graduated from Renmin University of China in 1990. Mr. LIN was a member of the 10th Committee of the All-China Youth Federation and a member of the Second and Third Committee of the Youth Federation of the Central Government. Mr. LIN is a senior economist as accredited by China Everbright (Group).

Mr. SHAN Jianbao has served as an Executive Vice President of our Bank since March 2000. He served as a Director of our Bank from January 2001 to November 2007. Mr. SHAN previously also served as the chief representative of our South Africa Representative Office. From February 1980 to March 2000, Mr. SHAN worked in Bank of China and served successively as the deputy manager of London Branch of Bank of China, deputy division chief and then division chief of the International Trade Settlement Division of the Henan Branch of Bank of China, assistant president and then executive vice president of the Henan Branch of Bank of China, and general manager of the Settlement Business Department of the head office of Bank of China. Mr. SHAN completed an in-service graduate program at the School of Finance of the Hunan College of Finance and Economy in April 2000 and is a senior economist as accredited by Bank of China.

Ms. LI Jie has served as an Executive Vice President of our Bank since August 2003. Ms. LI joined our Bank in 2001 and previously served as the general manager of the Planning and Finance Department (formerly Finance and Accounting Department) of our Bank from May 2001 to August 2003. Ms. LI previously worked at the Accounting Division of the Huaiyin Office of the Jinan Branch of the Industrial and Commercial Bank of China from January 1980 to April 1984, and served as division chief of the Planning and Finance Department of the Huaiyin Office of the Jinan Branch of the People's Insurance Company (Group) of China Limited from April 1984 to October 1988. From October 1988 to May 2001, Ms. LI worked with the Bank of Communications successively as deputy division chief of the Planning and Finance Division, and then division chief of the Finance and Accounting Division of the Jinan Branch of Bank of Communications, executive vice president of the Jinan Branch of Bank of Communications and executive vice president and then president of the Zhuhai Branch of Bank of Communications. Ms. LI graduated from Shandong TV University with a junior college diploma in finance in 1986. Ms. LI is an accountant as accredited by Bank of Communications.

Mr. ZHANG Huayu has served as an Executive Vice President of our Bank since March 2007. Mr. ZHANG joined our Bank in 2001 and previously served as assistant President of our Bank and head of the Banking Department of our Head Office. From August 1988 to October 1994, Mr. ZHANG served as chief of general office of the Shangqiu sub-branch of the PBOC in Henan Province, chief of Xiayi sub-branch of the PBOC in Shangqiu Prefecture, Henan Province and chief of the Urban Credit Cooperative of Shangqiu Prefecture, Henan Province. From November 1994 to February 2001, Mr. ZHANG worked with the Bank of Communications successively as division chief of the Management Division of the Credit Department of Zhengzhou Branch, and executive vice president and then president of the Xi'an Branch of Bank of Communications. Mr. ZHANG obtained a Master of Business Administration degree for senior management from the University of International Business and Economics in 2008. Mr. ZHANG is a senior economist as accredited by Bank of Communications.

Mr. MA Teng has served as an Executive Vice President of our Bank since December 2010. From July 1984 to June 2005, Mr. MA worked with the Industrial and Commercial Bank of China successively as deputy chief of the general office of the head office and president of the Wuhan Branch, president of the Hebei Branch, general manager of Bank Card Business Department and president of Mudan Card Center of the head office. From June 2005 to February 2009, Mr. MA served as director and then chief executive officer of Bohai Bank. From November 2009 to December 2010, Mr. MA served as general manager of the Financial Management Department of China Everbright (Group). Mr. MA graduated from Liaoning College of Finance and Economics, now named as Dongbei University of Finance and Economics, with a bachelor's degree in economics in 1984 and obtained a Ph.D. in political economics from Zhongnan University of Economics and Law in 2002. Mr. MA is a senior economist as accredited by Industrial and Commercial Bank of China.

Mr. LIU Jun has served as an Executive Vice President of our Bank since December 2010. Currently, Mr. LIU serves as the president of our Shanghai branch and a director of Sun Life Everbright and chairman of the professional committee of financial derivatives of the National Association of Financial Market Institutional Investors. Mr. LIU joined us in 1993 and successively served as a foreign exchange trader, deputy division chief of the international financing division, deputy division chief and division chief of the correspondent banking division of the International Business Department and assistant general manager of our International Business Department, chief representative of our Hong Kong Representative Office, deputy general manager (acting head) and then general manager of our Treasury Department, general manager of our Investment Banking Department and assistant president of our Bank from July 1993 to December 2010. Mr. LIU graduated from the Public Finance and Monetary Department of Renmin University of China in 1993 with a bachelor's degree in economics majoring in finance, obtained a Master of Business Administration degree from Northeastern State University in Oklahoma, United States in 1996 and obtained a Ph.D. in business administration from Hong Kong Polytechnic University in 2003. Mr. LIU is a member of the 11th Committee of the All-China Youth Federation and a standing member of the Fourth Committee of the Youth Federation of the Central Government. Mr. LIU is a senior economist as accredited by China Everbright (Group).

Mr. LU Hong has served as an Executive Vice President of our Bank since December 2010 and secretary to the Board of Directors since September 2009. Mr. LU joined our Bank in 1994 and successively served as manager of the Securities Department, division chief of the Office of the Board of Directors, assistant general manager of the Planning and Treasury Department, general manager of the Planning and Finance Department of the Beijing Branch and deputy general manager and then general manager of the Planning and Finance Department of our Head Office (formerly the Finance and Accounting Department). Mr. LU previously worked successively as an engineer of the Planning Institute of the Ministry of Railways and an engineer of the Economy Planning Institute of the Ministry of Railways from June 1987 to May 1993 and as a manager of the Investment Banking Department of Huaxia Securities Co. Ltd. from May 1993 to March 1994. Mr. LU graduated from the Shanghai Railway Institute with a master's degree in engineering majoring in railway engineering in 1987 and obtained a Ph.D. in applied economics from Xi'an Jiaotong University majoring in applied economics in 2001. Mr. LU is a senior economist as accredited by China Everbright (Group).

Mr. QIU Huofa has served as an Executive Vice President of our Bank since August 2013. He joined our Bank in 2001 and has consecutively served as president of the Guangzhou Branch from December 2001 to November 2006, head of the Business Department of our Head Office from January 2007 to August 2007 and president of the Beijing Branch from August 2007 to present. Mr. QIU served in several positions with the Bank of Communications Co., Ltd. (listed on the Hong Kong Stock Exchange, HK Stock Code: 03328; listed on the Shanghai Stock Exchange, SH Stock Code: 601328) from December 1987 to April 2001, including president of Wuchang sub-branch of Wuhan branch, executive vice president of Wuhan branch, and president of Changsha branch. Mr. QIU graduated from the Finance Department of Zhongnan University of Economics in December 1997, and a master's degree in economics majoring in finance from Zhongnan University of Economics and Law in June 2000. Mr. QIU is a representative of the 15th Beijing Xicheng District People's Congress and a senior economist as accredited by the Bank of Communications.

COMPANY SECRETARY

Mr. LU Hong has also been appointed as the company secretary of our Bank. For the biography of Mr. LU, see "Senior Management Members" above.

Ms. LEE Mei Yi has been appointed to act as an assistant to the company secretary of our Bank. Ms. LEE Mei Yi, aged 46, is a director of Corporate Services Department of Tricor Services Limited and a fellow member of both the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Chartered Secretaries. Ms. LEE has over 20 years of experience in the corporate secretarial area.

BOARD OF DIRECTORS COMMITTEES

There are six committees under the Board of Directors, namely the Strategy Committee, Risk Management Committee, Audit Committee, Nomination Committee, Remuneration Committee and Related Party Transactions Control Committee. The committees operate in accordance with terms of reference established by our Board.

Strategy Committee

The Strategy Committee consists of nine Directors, namely Mr. LUO Zhefu, Mr. GUO You, Mr. WU Qing, Ms. Narentuya, Mr. WU Gang, Ms. WANG Shumin, Mr. WANG Zhongxin, Mr. ZHOU Daojiong and Mr. WANG Wei(1), among whom Mr. LUO Zhefu acts as the chairman of the Strategy Committee. The primary duties of the Strategy Committee are to (i) study and regularly advise on our business objectives and medium- to long-term development strategy in accordance with our operations and the changes in the market; (ii) review our capital management objective and our capital replenishment plan in accordance with our strategic objectives and advise on disclosure of our capital adequacy ratio; (iii) review annual business plans and any material change or adjustment in implementation and advise the Board of Directors accordingly; (iv) review and advise on reform plans of operation and management, material investment plans and capital operation plans of the entire Bank that are subject to approval by the Board of Directors; (v) regularly assess and inspect the implementation of the above issues after they have been approved by the Board of Directors and report back to the Board of Directors; and (vi) handle other matters required by law, regulations, rules, normative documents, regulatory rules of the jurisdiction where our Shares are listed, our Articles of Association, or as authorized by the Board of Directors.

Risk Management Committee

Our Risk Management Committee consists of five Directors, namely Mr. GUO You, Mr. WU Jian, Mr. WANG Zhongxin, Mr. WU Gaolian and Mr. QIAO Zhimin, among whom Mr. WU Jian acts as the chairman of the Risk Management Committee. The primary duties of the Risk Management Committee are to: (i) formulate our risk management policies and determine overall risk tolerance before submitting to the Board of Directors for approval and implementing them afterwards; (ii) supervise the risk control undertaken by the senior management in respect of credit risk, market risk, operational risk and liquidity risk; (iii) assess our basic risk management system and risk management mechanism and advise the Board of Directors on improvements to our risk management; (iv) regularly submit risk management reports to the Board of Directors; (v) formulate our capital adequacy ratio management objective and examine and supervise the implementation of capital planning; (vi) regularly examine our capital adequacy ratio indicators and provide recommendations to our management; and (vii) handle other matters required by law, regulations, rules, normative documents, regulatory rules of the jurisdiction where our Shares are listed, our Articles of Association, or as authorized by the Board of Directors.

Audit Committee

The Audit Committee consists of five Directors, namely Mr. WU Jian, Ms. Narentuya, Mr. ZHANG Xinze, Mr. QIAO Zhimin and Mr. XIE Rong, among whom Mr. XIE Rong acts as chairman of the Audit Committee and has the appropriate accounting qualifications as required under Rule 3.10(2) of the Listing Rules. The primary duties of the Audit Committee are to: (i) inspect our internal control system and supervise its implementation so as to ensure the adequacy and effectiveness of our internal controls, discuss the internal control system with the senior management so as to ensure that the senior management

(1) Ms. FOK Oi Ling Catherine will replace Mr. WANG Wei as a member of the Strategy Committee upon her appointment having been approved by the CBRC.

has established an effective internal control system, and conduct studies, either voluntarily or under the authorization of the Board of Directors, on significant investigation findings in respect of internal control issues and the feedback of the senior management; (ii) inspect our accounting policies, financial position, financial reporting procedures and financial control, review our financial statements and make judgments in respect of the truthfulness, accuracy and completeness of the financial information contained therein, be responsible for our annual auditing as well as the completeness of its annual reports, interim reports and quarterly reports, and review significant financial opinions set out in the financial statements and reports and submit the same to the Board of Directors for consideration and approval; (iii) regularly review the work reports of our internal audit department, inspect and supervise our internal audit work and the internal audit system and its implementation, direct the work of our internal audit department, appraise and monitor the work performance of our internal audit department, ensure coordination between our internal audit department and external auditors, and ensure the internal audit department has full support within the Bank and its work performance is under supervision; (iv) recommend to the Board of Directors in respect of the engagement and removal of external auditors, approve the remuneration and engagement terms of external auditors, deal with any matters regarding the resignation or dismissal of external auditors, direct and supervise the work of external auditors, formulate policies regarding the provision by external auditors of nonaudit services and supervise their implementation, act as the major representative of the Bank for supervising the relationship between the Bank and external auditors, review the explanatory letter on audit matters given by external auditors to the senior management, any material queries raised by external auditors to the senior management on accounting records, financial accounts or systems of control and the response made by the senior management, and ensure that the Board of Directors can respond in a timely manner to the issues raised in the explanatory letter on audit matters given by external auditors to the senior management; (v) evaluate our policies and practices for compliance with relevant legal and regulatory requirements, formulate and evaluate the code of conduct and the compliance manual for directors and employees, evaluate our compliance with the Listing Rules and the disclosures made in the "Corporate Governance Report", and appoint independent legal counsels or advisors whenever the Committee deems necessary; and (vi) handle other matters required by law, regulations, rules, normative documents, regulatory rules of the jurisdiction where our Shares are listed, our Articles of Association, or as authorized by the Board of Directors.

Nomination Committee

Our Nomination Committee consists of five Directors, namely Mr. ZHOU Daojiong, Mr. WANG Wei(1), Mr. ZHANG Xinze, Mr. QIAO Zhimin and Mr. XIE Rong among whom Mr. ZHOU Daojiong acts as chairman of the Nomination Committee. All of them are Independent Non-executive Directors. The primary duties of the Nomination Committee are to: (i) build a talent pipeline of qualified alternative directors and senior management; (ii) formulate procedures and standards for selecting directors and senior management members, conduct a preliminary examination of the qualifications and conditions of candidates and advise the Board of Directors accordingly; (iii) make recommendations for the Board of Directors' approval regarding the composition of the other special committees of the Board of Directors based on nomination by the Chairman, the integrated evaluation of the directors' expertise and the wishes and needs of the Board of Directors; (iv) annually assess the structure, composition (including skills, knowledge and experience) and number of the members of the Board of Directors and make recommendations as to adjustments to be made to the Board of Directors in line with our strategies; (v) evaluate the training provided to and the professional development of the Directors and senior management; and (vi) handle other matters required by law, administrative regulations, rules, normative documents, regulatory rules of the jurisdiction where our Shares are listed, our Articles of Association, or as authorized by the Board of Directors.

(1) Ms. FOK Oi Ling Catherine will replace Mr. WANG Wei as a member of the Nomination Committee upon her appointment having been approved by the CBRC.

Remuneration Committee

The Remuneration Committee consists of nine Directors, including four Non-executive Directors, namely Mr. TANG Shuangning, Mr. WU Gang, Ms. WANG Shumin and Mr. WU Gaolian, and five independent non-executive Directors, namely Mr. ZHOU Daojiong, Mr. WANG Wei(1), Mr. ZHANG Xinze, Mr. QIAO Zhimin and Mr. XIE Rong. Mr. QIAO Zhimin, an Independent Non-executive Director, acts as chairman of the Remuneration Committee. The primary duties of the Remuneration Committee are to: (i) formulate the administrative system for remuneration of directors and senior management of the Bank, and make recommendations regarding the system to the Board of Directors and supervise its implementation; (ii) review the performance of duties of the directors and senior management, and to make recommendations on appraisal and assessment to the Board; (iii) make recommendations on the remuneration packages for directors and senior management and report the same to the Board of Directors for approval; (iv) review the basic policies relating to bank-wide salaries and benefits of the employees, make recommendations to the Board of Directors and supervise its implementation; and (v) handle other matters required by law, regulations, rules, normative documents, regulatory rules of the jurisdiction where our Shares are listed, our Articles of Association, or as authorized by the Board of Directors.

Related Party Transactions Control Committee

The Related Party Transactions Control Committee consists of five members, namely Mr. WU Qing, Mr. WANG Wei(2), Mr. ZHANG Xinze, Mr. QIAO Zhimin and Mr. XIE Rong, among whom WANG Wei acts as the chairman of the Related Party Transactions Control Committee. The primary duties of the Related Party Transactions Control Committee are to: (i) keep records of the ordinary related party transactions approved by the Credit Approval Committee of our Head Office authorized by our President or other duly authorized entities; (ii) examine material related party transactions and report the same to the Board of Directors for approval; (iii) after the end of each operating year, make a detailed report to the Board of Directors on the overall status, risks and structure of the related party transactions entered into during the year; (iv) formulate measures on the management of our related party transactions and submit the proposed measures to the Board of Directors for approval before implementation; (v) identify our related parties, report the same to the Board of Directors and Board of Supervisors and promptly announce a list of related parties to the relevant personnel; and (vi) handle other matters required by law, regulations, rules, normative documents, regulatory rules of the jurisdiction where our Shares are listed, our Articles of Association, or as authorized by the Board of Directors.

EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

We offer our Directors and Supervisors, who are also our employees, various compensation in the form of salaries, bonuses, social security plans, housing provident fund plans and other benefits. Our Independent Non-executive Directors and external Supervisors are remunerated based on their responsibilities. As required by the relevant PRC regulations and rules, we participate in defined contribution plans, pension plans and various other benefit plans organized by provincial and municipal governments for our employees (including employees who are Directors and Supervisors).

The aggregate amounts of pre-tax emoluments paid to our Directors and Supervisors for the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013 were approximately RMB8.26 million, RMB10.22 million, RMB8.54 million and RMB4.36 million, respectively.

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(1) Ms. FOK Oi Ling Catherine will replace Mr. WANG Wei as a member of the Remuneration Committee upon her appointment having been approved by the CBRC.

(2) Ms. FOK Oi Ling Catherine will replace Mr. WANG Wei as a member of the Related Party Transactions Control Committee upon her appointment having been approved by the CBRC.

The aggregate amounts of pre-tax emoluments we paid to our five highest paid individuals for the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013 were RMB22.319 million, RMB25.672 million, RMB25.937 million and RMB5.897 million, respectively. The five highest paid individuals are all our domestic staff but are not any of our Directors or Supervisors.

We have not paid any remuneration to our Directors or Supervisors or the five highest paid individuals as an inducement for them to join us or as a compensation for loss of office in respect of the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013. Further, none of our Directors had waived any remuneration during the same period.

Save as disclosed above, no other payments have been paid or are payable, in respect of the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, by us or any of our subsidiaries to our Directors or Supervisors.

COMPLIANCE ADVISOR

We have appointed China International Capital Corporation Hong Kong Securities Limited as our compliance advisor pursuant to Rule 3A.19 and Rule 19A.05 of the Listing Rules. Pursuant to Rule 3A.23 and Rule 3A.24 of the Listing Rules, our compliance advisor will advise us in the following circumstances:

- before the publication of any regulatory announcement, circular, or financial report;
- where a transaction, which might be a notifiable or connected transaction under the provisions of the Listing Rules, is contemplated, including share issues and share repurchases;
- where we propose to use the proceeds of the Global Offering in a manner different from that detailed in this prospectus or where our business activities, developments, or results deviate from any estimate or other information in this prospectus;
- where the Hong Kong Stock Exchange makes an inquiry of us regarding unusual movements in the price or trading volume of our Shares; and
- where we propose to appoint a new director to the Board.

Pursuant to Rule 19A.06 of the Listing Rules, our compliance advisor will on a timely basis, inform us of any amendment or supplement to the Listing Rules that are announced by the Hong Kong Stock Exchange. Our compliance advisor will also inform us of any amendment or supplement to the applicable laws and guidelines.

The term of appointment of the compliance advisor shall commence on the Listing Date and end on the date on which we comply with Rule 13.46 of the Listing Rules in respect of our financial results for the first full financial year commencing after the Listing Date ("Fixed Period"), or until the appointment is terminated, whichever is earlier. In the event of a termination of the appointment which results in a vacancy of compliance advisor during the Fixed Period, our Bank shall appoint a replacement compliance advisor acceptable to the Hong Kong Stock Exchange pursuant to the relevant requirements of the Listing Rules as soon as practicable.

As of the Latest Practicable Date, our share capital comprised 40,434,790,000 A Shares. The following Shareholders directly or indirectly control or have the right to exercise or control the exercise of 5% or more of the voting powers attached to our A Shares:

Name	Class	Number of Shares	Approximate percentage of interest in the issued share capital of our Bank as of the Latest Practicable Date
Huijin[(1)]	A Shares	19,659,191,852	48.62%
China Reinsurance[(1)]	A Shares	1,026,642,808	2.54%
China Everbright (Group)	A Shares	2,093,991,629	5.18%

Note:

(1) As Huijin held 84.91% of the shares of China Reinsurance as of September 30, 2013, the interest held by China Reinsurance in our Bank is deemed to be the interest held by Huijin in our Bank under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Immediately following the Global Offering (assuming neither the Offer Size Adjustment Option nor the Over-allotment Option is exercised), our share capital will comprise 39,926,790,000 A Shares and 5,588,000,000 H Shares, representing 87.72% and 12.28% of our total issued share capital, respectively. The following table shows the shareholdings of the above Shareholders in our Bank immediately following the Global Offering (assuming neither the Offer Size Adjustment Option nor the Over-allotment Option is exercised and the shareholdings of the above Shareholders remain unchanged after the Latest Practicable Date apart from Shares to be transferred to the SSF pursuant to the relevant PRC regulations relating to reduction of state-owned Shares, where applicable):

Name	Class	Number of Shares	Approximate percentage of interest in the issued share capital of our Bank immediately after the Global Offering
Huijin[(1)]	A Shares	19,328,718,247	42.47%
China Reinsurance[(1)]	A Shares	1,009,384,807	2.22%
China Everbright (Group)	A Shares	2,058,791,354	4.52%

Note:

(1) As Huijin held 84.91% of the shares of China Reinsurance as of September 30, 2013, the interest held by China Reinsurance in our Bank is deemed to be the interest held by Huijin in our Bank under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Immediately following the Global Offering (assuming either the Offer Size Adjustment Option or the Over-allotment Option is exercised in full), our share capital will comprise 39,850,590,000 A Shares and 6,426,200,000 H Shares, representing 86.11% and 13.89% of our total issued share capital, respectively. The following chart shows the shareholdings of the above Shareholders in our Bank immediately following the Global Offering (assuming either the Offer Size Adjustment Option or the Over-allotment Option is exercised in full and the shareholdings of the above Shareholders remain unchanged after the Latest Practicable Date apart from Shares to be transferred to the SSF pursuant to the relevant PRC regulations relating to reduction of state-owned Shares, where applicable):

Name	Class	Number of Shares	Approximate percentage of interest in the issued share capital of our Bank immediately after the Global Offering
Huijin[(1)]	A Shares	19,279,147,206	41.66%
China Reinsurance[(1)]	A Shares	1,006,796,107	2.18%
China Everbright (Group)	A Shares	2,053,511,313	4.44%

Note:

(1) As Huijin held 84.91% of the shares of China Reinsurance as of September 30, 2013, the interest held by China Reinsurance in our Bank is deemed to be the interest held by Huijin in our Bank under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Immediately following the Global Offering (assuming both the Offer Size Adjustment Option and the Over-allotment Option are exercised in full), our share capital will comprise 39,774,390,000 A Shares and 7,264,400,000 H Shares, representing 84.56% and 15.44% of our total issued share capital, respectively. The following chart shows the shareholdings of the above Shareholders in our Bank immediately following the Global Offering (assuming both the Offer Size Adjustment Option and the Over-allotment Option are exercised in full and the shareholdings of the above Shareholders remain unchanged after the Latest Practicable Date apart from Shares to be transferred to the SSF pursuant to the relevant PRC regulations relating to reduction of state-owned Shares, where applicable):

Name	Class	Number of Shares	Approximate percentage of interest in the issued share capital of our Bank immediately after the Global Offering
Huijin[(1)]	A Shares	19,229,576,166	40.88%
China Reinsurance[(1)]	A Shares	1,004,207,407	2.13%
China Everbright (Group)	A Shares	2,048,231,271	4.35%

Note:

(1) As Huijin held 84.91% of the shares of China Reinsurance as of September 30, 2013, the interest held by China Reinsurance in our Bank is deemed to be the interest held by Huijin in our Bank under the provisions of Divisions 2 and 3 of Part XV of the SFO.

For details of the substantial shareholders who, immediately following the completion of the Global Offering (without taking into account the exercise of either the Offer Size Adjustment Option or the Over-allotment Option), will have interests or short positions in our Shares which are required to be disclosed to us and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or who will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in any subsidiary of the Bank, see "Appendix VII – Statutory and General Information – C. Further Information about Our Directors, Management and Staff – 2. Substantial Shareholders".

This section presents certain information regarding our share capital before and upon completion of the Global Offering.

Before the Global Offering

As of the Latest Practicable Date, our share capital, comprising 40,434,790,000 A Shares, was categorized as follows:

	Number of Shares	Approximate percentage of issued share capital
		(%)
A Shares	40,434,790,000	100.00
Total	40,434,790,000	100.00

Upon Completion of Global Offering

Immediately following completion of the Global Offering and assuming that neither the Offer Size Adjustment Option nor the Over-allotment Option is exercised, our share capital would be categorized as follows:

	Number of Shares	Approximate percentage of issued share capital
		(%)
H Shares	5,588,000,000	12.28
A Shares	39,926,790,000	87.72
Total	45,514,790,000	100.00

Immediately following the completion of the Global Offering and assuming exercise in full of either the Offer Size Adjustment Option or the Over-allotment Option, our share capital would be categorized as follows:

	Number of Shares	Approximate percentage of issued share capital
		(%)
H Shares	6,426,200,000	13.89
A Shares	39,850,590,000	86.11
Total	46,276,790,000	100.00

Immediately following the completion of the Global Offering and assuming exercise in full of both the Offer Size Adjustment Option and the Over-allotment Option, our share capital would be categorized as follows:

	Number of Shares	Approximate percentage of issued share capital
		(%)
H Shares	7,264,400,000	15.44
A Shares	39,774,390,000	84.56
Total	47,038,790,000	100.00

SHARE CLASSES

The H Shares and A Shares in issue upon completion of the Global Offering will be ordinary Shares in our share capital. However, apart from QDIIs, H Shares generally cannot be subscribed for by, or traded between, legal or natural persons of the PRC. A Shares, on the other hand, can only be subscribed for by, and traded between, legal or natural persons of the PRC, QFIIs or qualified foreign strategic investors and must be traded in Renminbi. All dividends in respect of the H Shares are to be paid by us in Hong Kong dollars whereas all dividends in respect of A Shares are to be paid by us in Renminbi.

Our A Shares have been listed on the Shanghai Stock Exchange since August 18, 2010.

In addition, A Shares and H Shares are regarded as different classes of Shares under our Articles of Association. The differences between the two classes of Shares, provisions on class rights, dispatch of notices and financial reports to Shareholders, dispute resolution, registration of Shares on different branches of the register of Shareholders, the method of Share transfer and appointment of dividend receiving agents are set out in our Articles of Association and summarized in "Appendix VI – Summary of Articles of Association" to this prospectus. Further, any change or abrogation of the rights of class Shareholders should be approved by way of a special resolution of the general meeting of Shareholders and by a separate meeting of Shareholders convened by the affected class of Shareholders. However, the procedures for approval by separate class Shareholders shall not apply:

(i) where we issue, upon approval by a special resolution of our Shareholders in a general meeting, either separately or concurrently every twelve months, not more than 20% of each of the existing issued domestic shares and foreign shares listed overseas;

(ii) where our plan to issue domestic shares and foreign shares listed on overseas establishments is implemented within fifteen months from the date of approval by the securities regulatory authorities of the State Council; and

(iii) to the conversion by our Shareholders of their domestic shares into foreign shares listed overseas and the listing of such shares on an overseas stock exchange upon receiving the approval of the authorized securities approval authorities of the State Council.

A Shares and H Shares will however rank pari passu with each other in all other respects and, in particular, will rank equally for all dividends or distributions declared, paid or made.

A Shares and H Shares are generally neither interchangeable nor fungible, and the market prices of our A Shares and H Shares may be different after the Global Offering.

CONVERSION OF OUR A SHARES INTO H SHARES

According to the regulations by the State Council securities regulatory authorities and our Articles of Association, the holders of A Shares may convert their A Shares into H Shares provided such conversion shall have gone through any requisite internal approval process and complied with the regulations prescribed by the State Council securities regulatory authorities and the regulations, requirements and procedures prescribed by the relevant stock exchange(s) and have been approved by the State Council securities regulatory authorities, including the CSRC. The listing of such converted Shares on the Hong Kong Stock Exchange will also require the approval of the Hong Kong Stock Exchange.

Based on the procedures for the conversion of our A Shares into H Shares as disclosed in this section, we can apply for the listing of all or any portion of our A Shares on the Hong Kong Stock Exchange as H Shares in advance of any proposed conversion to ensure that the conversion process can be completed promptly upon notice to the Hong Kong Stock Exchange and delivery of Shares for entry on the H Share register. As any listing of additional Shares after our initial listing on the Hong Kong Stock Exchange is ordinarily considered by the Hong Kong Stock Exchange to be a purely administrative matter, it will not require such prior application for listing at the time of our initial listing in Hong Kong.

No class Shareholder voting or voting of the Shareholders at a general meeting is required for the listing and trading of the converted Shares on the Hong Kong Stock Exchange. Any application for listing of the converted Shares on the Hong Kong Stock Exchange after our initial listing is subject to prior notification by way of announcement to inform Shareholders and the public of such proposed conversion.

After all the requisite approvals have been obtained, the following procedures will need to be completed: the relevant A Shares will be withdrawn from the China Securities Depository and Clearing Corporation Limited and we will re-register such Shares on our H Share register maintained in Hong Kong and instruct the H Share registrar to issue H Share certificates. Registration on our H Share register will be on the condition that (a) our H Share registrar lodges with the Hong Kong Stock Exchange a letter confirming the proper entry of the relevant H Shares on the H Share register and the due dispatch of H Shares certificates and (b) the admission of the H Shares to trade on the Hong Kong Stock Exchange will comply with the Listing Rules and the General Rules of CCASS and the CCASS Operational Procedures in force from time to time. Until the transferred Shares are re-registered on our H Share register, such Shares would not be listed as H Shares.

So far as our Directors are aware, none of our major Shareholders propose to convert any of their A Shares into H Shares, except for the A Shares to be transferred to the SSF in the Global Offering. See "Transfer of State-owned Shares" below.

SHARE LOCK-UP

For the non-disposal restrictions on Huijin in respect of its interests in our Bank and the related waiver, see "Waivers from Strict Compliance with the Listing Rules – 6. Waiver in Relation to Non-disposal of Shares by Huijin" and "Underwriting – Underwriting Arrangements and Expenses – Undertakings". As a result of the announcement of the Proposed Restructuring, both Huijin and China Everbright (Group) are deemed as our controlling shareholders and are subject to the lock-up requirements under Rule 10.07 of the Listing Rules. For details of the lock-up undertakings of Huijin and China Everbright (Group), see "Underwriting – Underwriting Arrangements and Expenses – Undertakings".

TRANSFER OF STATE-OWNED SHARES

In accordance with relevant PRC rules regarding the transfer of state-owned shares in overseas capital markets and relevant approvals from MOF, our 116 state-owned Shareholders, which together held 30,219,870,241 Shares of the Bank as of the Latest Practicable Date, representing about 74.74% of our total issued share capital, are required to transfer to the SSF, in proportion to their respective shareholdings in our Bank, such number of Shares in aggregate equivalent to 10% of the number of the Offer Shares, being 508,000,000 Shares before the exercise of either the Offer Size Adjustment Option or the Over-allotment Option, an additional 76,200,000 Shares upon the exercise of either the Offer Size Adjustment Option or the Over-allotment Option in full, and an additional 152,400,000 Shares upon the exercise of both the Offer Size Adjustment Option and the Over-allotment Option in full. The Company's PRC advisor, King & Wood Mallesons Lawyers, has advised the Company that, based on the approvals issued by the MOF, the obligations to transfer the state-owned Shares shall be borne by the state-owned Shareholders who remain as Shareholders of the Company as of the day when the application lists close for the Hong Kong Public Offering. From the Latest Practicable Date to the day when the application lists close for the Hong Kong Public Offering, the Shareholders approved by the MOF to bear the obligations to transfer the state-owned shares may buy in or sell out our Shares, thus the numbers of such Shareholders and the Shares held by them may be changed. Our Bank will not receive any proceeds from the transfer of H Shares by our state-owned Shareholders to the SSF or any subsequent disposal of such H Shares by the SSF.

The transfer of state-owned Shares by our state-owned Shareholders to the SSF was approved by the MOF on April 1, 2011 and September 21, 2011, and was further confirmed by the MOF on April 12, 2013. The conversion of those Shares into H Shares was approved by the CSRC on October 15, 2013. We have been advised by our PRC legal advisor, King & Wood Mallesons, that the transfer and the conversion, and the holding of H Shares by the SSF following such transfer and conversion, have been approved by the relevant PRC authorities and are legal under the PRC laws.

CORPORATE PLACING

We have entered into cornerstone investment agreements with the following investors (the "Corporate Investors", each a "Corporate Investor"), pursuant to which the Corporate Investors have agreed to subscribe at the Offer Price for such number of Offer Shares (rounded down to the nearest whole board lot of 1,000 H Shares) that may be purchased for an aggregate amount of US$1,744 million or HK$13,518 million (the "Corporate Placing"). Assuming an Offer Price of HK$3.83 (being the low-end of the indicative Offer Price range stated in this prospectus), the total number of H Shares to be subscribed for by the Corporate Investors would be 3,529,411,000, representing approximately (i) 7.50% of the Shares in issue upon the completion of the Global Offering and 53.44% of the H Shares issued pursuant to the Global Offering, assuming that both the Offer Size Adjustment Option and the Over-allotment Option are fully exercised; or (ii) 7.75% of the Shares in issue upon the completion of the Global Offering and 69.48% of the H Shares issued pursuant to the Global Offering, assuming that neither the Offer Size Adjustment Option nor the Over-allotment Option is exercised. Assuming an Offer Price of HK$4.05 (being the mid-point of the indicative Offer Price range stated in this prospectus), the total number of H Shares to be subscribed for by the Corporate Investors would be 3,337,688,000, representing approximately (i) 7.10% of the Shares in issue upon the completion of the Global Offering and 50.54% of the H Shares issued pursuant to the Global Offering, assuming that both the Offer Size Adjustment Option and the Over-allotment Option are fully exercised; or (ii) 7.33% of the Shares in issue upon the completion of the Global Offering and 65.70% of the H Shares issued pursuant to the Global Offering, assuming that neither the Offer Size Adjustment Option nor the Over-allotment Option is exercised. Assuming an Offer Price of HK$4.27 (being the high-end of the indicative Offer Price range stated in this prospectus), the total number of H Shares to be subscribed for by the Corporate Investors would be 3,165,718,000, representing approximately (i) 6.73% of the Shares in issue upon the completion of the Global Offering and 47.94% of the H Shares issued pursuant to the Global Offering, assuming that both the Offer Size Adjustment Option and the Over-allotment Option are fully exercised; or (ii) 6.96% of the Shares in issue upon the completion of the Global Offering and 62.32% of the H Shares issued pursuant to the Global Offering, assuming that neither the Offer Size Adjustment Option nor the Over-allotment Option is exercised.

Except for Sany International Development Limited, Sun Hung Kai Strategic Capital Limited and First Asian Holdings Limited as described further below, each of the Corporate Investors, and their respective beneficial owners, is an independent third party, independent of each other, not our connected person, and not an existing shareholder of our Bank. Details of the actual number of Offer Shares to be allocated to the Corporate Investors will be disclosed in the allotment results announcement to be issued by our Bank on or around December 19, 2013.

The Corporate Placing forms part of the International Offering. The Offer Shares to be subscribed for by the Corporate Investors will rank *pari passu* in all respects with the other fully paid H Shares in issue and will (other than those subscribed by Sany) be counted towards the public float of our Bank. None of the Corporate Investors will subscribe for any Offer Shares under the Global Offering (other than and pursuant to the respective cornerstone investment agreements). Immediately following the completion of the Global Offering, none of the Corporate Investors will have any board representation in our Bank, nor will any of the Corporate Investors become our substantial Shareholder (as defined under the Listing Rules). The Offer Shares to be subscribed for by the Corporate Investors will not be affected by any reallocation of the Offer Shares between the International Offering and the Hong Kong Public Offering described in "Structure of the Global Offering – The Hong Kong Public Offering."

CORPORATE INVESTORS

We have entered into cornerstone investment agreements with each of the following Corporate Investors in respect of the Corporate Placing. The information about our Corporate Investors set forth below has been provided by the Corporate Investors in connection with the Corporate Placing:

Ocean Fortune Investment Limited

Ocean Fortune Investment Limited ("Ocean Fortune") has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 1,000 H Shares) which may be purchased with an aggregate amount of US$800 million at the Offer Price. Assuming an Offer Price of HK$3.83, being the low-end of the Offer Price range set out in this prospectus, the total number of H Shares that Ocean Fortune would subscribe for would be 1,619,342,000, representing approximately 3.56% of the Shares in issue immediately following the completion of the Global Offering assuming that neither the Offer Size Adjustment Option nor the Over-allotment Option is exercised. Assuming an Offer Price of HK$4.05, being the mid-point of the Offer Price range set out in this prospectus, the total number of H Shares that Ocean Fortune would subscribe for would be 1,531,377,000, representing approximately 3.36% of the Shares in issue immediately following the completion of the Global Offering assuming that neither the Offer Size Adjustment Option nor the Over-allotment Option is exercised. Assuming an Offer Price of HK$4.27, being the high-end of the Offer Price range set out in this prospectus, the total number of H Shares that Ocean Fortune would subscribe for would be 1,452,477,000, representing approximately 3.19% of the Shares in issue immediately following the completion of the Global Offering assuming that neither the Offer Size Adjustment Option nor the Over-allotment Option is exercised.

Ocean Fortune is registered in the Republic of the Marshall Islands and its ultimate controlling shareholder is China Shipping (Group) Company, a shipping conglomerate in the PRC.

Ever Ideal Limited

Ever Ideal Limited ("Ever Ideal") has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 1,000 H Shares) which may be purchased with an aggregate amount of HK$780 million at the Offer Price of HK$3.83, being the low-end of the Offer Price range set out in this prospectus, the total number of H Shares that Ever Ideal would subscribe for would be 203,655,000, representing approximately 0.45% of the Shares in issue immediately following the completion of the Global Offering assuming that neither the Offer Size Adjustment Option nor the Over-allotment Option is exercised. Assuming an Offer Price of HK$4.05, being the mid-point of the Offer Price range set out in this prospectus, the total number of H Shares that Ever Ideal would subscribe for would be 192,592,000, representing approximately 0.42% of the Shares in issue immediately following the completion of the Global Offering assuming that neither the Offer Size Adjustment Option nor the Over-allotment Option is exercised. Assuming an Offer Price of HK$4.27, being the high-end of the Offer Price range set out in this prospectus, the total number of H Shares that Ever Ideal would subscribe for would be 182,669,000, representing approximately 0.40% of the Shares in issue immediately following the completion of the Global Offering assuming that neither the Offer Size Adjustment Option nor the Over-allotment Option is exercised.

Ever Ideal is a company incorporated in the British Virgin Islands and its principal activity is securities investment. The ultimate controlling shareholder of Ever Ideal is Chinese Estates Holdings Limited ("Chinese Estates"). Chinese Estates is publicly listed on the Hong Kong Stock Exchange (Stock Code: 0127) and its subsidiaries are principally engaged in property investment and development, brokerage, securities investment, money lending and cosmetics distribution and trading.

Ever Ideal may obtain external financing from lenders (which may include affiliates of UBS) to finance its subscription of H Shares. The loan, if obtained, will be on normal commercial terms after arm's length negotiations. All or some of the H Shares to be subscribed for by Ever Ideal may be charged to the lenders as security for such loan. Under the financing agreement, Ever Ideal may be required to repay the loan before its maturity following the occurrence of certain customary events of default. The lenders may therefore have the right to enforce their security interest in the H Shares subject to such charge at any time from and including the Listing Date upon the occurrence of certain customary events of default.

The Prudential Insurance Company of America

The Prudential Insurance Company of America ("Prudential Insurance") has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 1,000 H Shares) which may be purchased with an aggregate amount of US$50 million at the Offer Price. Assuming an Offer Price of HK$3.83, being the low-end of the Offer Price range set out in this prospectus, the total number of H Shares that Prudential Insurance would subscribe for would be 101,208,000, representing approximately 0.22% of the Shares in issue immediately following the completion of the Global Offering assuming that neither the Offer Size Adjustment Option nor the Over-allotment Option is exercised. Assuming an Offer Price of HK$4.05, being the mid-point of the Offer Price range set out in this prospectus, the total number of H Shares that Prudential Insurance would subscribe for would be 95,711,000, representing approximately 0.21% of the Shares in issue immediately following the completion of the Global Offering assuming that neither the Offer Size Adjustment Option nor the Over-allotment Option is exercised. Assuming an Offer Price of HK$4.27, being the high-end of the Offer Price range set out in this prospectus, the total number of H Shares that Prudential Insurance would subscribe for would be 90,779,000, representing approximately 0.20% of the Shares in issue immediately following the completion of the Global Offering assuming that neither the Offer Size Adjustment Option nor the Over-allotment Option is exercised.

Prudential Insurance is a life insurance company incorporated in New Jersey, USA. It is ultimately owned by Prudential Financial Inc., a financial services company listed on the New York Stock Exchange.

Sun Life Assurance Company of Canada

Sun Life Assurance Company of Canada ("Sun Life") has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 1,000 H Shares) which may be purchased with an aggregate amount of US$50 million at the Offer Price. Assuming an Offer Price of HK$3.83, being the low-end of the Offer Price range set out in this prospectus, the total number of H Shares that Sun Life would subscribe for would be 101,208,000, representing approximately 0.22% of the Shares in issue immediately following the completion of the Global Offering assuming that neither the Offer Size Adjustment Option nor the Over-allotment Option is exercised. Assuming an Offer Price of HK$4.05, being the mid-point of the Offer Price range set out in this prospectus, the total number of H Shares that Sun Life would subscribe for would be 95,711,000, representing approximately 0.21% of the Shares in issue immediately following the completion of the Global Offering assuming that neither the Offer Size Adjustment Option nor the Over-allotment Option is exercised. Assuming an Offer Price of HK$4.27, being the high-end of the Offer Price range set out in this prospectus, the total number of H Shares that Sun Life would subscribe for would be 90,779,000, representing approximately 0.20% of the Shares in issue immediately following the completion of the Global Offering assuming that neither the Offer Size Adjustment Option nor the Over-allotment Option is exercised.

Sun Life is a Canadian life insurance company, which was incorporated in 1865. It is governed by the Insurance Companies Act of Canada and is regulated by the Office of the Superintendent of Financial Institutions of Canada. Sun Life and its subsidiaries and joint venture partners provide a wide range of savings, retirement, pension, mutual funds, and life and health insurance products and services to individual and corporate customers in key markets worldwide, including Canada, the United States, the United Kingdom, Ireland, Hong Kong, the Philippines, Japan, Indonesia, India, China, Australia, Singapore, Vietnam, Malaysia and Bermuda. Sun Life has an extensive global distribution network consisting of career sales forces in certain countries, independent insurance agents, managing general agents, investment dealers and banks.

Sun Life is a wholly-owned subsidiary of Sun Life Financial Inc. and is the principal operating insurance company in the Sun Life Financial group of companies. As of September 30, 2013, the Sun Life Financial group of companies had total assets under management of Cdn$590 billion. Sun Life Financial Inc. is a public holding company that is listed on the Toronto, New York and Philippines stock exchanges.

Zhongrong International Trust Co., Ltd.

Zhongrong International Trust Co., Ltd. ("Zhongrong Trust") has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 1,000 H Shares) which may be purchased with an aggregate amount of US$200 million at the Offer Price. Assuming an Offer Price of HK$3.83, being the low-end of the Offer Price range set out in this prospectus, the total number of H Shares that Zhongrong Trust would subscribe for would be 404,835,000, representing approximately 0.89% of the Shares in issue immediately following the completion of the Global Offering assuming that neither the Offer Size Adjustment Option nor the Over-allotment Option is exercised. Assuming an Offer Price of HK$4.05, being the mid-point of the Offer Price range set out in this prospectus, the total number of H Shares that Zhongrong Trust would subscribe for would be 382,844,000, representing approximately 0.84% of the Shares in issue immediately following the completion of the Global Offering assuming that neither the Offer Size Adjustment Option nor the Over-allotment Option is exercised. Assuming an Offer Price of HK$4.27, being the high-end of the Offer Price range set out in this prospectus, the total number of H Shares that Zhongrong Trust would subscribe for would be 363,119,000, representing approximately 0.80% of the Shares in issue immediately following the completion of the Global Offering assuming that neither the Offer Size Adjustment Option nor the Over-allotment Option is exercised.

Zhongrong Trust is a company registered in the People's Republic of China with limited liability and its principal activities are trust business. The ultimate controlling shareholder of Zhongrong Trust is Jingwei Textile Machinery Company Limited (listed on the Hong Kong Stock Exchange, HK Stock Code: 0350), principal business of which are production of textile machinery and the other machinery and electronic products.

TEDA Investment Holding Co., Ltd.

TEDA Investment Holding Co., Ltd. ("TEDA") has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 1,000 H Shares) which may be purchased with an aggregate amount of US$80 million at the Offer Price. Assuming an Offer Price of HK$3.83, being the low-end of the Offer Price range set out in this prospectus, the total number of H Shares that TEDA would subscribe for would be 161,934,000, representing approximately 0.36% of the Shares in issue immediately following the completion of the Global Offering assuming that neither the Offer Size Adjustment Option nor the Over-allotment Option is exercised. Assuming an Offer Price of HK$4.05, being the mid-point of the Offer Price range set out in this prospectus, the total number of H Shares that TEDA would subscribe for would be 153,137,000, representing approximately 0.34% of the Shares in issue immediately following the completion of the Global Offering assuming that neither the Offer Size Adjustment Option nor the

Over-allotment Option is exercised. Assuming an Offer Price of HK$4.27, being the high-end of the Offer Price range set out in this prospectus, the total number of H Shares that TEDA would subscribe for would be 145,247,000, representing approximately 0.32% of the Shares in issue immediately following the completion of the Global Offering assuming that neither the Offer Size Adjustment Option nor the Over-allotment Option is exercised.

TEDA was established in December 1984. It is a major wholly state-owned company formed by the former Tianjin Economic-Technological Development Area Corporation, TEDA Group and Tianjin TEDA Construction Group. The company's major scope of business covers regional development and real estate, public utilities, manufacturing, financial and modern service industries. TEDA has 15 wholly-owned subsidiaries including TEDA Group and Tianjin TEDA Construction Group, over 23 affiliates including TEDA International, Tianjin Pipe and Bohai Bank and holds equity interest in more than 23 companies including TEDA Development and Changjiang Securities.

Wenze International Investment Limited

Wenze International Investment Limited ("Wenze") has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 1,000 H Shares) which may be purchased with an aggregate amount of HK$546 million at the Offer Price. Assuming an Offer Price of HK$3.83, being the low-end of the Offer Price range set out in this prospectus, the total number of H Shares that Wenze would subscribe for would be 142,558,000, representing approximately 0.31% of the Shares in issue immediately following the completion of the Global Offering assuming that neither the Offer Size Adjustment Option nor the Over-allotment Option is exercised. Assuming an Offer Price of HK$4.05, being the mid-point of the Offer Price range set out in this prospectus, the total number of H Shares that Wenze would subscribe for would be 134,814,000, representing approximately 0.30% of the Shares in issue immediately following the completion of the Global Offering assuming that neither the Offer Size Adjustment Option nor the Over-allotment Option is exercised. Assuming an Offer Price of HK$4.27, being the high-end of the Offer Price range set out in this prospectus, the total number of H Shares that Wenze would subscribe for would be 127,868,000, representing approximately 0.28% of the Shares in issue immediately following the completion of the Global Offering assuming that neither the Offer Size Adjustment Option nor the Over-allotment Option is exercised.

Wenze is established in Hong Kong as a private company on March 28, 2012. It primarily makes investments in industries of energy, mining, finance, real estate, consumer goods and high-tech, with its business presence in Asia-Pacific, North America, Europe, Middle East and Africa. Wenze's investment philosophy is to "Explore Value & Create Value", which also presents Wenze's vision and mission, that is, to promote social civilization through economic prosperity. Throughout its business, Wenze is always dedicated to optimize corporate governance, promote sustainable development of the company, and to create value for shareholders and other stakeholders.

Wenze may use all or some of the H Shares to be subscribed for by it as security in favor of a financial institution for a bona fide commercial loan. Wenze may be required to repay the loan before its maturity following the occurrence of certain customary events of default. The lenders may therefore have the right to enforce their security interest in the H Shares subject to such charge at any time including within the lock up period of six months starting from and including the Listing Date upon the occurrence of certain customary events of default.

China Oceanwide International Investment Co., LTD.

China Oceanwide International Investment Co., LTD. ("China Oceanwide International") has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 1,000 H Shares) which may be purchased with an aggregate amount of US$67 million at the Offer Price. Assuming an Offer Price of HK$3.83, being the low-end of the Offer Price range set out in this prospectus, the total number of H Shares that China Oceanwide International would subscribe for would be 135,619,000, representing approximately 0.30% of the Shares in issue immediately following the completion of the Global Offering assuming that neither the Offer Size Adjustment Option nor the Over-allotment Option is exercised. Assuming an Offer Price of HK$4.05, being the mid-point of the Offer Price range set out in this prospectus, the total number of H Shares that China Oceanwide International would subscribe for would be 128,252,000, representing approximately 0.28% of the Shares in issue immediately following the completion of the Global Offering assuming that neither the Offer Size Adjustment Option nor the Over-allotment Option is exercised. Assuming an Offer Price of HK$4.27, being the high-end of the Offer Price range set out in this prospectus, the total number of H Shares that China Oceanwide International would subscribe for would be 121,645,000, representing approximately 0.27% of the Shares in issue immediately following the completion of the Global Offering assuming that neither the Offer Size Adjustment Option nor the Over-allotment Option is exercised.

China Oceanwide International was established in Hong Kong. It is a wholly-owned subsidiary of China Oceanwide Holdings Group Co., Ltd. ("China Oceanwide Holdings") as its overseas platform for developing international partnerships and projects. China Oceanwide Holdings was founded by Mr. LU Zhiqiang in 1985. Currently it has established an integrative investment pattern and business structure to include finance, real estate, energy development, culture and media, and integrative investment.

The H Shares subscribed by China Oceanwide International were partially financed by a margin loan of up to US$50 million with recourse with a fixed term from Haitong International Securities Company Limited on normal commercial terms on an arm's length basis. All H Shares subscribed by China Oceanwide International will be deposited to a securities account opened by China Oceanwide International with Haitong International Securities Company Limited and charged in favor of Haitong International Securities Company Limited as security for such loan. Upon the occurrence of customary events of default, repayment of the loan may be accelerated before its maturity and Haitong International Securities Company Limited has agreed with China Oceanwide International not to dispose of the collateral shares to third parties in the event of default until after the date falling six months after the Listing Date.

Sinochem International (Overseas) Pte. Ltd.

Sinochem International (Overseas) Pte. Ltd. ("Sinochem") has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 1,000 H Shares) which may be purchased with an aggregate amount of RMB400 million at the Offer Price. Assuming an Offer Price of HK$3.83, being the low-end of the Offer Price range set out in this prospectus, the total number of H Shares that Sinochem would subscribe for would be 132,028,000, representing approximately 0.29% of the Shares in issue immediately following the completion of the Global Offering assuming that neither the Offer Size Adjustment Option nor the Over-allotment Option is exercised. Assuming an Offer Price of HK$4.05, being the mid-point of the Offer Price range set out in this prospectus, the total number of H Shares that Sinochem would subscribe for would be 124,856,000, representing approximately 0.27% of the Shares in issue immediately following the completion of the Global Offering assuming that neither the Offer Size Adjustment Option nor the Over-allotment Option is exercised. Assuming an Offer Price of HK$4.27, being the high-end of the Offer Price range set out in this prospectus, the total number of H Shares that Sinochem would subscribe for would be 118,423,000, representing approximately 0.26% of the Shares in issue immediately following the completion of the Global Offering assuming that neither the Offer Size Adjustment Option nor the Over-allotment Option is exercised.

Sinochem is incorporated in Singapore and wholly owned by Sinochem International Corporation ("SIC"). Sinochem acts as a key overseas trading arm and investment platform for SIC. SIC is a large state-owned holding company engaging in industrial investment, logistics, trading and distribution in the fields of natural rubber, fine chemicals, agrochemicals, chemical logistics, chemical distribution, and other sub-sectors international chemical business (stock code: 600500), with customers from over 100 countries and regions worldwide.

Shanghai Electric Group Hongkong Company Limited

Shanghai Electric Group Hongkong Company Limited ("Shanghai Electric") has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 1,000 H Shares) which may be purchased with an aggregate amount of US$30 million at the Offer Price. Assuming an Offer Price of HK$3.83, being the low-end of the Offer Price range set out in this prospectus, the total number of H Shares that Shanghai Electric would subscribe for would be 60,725,000, representing approximately 0.13% of the Shares in issue immediately following the completion of the Global Offering assuming that neither the Offer Size Adjustment Option nor the Over-allotment Option is exercised. Assuming an Offer Price of HK$4.05, being the mid-point of the Offer Price range set out in this prospectus, the total number of H Shares that Shanghai Electric would subscribe for would be 57,426,000, representing approximately 0.13% of the Shares in issue immediately following the completion of the Global Offering assuming that neither the Offer Size Adjustment Option nor the Over-allotment Option is exercised. Assuming an Offer Price of HK$4.27, being the high-end of the Offer Price range set out in this prospectus, the total number of H Shares that Shanghai Electric would subscribe for would be 54,467,000, representing approximately 0.12% of the Shares in issue immediately following the completion of the Global Offering assuming that neither the Offer Size Adjustment Option nor the Over-allotment Option is exercised.

Shanghai Electric is a wholly-owned subsidiary of Shanghai Electric (Group) Corporation incorporated in Hong Kong. Shanghai Electric (Group) Corporation is the equipment manufacturing industry group registered in Shanghai. The main business covers high-efficiency clean energy, new energy and environmental protection, industrial equipment and modern service industry. Shanghai Electric is the overseas investment and financing platform of the group, with main businesses in general contracting, industrial investment, business consulting, import & export of machinery & electronic products.

Sany International Development Limited

Sany International Development Limited ("Sany") has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 1,000 H Shares) which may be purchased with an aggregate amount of US$30 million at the Offer Price. Assuming an Offer Price of HK$3.83, being the low-end of the Offer Price range set out in this prospectus, the total number of H Shares that Sany would subscribe for would be 60,725,000, representing approximately 0.13% of the Shares in issue immediately following the completion of the Global Offering assuming that neither the Offer Size Adjustment Option nor the Over-allotment Option is exercised. Assuming an Offer Price of HK$4.05, being the mid-point of the Offer Price range set out in this prospectus, the total number of H Shares that Sany would subscribe for would be 57,426,000, representing approximately 0.13% of the Shares in issue immediately following the completion of the Global Offering assuming that neither the Offer Size Adjustment Option nor the Over-allotment Option is exercised. Assuming an Offer Price of HK$4.27, being the high-end of the Offer Price range set out in this prospectus, the total number of H Shares that Sany would subscribe for would be 54,467,000, representing approximately 0.12% of the Shares in issue immediately following the completion of the Global Offering assuming that neither the Offer Size Adjustment Option nor the Over-allotment Option is exercised.

Sany is a wholly owned subsidiary of Sany Heavy Industry Co., Ltd (Shanghai Stock Exchange: 600031). Sany Heavy Industry Co., Ltd. is the largest construction manufacturer in China. Sany Heavy Industry Co., Ltd. manufactures construction machinery industry with a vast product range of concrete machinery, excavator, etc. Sany Group Co., Ltd. is the controlling shareholder of Sany Heavy Industry Co., Ltd. Sany Group Co., Ltd., which controls 10% equity interests in Shaoshan Everbright Village Bank, is a substantial shareholder of one of our subsidiaries, therefore is our connected person under the Listing Rules. Shares held by Sany after the listing will not be counted as part of the public float.

C.N. Team Limited

C.N. Team Limited ("C.N. Team") has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 1,000 H Shares) which may be purchased with an aggregate amount of HK$234 million at the Offer Price. Assuming an Offer Price of HK$3.83, being the low-end of the Offer Price range set out in this prospectus, the total number of H Shares that C.N. Team would subscribe for would be 61,096,000, representing approximately 0.13% of the Shares in issue immediately following the completion of the Global Offering assuming that neither the Offer Size Adjustment Option nor the Over-allotment Option is exercised. Assuming an Offer Price of HK$4.05, being the mid-point of the Offer Price range set out in this prospectus, the total number of H Shares that C.N. Team would subscribe for would be 57,777,000, representing approximately 0.13% of the Shares in issue immediately following the completion of the Global Offering assuming that neither the Offer Size Adjustment Option nor the Over-allotment Option is exercised. Assuming an Offer Price of HK$4.27, being the high-end of the Offer Price range set out in this prospectus, the total number of H Shares that C.N. Team would subscribe for would be 54,800,000, representing approximately 0.12% of the Shares in issue immediately following the completion of the Global Offering assuming that neither the Offer Size Adjustment Option nor the Over-allotment Option is exercised.

C.N. Team, an international business company, is registered in the British Virgin Islands on April 26, 2000. Its legal representative is Ms. WU Xiuli, who is the sole shareholder. C.N. Team could engage in any business not prohibited by the law of the British Virgin Islands. Now the C.N. Team mainly is doing commodity trading and foreign investment business.

NorthShore Investment (HK) Limited

NorthShore Investment (HK) Limited ("NorthShore") has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 1,000 H Shares) which may be purchased with an aggregate amount of US$30 million at the Offer Price. Assuming an Offer Price of HK$3.83, being the low-end of the Offer Price range set out in this prospectus, the total number of H Shares that NorthShore would subscribe for would be 60,725,000, representing approximately 0.13% of the Shares in issue immediately following the completion of the Global Offering assuming that neither the Offer Size Adjustment Option nor the Over-allotment Option is exercised. Assuming an Offer Price of HK$4.05, being the mid-point of the Offer Price range set out in this prospectus, the total number of H Shares that NorthShore would subscribe for would be 57,426,000, representing approximately 0.13% of the Shares in issue immediately following the completion of the Global Offering assuming that neither the Offer Size Adjustment Option nor the Over-allotment Option is exercised. Assuming an Offer Price of HK$4.27, being the high-end of the Offer Price range set out in this prospectus, the total number of H Shares that NorthShore would subscribe for would be 54,467,000, representing approximately 0.12% of the Shares in issue immediately following the completion of the Global Offering assuming that neither the Offer Size Adjustment Option nor the Over-allotment Option is exercised.

NorthShore is an investment holding company incorporated in Hong Kong. It is an indirect wholly-owned subsidiary of China Qing Hua Energy Group Co., Ltd., a PRC-incorporated company which engages in metal ores mining and dressing, metallurgical chemical, refined coal chemical, building materials, logistics, hotel and international trade. China Qing Hua Energy Group Co., Ltd. is ultimately controlled by Mr. HUO Qing Hua.

Guangdong Fortune Field Gold Trade Co., Ltd

Guangdong Fortune Field Gold Trade Co., Ltd (previously named Guangzhou Fortune Field Gold Trade Co., Ltd) ("Guangdong Fortune Field") has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 1,000 H Shares) which may be purchased with an aggregate amount of US$30 million at the Offer Price. Assuming an Offer Price of HK$3.83, being the low-end of the Offer Price range set out in this prospectus, the total number of H Shares that Guangdong Fortune Field would subscribe for would be 60,725,000, representing approximately 0.13% of the Shares in issue immediately following the completion of the Global Offering assuming that neither the Offer Size Adjustment Option nor the Over-allotment Option is exercised. Assuming an Offer Price of HK$4.05, being the mid-point of the Offer Price range set out in this prospectus, the total number of H Shares that Guangdong Fortune Field would subscribe for would be 57,426,000, representing approximately 0.13% of the Shares in issue immediately following the completion of the Global Offering assuming that neither the Offer Size Adjustment Option nor the Over-allotment Option is exercised. Assuming an Offer Price of HK$4.27, being the high-end of the Offer Price range set out in this prospectus, the total number of H Shares that Guangdong Fortune Field would subscribe for would be 54,467,000, representing approximately 0.12% of the Shares in issue immediately following the completion of the Global Offering assuming that neither the Offer Size Adjustment Option nor the Over-allotment Option is exercised.

Guangdong Fortune Field was incorporated in Guangzhou in 2007 with a registered capital of RMB100 million. It is ultimately owned by Mr. CHEN Hua Wei, an independent third party of our Bank. As approved by the PBOC, Guangdong Fortune Field is the composite class No. 151 member of the Shanghai Gold Exchange. It is also designated by the Shanghai Gold Exchange to conduct businesses of proprietary trading, brokerage, acquisition and advisory services in relation to precious metals including gold, silver and platinum. With 35 branches in China, it serves as one of the vice president entities of the Gold Association of Guangdong Province.

Guangdong Fortune Field is dedicated to building an all-round, high-level and comprehensive investment service platform including gold trading, gold investments and investment advice and market analysis for domestic institutional investors and professional investors.

The H Shares subscribed by Guangdong Fortune Field were partially financed by a margin loan of US$18,000,000 with recourse with a fixed term from ABCI Securities Company Limited on normal commercial terms on an arm's length basis. All H Shares subscribed by Guangdong Fortune Field will be deposited to a securities account opened by Guangdong Fortune Field with ABCI Securities Company Limited as security for such loan. Upon the occurrence of customary events of default, repayment of the loan may be accelerated before its maturity and ABCI Securities Company Limited has agreed with Guangdong Fortune Field not to dispose of the collateral shares to third parties in the event of default until after the date falling six months after the Listing Date.

China Chengtong Holdings Group Ltd.

China Chengtong Holdings Group Ltd. ("China Chengtong") is the beneficiary of a proposed asset management arrangement to be entered into with Agricultural Bank of China Limited (the "QDII Manager") in the capacity of a qualified domestic institutional investor ("QDII") as asset manager and nominee of China Chengtong. China Chengtong has agreed to cause the QDII Manager to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 1,000 H Shares) which may be purchased with an aggregate amount of US$30 million at the Offer Price. Assuming an Offer Price of HK$3.83, being the low-end of the Offer Price range set out in this prospectus, the total number of H Shares that the QDII Manager would subscribe for would be 60,725,000, representing approximately 0.13% of the Shares in issue immediately following the completion of the Global Offering assuming that neither the Offer Size Adjustment Option nor the Over-allotment Option is exercised. Assuming an Offer Price of HK$4.05, being the mid-point of the Offer Price range set out in this prospectus, the total number of H Shares that the QDII Manager would subscribe for would be 57,426,000, representing approximately 0.13% of the Shares in issue immediately following the completion of the Global Offering assuming that neither the Offer Size Adjustment Option nor the Over-allotment Option is exercised. Assuming an Offer Price of HK$4.27, being the high-end of the Offer Price range set out in this prospectus, the total number of H Shares that the QDII Manager would subscribe for would be 54,467,000, representing approximately 0.12% of the Shares in issue immediately following the completion of the Global Offering assuming that neither the Offer Size Adjustment Option nor the Over-allotment Option is exercised.

The QDII Manager is the controlling shareholder of ABCI Securities Company Limited ("ABCI") and manages an investment fund in the capacity as a qualified domestic institutional investor ("ABC QDII Fund") for an on behalf of China Chengtong in accordance with applicable PRC laws, regulations and regulatory documents. The above arrangement will be achieved by an allocation of Offer Shares to the QDII Manager in a structured pass-through transaction (the "Proposed Structure"). The QDII Manager and China Chengtong shall be treated in an equal manner as other cornerstone investors in the allocation process. The ultimate cornerstone investor is independent from the QDII Manager, ABCI and their respective associates. Our PRC legal counsel, King &Wood Mallesons and the Joint Sponsors' PRC legal counsel, Jingtian & Gongcheng, Attorneys At Law, have advised that the establishment of the ABC QDII Fund by the QDII Manager on behalf of the independent cornerstone investor (as permitted by PRC statutory procedures) and the Proposed Structure (in so far as it concerns PRC laws and regulations as currently in force) comply with PRC laws, regulations and regulatory documents. No financing has been provided by ABCI and its affiliates or the QDII fund to the relevant cornerstone investor in connection with the cornerstone investment. The Joint Sponsors and the Joint Bookrunners confirm that material terms of the above cornerstone investment agreement are substantially the same as those entered into by other corporate investors taking part in the Global Offering. We have applied for and the Hong Kong Stock Exchange has granted its consent under paragraph 5(1) of Appendix 6 of the Listing Rules to allow Offer Shares to be placed to the ABC QDII Fund as a "connected client" (as defined under paragraph 13 of Appendix 6 of the Listing Rules) of ABCI.

China Chengtong is a large enterprise group under the supervision of the State-owned Assets Supervision and Administration Commission (SASAC) of the State Council. China Chengtong belongs to the first batch of standard board-of-directors enterprises in the transformation of central enterprises authenticated by SASAC. It serves as a significant operating platform, contributing to structural and distributional adjustments and strategic recombination of central enterprises. At present, China Chengtong owns more than a hundred subsidiary companies all over China, among which, six are listed companies. Besides, it also has set up overseas business platforms in areas such as Hong Kong and Russia. The main businesses of China Chengtong are assets management, integrated logistic service, capital goods trade, production and exploitation of forestry-pulp papers.

Hongkong Energy Group Investment Limited

Hongkong Energy Group Investment Limited ("HK Energy") has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 1,000 H Shares) which may be purchased with an aggregate amount of US$30 million at the Offer Price. Assuming an Offer Price of HK$3.83, being the low-end of the Offer Price range set out in this prospectus, the total number of H Shares that HK Energy would subscribe for would be 60,725,000, representing approximately 0.13% of the Shares in issue immediately following the completion of the Global Offering assuming that neither the Offer Size Adjustment Option nor the Over-allotment Option is exercised. Assuming an Offer Price of HK$4.05, being the mid-point of the Offer Price range set out in this prospectus, the total number of H Shares that HK Energy would subscribe for would be 57,426,000, representing approximately 0.13% of the Shares in issue immediately following the completion of the Global Offering assuming that neither the Offer Size Adjustment Option nor the Over-allotment Option is exercised. Assuming an Offer Price of HK$4.27, being the high-end of the Offer Price range set out in this prospectus, the total number of H Shares that HK Energy would subscribe for would be 54,467,000, representing approximately 0.12% of the Shares in issue immediately following the completion of the Global Offering assuming that neither the Offer Size Adjustment Option nor the Over-allotment Option is exercised.

HK Energy was established in 2004 and is ultimately controlled by Mr. SUN Pei Hua. HK Energy is engaged in the business of investment holding, investing primarily in the energy, chemical and mechanical equipment sectors. HK Energy also engages in import and export of fuel oil. In the PRC, HK Energy has invested in joint ventures in the petrochemical refining industry in Zhuhai and Ningxia with Baota Petrochemical Group ("Baota"). Baota is engaged in the petrochemical, fine chemical and coal chemical industries in the PRC. The Chairman of the Board of Directors of Baota is Mr. SUN Hengchao, who has been engaged in the refining industry for 16 years.

Haochen Holding Limited

Haochen Holding Limited ("Haochen") has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 1,000 H Shares) which may be purchased with an aggregate amount of HK$234 million at the Offer Price. Assuming an Offer Price of HK$3.83, being the low-end of the Offer Price range set out in this prospectus, the total number of H Shares that Haochen would subscribe for would be 61,096,000, representing approximately 0.13% of the Shares in issue immediately following the completion of the Global Offering assuming that neither the Offer Size Adjustment Option nor the Over-allotment Option is exercised. Assuming an Offer Price of HK$4.05, being the mid-point of the Offer Price range set out in this prospectus, the total number of H Shares that Haochen would subscribe for would be 57,777,000, representing approximately 0.13% of the Shares in issue immediately following the completion of the Global Offering assuming that neither the Offer Size Adjustment Option nor the Over-allotment Option is exercised. Assuming an Offer Price of HK$4.27, being the high-end of the Offer Price range set out in this prospectus, the total number of H Shares that Haochen would subscribe for would be 54,800,000, representing approximately 0.12% of the Shares in issue immediately following the completion of the Global Offering assuming that neither the Offer Size Adjustment Option nor the Over-allotment Option is exercised.

Haochen was incorporated in Hong Kong on 3 January 2011. Its nature of business is trading & investment, and its principal activity is trading of copper cathode. Haochen purchases goods from the world famous enterprises, such as Marubeni Corporation in Japan, Extend Victory (Hong Kong) Limited and East Success Enterprise Limited in Hong Kong and Raffemet Pte Ltd in Singapore. Haochen also sells goods to the China top 500 enterprises, including Shanghai Material Trading Co., Ltd. and Beida Fangzheng Products Group Co. Ltd. Haochen's ultimate controlling shareholder is WANG Lina, who is an individual shareholder.

Sun Hung Kai Strategic Capital Limited

Sun Hung Kai Strategic Capital Limited ("SHKSCL") has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 1,000 H Shares) which may be purchased with an aggregate amount of US$10 million at the Offer Price. Assuming an Offer Price of HK$3.83, being the low-end of the Offer Price range set out in this prospectus, the total number of H Shares that SHKSCL would subscribe for would be 20,241,000, representing approximately 0.04% of the Shares in issue immediately following the completion of the Global Offering assuming that neither the Offer Size Adjustment Option nor the Over-allotment Option is exercised. Assuming an Offer Price of HK$4.05, being the mid-point of the Offer Price range set out in this prospectus, the total number of H Shares that SHKSCL would subscribe for would be 19,142,000, representing approximately 0.04% of the Shares in issue immediately following the completion of the Global Offering assuming that neither the Offer Size Adjustment Option nor the Over-allotment Option is exercised. Assuming an Offer Price of HK$4.27, being the high-end of the Offer Price range set out in this prospectus, the total number of H Shares that SHKSCL would subscribe for would be 18,155,000, representing approximately 0.04% of the Shares in issue immediately following the completion of the Global Offering assuming that neither the Offer Size Adjustment Option nor the Over-allotment Option is exercised.

SHKSCL is a wholly-owned subsidiary of Sun Hung Kai & Co. Limited (Stock Code: 86) ("SHK"), one of the leading financial institutions in Hong Kong with its foundation dating back to 1969. SHK, through its subsidiary Sun Hung Kai Financial Limited ("SHKFL"), runs the wealth management & brokerage and capital markets divisions, and offers a diversified financial trading platform to its customers.

SHKSCL may obtain external financing from lenders (which may include affiliates of UBS) to finance its subscription of H Shares. The loan, if obtained, will be on normal commercial terms after arm's length negotiations. All or some of the H Shares to be subscribed for by SHKSCL may be charged to the lenders as security for such loan. Under the financing agreement, SHKSCL may be required to repay the loan before its maturity following the occurrence of certain customary events of default. The lenders may therefore have the right to enforce their security interest in the H Shares subject to such charge at any time from and including the Listing Date upon the occurrence of certain customary events of default.

SHKFL entered into a long-term strategic cooperation agreement with our Bank in respect of cross-border financial services in Hong Kong. Our Bank has agreed to mobilize our resources and refer a targeted number of our high net worth customers to SHKFL each year, while SHKFL would supply such customers with access to a full range of offshore financial products through its comprehensive platform.

First Asian Holdings Limited

First Asian Holdings Limited ("FAHL") has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 1,000 H Shares) which may be purchased with an aggregate amount of US$10 million at the Offer Price. Assuming an Offer Price of HK$3.83, being the low-end of the Offer Price range set out in this prospectus, the total number of H Shares that FAHL would subscribe for would be 20,241,000, representing approximately 0.04% of the Shares in issue immediately following the completion of the Global Offering assuming that neither the Offer Size Adjustment Option nor the Over-allotment Option is exercised. Assuming an Offer Price of HK$4.05, being the mid-point of the Offer Price range set out in this prospectus, the total number of H Shares that FAHL would subscribe for would be 19,142,000, representing approximately 0.04% of the Shares in issue immediately following the completion of the Global Offering assuming that neither the Offer Size Adjustment Option nor the Over-allotment Option is exercised. Assuming an Offer Price of HK$4.27, being the high-end of the Offer Price range set out in this prospectus, the total number of H Shares that FAHL would subscribe for would be 18,155,000, representing approximately 0.04% of the Shares in issue immediately following the completion of the Global Offering assuming that neither the Offer Size Adjustment Option nor the Over-allotment Option is exercised.

FAHL is a wholly-owned subsidiary of United Asia Finance Limited ("UAFL") which in turn is a 58%-owned subsidiary of SHK. Its other shareholders include ITOCHU Hong Kong Limited, ITOCHU Finance (Asia) Limited, Icapital City Limited and ORIX International Finance Limited. As of 30 June 2013, UAFL had 140 branches in Hong Kong and Mainland China. UAFL's core operation is the personal loans business, consisting mainly of unsecured loans to individual customers of lower to middle income groups. In Hong Kong, UAFL is ranked first among consumer finance companies (excluding banks) in terms of total loans outstanding (excluding property mortgage loans), with a market share of approximately 5.9 per cent as at 31 December 2012.

UAFL entered into a long-term strategic cooperation partnership with our Bank in respect of provision of credit facilities to customers, loans customer referrals and issuance of co-branded cards.

CONDITIONS PRECEDENT

The subscription obligation of each Corporate Investor is subject to, among other things, the following conditions precedent:

(a) the Hong Kong Underwriting Agreement and the International Underwriting Agreement being entered into and having become effective and unconditional (in accordance with their respective original terms or as subsequently waived or varied by agreement of the parties thereto) by no later than the time and date as specified in such agreements;

(b) neither the Hong Kong Underwriting Agreement nor the International Underwriting Agreement having been terminated; and

(c) the Listing Committee of the Hong Kong Stock Exchange having granted the listing of, and permission to deal in, the H Shares and such approval or permission not having been revoked.

RESTRICTIONS ON DISPOSALS BY THE CORPORATE INVESTORS

Each of the Corporate Investors has agreed that, without the prior written consent of our Bank and certain Joint Bookrunners, it will not, whether directly or indirectly, at any time during a period of six months starting from and inclusive of the Listing Date, dispose of (as defined in the relevant cornerstone investment agreements) any of the H Shares subscribed for by it pursuant to the relevant cornerstone investment agreement. Each Corporate Investor may transfer the H Shares so subscribed in certain limited circumstances as set out in the relevant cornerstone investment agreement, such as transfer to a wholly-owned subsidiary of such Corporate Investor, provided that, among other things, such wholly-owned subsidiary undertakes in writing, and such Corporate Investor undertakes in writing to procure, that such wholly-owned subsidiary to be bound by the Corporate Investor's obligations under the relevant cornerstone investment agreement.

For the case of Ever Ideal, Wenze, China Oceanwide International, Guangdong Fortune Field and SHKSCL, please refer to the above disclosures for further details on the pledge or possible pledge of H Shares according to the relevant cornerstone investment agreement for the purposes of obtaining funding.

FUTURE PLANS

See "Business – Our Strategies" for a detailed description of our future plans.

USE OF PROCEEDS

We estimate the net proceeds of the Global Offering accruing to us (after deduction of underwriting fees and estimated expenses payable by us in relation to the Global Offering, assuming an Offer Price of HK$4.05, being the mid-point of the proposed Offer Price range of HK$3.83 to HK$4.27) to be approximately HK$20,137 million, if neither the Offer Size Adjustment Option nor the Over-allotment Option is exercised, or HK$23,177 million, if either the Offer Size Adjustment Option or the Over-allotment Option is exercised in full, or HK$26,217 million if both the Offer Size Adjustment Option and the Over-allotment Option are exercised in full.

We intend to use the net proceeds from the Global Offering (after deduction of fees and expenses in relation to the Global Offering) to supplement our core capital base, to increase capital adequacy, to strengthen our ability to resist risks as well as to strengthen our profitability and to support growth of our business.

HONG KONG UNDERWRITERS

China International Capital Corporation Hong Kong Securities Limited
UBS AG, Hong Kong Branch
Morgan Stanley Asia Limited
China Everbright Securities (HK) Limited
BNP Paribas Securities (Asia) Limited
BOCI Asia Limited
ABCI Securities Company Limited
Haitong International Securities Company Limited
Essence International Securities (Hong Kong) Limited
China Merchants Securities (HK) Co., Limited
CCB International Capital Limited
Bright Smart Securities International (H.K.) Limited
Core Pacific-Yamaichi International (H.K.) Limited
Shenyin Wanguo Capital (H.K.) Limited
Tung Shing Securities (Brokers) Limited
Emperor Securities Ltd.

UNDERWRITING

This prospectus is published solely in connection with the Hong Kong Public Offering. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters on a conditional basis on the terms and conditions set out in this prospectus, the related Application Forms and the Hong Kong Underwriting Agreement. The International Offering is expected to be fully underwritten by the International Underwriters. If, for any reason, the Offer Price is not agreed among the Company and the Joint Global Coordinators (on behalf of the Underwriters), the Global Offering will not proceed.

The Global Offering comprises the Hong Kong Public Offering of initially 254,000,000 Hong Kong Offer Shares and the International Offering of initially 4,826,000,000 International Offer Shares, subject, in each case, to reallocation on the basis as described in "Structure of the Global Offering" as well as to (i) the Offer Size Adjustment Option and (ii) the Over-allotment Option in the case of the International Offering.

RESTRICTIONS ON THE OFFER SHARES

Each person acquiring the Hong Kong Offer Shares under the Hong Kong Public Offering will be required to, or be deemed by his or her acquisition of the Hong Kong Offer Shares to, confirm that he or she is aware of the restrictions on offers of the Offer Shares described in this prospectus.

No action has been taken to permit a public offering of the Offer Shares, or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation.

UNDERWRITING ARRANGEMENTS AND EXPENSES

Hong Kong Public Offering

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, our Company is initially offering 254,000,000 Hong Kong Offer Shares for subscription by the public in Hong Kong at the Offer Price on and subject to the terms and conditions set out in this prospectus and the related Application Forms.

Subject to (i) the Listing Committee of the Hong Kong Stock Exchange granting the listing of, and permission to deal in, the H Shares to be issued pursuant to the Global Offering (including the additional H Shares which may be made available pursuant to the exercise of the Offer Size Adjustment Option and the Over-allotment Option) and (ii) certain other conditions set out in the Hong Kong Underwriting Agreement (including, among others, the Joint Global Coordinators (on behalf of the Underwriters) and our Company agreeing on the Offer Price), the Hong Kong Underwriters have severally agreed to subscribe or procure subscribers for their respective applicable proportions or amounts (set out in the Hong Kong Underwriting Agreement) of the Hong Kong Offer Shares now being offered and which are not taken up under the Hong Kong Public Offering, on the terms and the conditions set out in this prospectus, the related Application Forms and the Hong Kong Underwriting Agreement.

The Hong Kong Underwriting Agreement is conditional upon and subject to the International Underwriting Agreement having been signed, becoming unconditional and not having been terminated.

Grounds for Termination of the Hong Kong Underwriting Agreement

The respective obligations of the Hong Kong Underwriters to subscribe or procure subscribers for the Hong Kong Offer Shares will be subject to termination with immediate effect by notice, orally or in writing, from the Joint Global Coordinators, for themselves and on behalf of the Hong Kong Underwriters, if any of the following events occurs prior to 8:00 a.m. on the Listing Date:

(a) there shall develop, occur, exist or come into effect:

 (i) any local, national, regional or international event, or series of events, in the nature of force majeure (including, without limitation, acts of government, declaration of a national or international emergency or war, calamity, crisis, epidemics, pandemics, outbreaks of diseases, economic sanction, strikes, lock-outs, fire, explosion, flooding, civil commotion, riot, public disorder, acts of war, outbreak or escalation of hostilities (whether or not war is declared), acts of God or acts of terrorism); or

 (ii) any change or development involving a prospective change, or any event or series of events likely to result in any change, or development involving a prospective change, in local, national, regional or international financial, economic, political, military, industrial, fiscal, regulatory, currency credit or market conditions (including, without limitation, any or conditions affecting stock and bond markets money and foreign exchange markets, investment markets and credit markets); or

 (iii) any moratorium, suspension or restriction on trading in securities generally on the Hong Kong Stock Exchange, the New York Stock Exchange, the London Stock Exchange, the NASDAQ National Markets, the Tokyo Stock Exchange, the Shanghai Stock Exchange, or the Shenzhen Stock Exchange, or a material devaluation of the Hong Kong dollar or the Renminbi against any foreign currencies, or any material disruption in monetary or trading or securities settlement or clearance services, procedures or matters; or

(iv) any moratorium, suspension or restriction on trading in any securities of the Company listed or quoted on a stock exchange or an over-the-counter market; or

(v) any general moratorium, on commercial banking activities in Hong Kong (imposed by the Financial Secretary or the Hong Kong Monetary Authority or other competent authorities), New York (imposed at Federal or New York State level or other competent authorities), London, the European Union (taken as a whole), Japan, the PRC or any other jurisdiction relevant to any member of our Group, or there is a material disruption in commercial banking foreign exchange trading or securities settlement or clearance services in those places; or

(vi) any new law or regulation or any change or development involving a prospective change in existing laws or regulations or any change or development involving a prospective change in the interpretation or application thereof by any court or other competent authorities in or affecting Hong Kong, the PRC, the United States, the United Kingdom, the European Union (taken as a whole), Japan or any other jurisdiction relevant to any member of our Group; or

(vii) the imposition of economic sanctions, in whatever form, directly or indirectly, by, or for, the United States, the United Kingdom, the European Union (taken as a whole), Japan, the PRC or any other jurisdiction relevant to any member of our Group; or

(viii) a change or development involving a prospective change in taxation or exchange control, currency exchange rates or foreign investment regulations (including, without limitation, a devaluation of the Hong Kong dollars or the Renminbi against any foreign currencies), or the implementation of any exchange control in Hong Kong, the PRC, the United States, the United Kingdom, the European Union (taken as a whole), Japan or any other jurisdictions relevant to any member of our Group; or

(ix) save as disclosed in the prospectus, any litigation, legal action, claim or legal proceeding of any third party being threatened or instigated against any member of our Group; or

(x) a Director being charged with an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of a company; or

(xi) the chairman or president of the Company vacating his or her office; or

(xii) save as disclosed in this prospectus, the commencement by any governmental, law enforcement agency, regulatory or political body or organization of any action against a Director or an announcement by any governmental, regulatory or political body or organization that it intends to take any such action; or

(xiii) save as disclosed in this prospectus, a contravention by any member of our Group of the Listing Rules or applicable laws; or

(xiv) a prohibition on the Company for whatever reason from allotting or selling the Offer Shares (including H Shares being issued pursuant to the exercise of the Offer Size Adjustment Option and the Over-allotment Option) pursuant to the terms of the Global Offering; or

(xv) non-compliance of this prospectus (or any other documents used in connection with the contemplated subscription and sale of the Offer Shares) or any aspect of the Global Offering with the Listing Rules or any other applicable law or regulation by the Company; or

(xvi) an order or petition for the winding up of any member of our Group or any composition or arrangement made by any member of our Group with its creditors or a scheme of arrangement entered into by any member of our Group or any resolution for the winding-up of any member of our Group or the appointment of a provisional liquidator, receiver or manager over all or part of the material assets or undertaking of any member of our Group or anything analogous thereto occurring in respect of any member of our Group;

which, individually or in the aggregate, in the sole opinion of the Joint Global Coordinators:

(A) is or will or may have a material adverse effect on the business, financial or other condition or prospects of our Group as a whole, or

(B) has or will have or may have a material adverse effect on the success of the Global Offering or the level of applications under the Hong Kong Public Offering or the level of interest under the International Offering, or

(C) makes it or will make it inadvisable or inexpedient or impracticable for the Global Offering to proceed or to market the Global Offering, or

(D) has or will have the effect of making any part of the Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or which prevents the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof; or

(b) there has come to the notice of the Joint Global Coordinators:

(i) that any statement contained in the WPIP (as defined in the Hong Kong Underwriting Agreement), this prospectus, the Application Forms and the formal notice or any announcement or advertisement issued by or on behalf of the Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) was, when it was issued, or has become, untrue, incorrect or misleading in any material respect, or that any forecast, expression of opinion, intention or expectation expressed in the WPIP (as defined in the Hong Kong Underwriting Agreement), this prospectus, the Application Forms and the formal notice and/or any announcements issued by the Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) is not fair and honest in any material respect and based on reasonable assumptions, when taken as a whole; or

(ii) that any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, constitute a material omission therefrom; or

(iii) any material breach of any of the obligations imposed upon any party to the Hong Kong Underwriting Agreement or the International Underwriting Agreement (other than on any of the Hong Kong Underwriters or the International Underwriters); or

(iv) any event, act or omission which gives or is likely to give rise to any material liability of the Company pursuant to the indemnity clause of the Hong Kong Underwriting Agreement; or

(v) any material adverse change or development involving a prospective change in the assets, liabilities, conditions, business affairs, prospects, profits, losses or financial or trading position or performance of any member of our Group; or

(vi) any breach of, or any event rendering untrue or incorrect in any respect, any of the warranties given by the Company in the Hong Kong Underwriting Agreement; or

(vii) approval by the CSRC or by the Listing Committee of the Hong Kong Stock Exchange of the listing of, and permission to deal in, the Offer Shares to be issued or sold (including any additional Offer Shares that may be issued or sold pursuant to the exercise of the Offer Size Adjustment Option and the Over-allotment Option) under the Global Offering is refused or not granted, other than subject to customary conditions, on or before the Listing Date, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or

(viii) the Company withdraws this prospectus (and any other documents used in connection with the contemplated subscription and sale of the Offer Shares) or the Global Offering.

Undertakings

Undertakings to the Hong Kong Stock Exchange pursuant to the Listing Rules

By Us

Pursuant to Rule 10.08 of the Listing Rules, we have undertaken to the Hong Kong Stock Exchange that no further shares or securities convertible into our equity securities may be issued or form the subject of any agreement to such an issue within six months from the Listing Date (whether or not such issue of shares or our securities will be completed within six months from the commencement of dealing), except in certain circumstances prescribed by Rule 10.08 of the Listing Rules.

By Huijin and China Everbright (Group)

Huijin and China Everbright (Group) have each undertaken to the Hong Kong Stock Exchange and us that, except pursuant to the Global Offering, the Offer Size Adjustment Option and the Over-allotment Option, it shall not and shall procure that the relevant registered holder shall not, except pursuant to any transfer of the Relevant Securities (as defined below) from Huijin to China Everbright (Group) and/or one or more entities controlled by China Everbright (Group) as approved by the State Council:

(a) in the period commencing on the date with reference to which disclosure of its shareholding is made in this prospectus and ending on the date which is six months from the Listing Date (the "First Six-month Period"), dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of those shares or securities of the Company (the "Relevant Securities") in respect of which it is shown by this prospectus to be the beneficial owner or which will be transferred to China Everbright (Group) and/or any entities controlled by China Everbright (Group) from Huijin as approved by the State Council; or

(b) in the period of six months commencing on the date on which the First Six-month Period expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the shares or securities referred to in (a) above if, immediately following such disposal or upon the exercise or enforcement of such options, it would cease to be our controlling Shareholder.

Huijin and China Everbright (Group) have also undertaken to the Hong Kong Stock Exchange and us that, within the period commencing on the date with reference to which disclosure of its shareholding is made in this prospectus and ending on the date which is 12 months from the Listing Date, it will:

(a) when it pledges or charges any of the shares or of other securities of the Company beneficially owned by it in favor of an authorized institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) for a bona fide commercial loan, immediately inform us of such pledge or charge together with the number of such shares or other securities so pledged or charged; and

(b) when it receives any indication, either verbal or written, from any pledgee or chargee of any of the shares or of other securities of the Company pledged or charged that such shares or other securities will be disposed of, immediately inform us of any such indication.

We will inform the Hong Kong Stock Exchange as soon as we have been informed of the above matters (if any) by Huijin and China Everbright (Group) and disclose such matters by way of a press notice which is published in the newspapers as soon as possible after being so informed by Huijin or China Everbright (Group).

Undertakings to the Hong Kong Underwriters

Pursuant to the Hong Kong Underwriting Agreement, we have undertaken to each of the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners and the Hong Kong Underwriters that, except pursuant to the Global Offering (including pursuant to the Offer Size Adjustment Option and the Over-allotment Option) and unless in compliance with the requirements of the Listing Rules, during the period commencing on the date of the Hong Kong Underwriting Agreement and ending on, and including, the date that is six months from the Listing Date, we will not and will procure that our subsidiaries will not:

(a) offer, accept subscription for, pledge, issue, sell, lend, mortgage, assign, charge, contract to allot, issue or sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any options, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, any of our or their share capital or other securities or any interest therein (including but not limited to any securities convertible into or exercisable or exchangeable for or that represent the right to receive such share capital); or

(b) enter into any swap or other arrangement that transfers, in whole or in part, any of the economic consequences of ownership of any of our or their share capital or securities or any interest therein; or

(c) enter into any transaction with the same economic effect as any transaction described in (a) or (b) above; or

(d) offer to or agree to do any of the foregoing or announce any intention to do so,

whether any of the foregoing transactions is to be settled by delivery of share capital or such other securities, in cash or otherwise (whether or not such issue of the Offer Shares or securities will be completed within such period), and in the event of the Company doing any of the foregoing by virtue of the aforesaid exceptions or during the period of six months immediately following the expiry of the first six month period after the Listing Date, the Company will take all reasonable steps to ensure that any such act will not create a disorderly or false market for any Shares or other securities of the Company.

Underwriting Arrangement with Daiwa Capital Markets Hong Kong Limited ("Daiwa")

On October 29, 2013, our Company entered into an agreement with Daiwa (the "POWL Underwriting Agreement"), pursuant to which Daiwa has agreed to procure placees to purchase, or if the H Shares offered under the POWL are undersubscribed, itself or through its affiliates purchase, 500,000,000 H Shares under the POWL as part of the International Offering (the "POWL Underwriting Commitment"). The Company has agreed to allocate 500,000,000 H Shares, representing approximately 9.84% of the number of Offer Shares initially available under the Global Offering (assuming neither the Offer Size Adjustment Option nor the Over-allotment Option is exercised), to the POWL tranche out of those offered under the International Offering.

There are no conditions on, or termination rights attached to, the POWL Underwriting Commitment except that the POWL Underwriting Commitment will expire if the Global Offering is not completed before December 31, 2013.

Without affecting the obligations of Daiwa under the POWL Underwriting Agreement, any POWL Underwriting Commitment of Daiwa as set out in either or both of the Underwriting Agreements, will terminate upon the termination of either or both of the Underwriting Agreements (as applicable).

The total fee to be paid to Daiwa will be based on the commission to be paid to the International Underwriters under the International Underwriting Agreement, and is currently estimated to be approximately HK$30 million, subject to final determination of the Offering Price and to the terms and conditions of the International Underwriting Agreement.

International Offering

In connection with the International Offering, it is expected that our Company will enter into the International Underwriting Agreement with the International Underwriters. Under the International Underwriting Agreement, it is expected that the International Underwriters would, subject to certain conditions, severally and not jointly, agree to purchase the International Offer Shares being offered pursuant to the International Offering or procure purchasers for such International Offering Shares.

Under the International Underwriting Agreement, our Company intends to grant to the International Underwriters the Over-allotment Option, exercisable by the Joint Global Coordinators (on behalf of the International Underwriters) for up to 30 days from the last day for the lodging of applications under the Hong Kong Public Offering, to require us to issue an aggregate of 762,000,000 additional H Shares, representing approximately 15% of the number of Offer Shares initially available under the Global Offering. These additional H Shares will be sold at the Offer Price per Offer Share (plus brokerage of 1.0%, SFC transaction levy of 0.003% and Hong Kong Stock Exchange trading fee of 0.005% of the Offer Price) and will be for the purpose of covering over-allocations, if any, in the International Offering.

Offer Size Adjustment Option

The Offer Size Adjustment Option provides flexibility to increase the number of Offer Shares available for purchase under the Global Offering to cover additional market demand, if any. The Offer Size Adjustment Option is exercisable by the Joint Global Coordinators on behalf of the Underwriters on or before the Price Determination Date, and will lapse immediately thereafter. In considering whether to exercise the Offer Size Adjustment Option, the Joint Global Coordinators will take into account a number of factors, including: (i) the level of interest expressed by prospective professional and institutional investors during the book-building process under the International Offering (including whether the level of such demand is two times or more the number of Offer Shares initially available under the International Offering); (ii) the prices at which prospective professional and institutional investors have indicated they would be prepared to acquire the Offer Shares in the course of the bookbuilding process; (iii) the quality of investors, with a view to establishing a solid professional institutional and investor shareholder base to the benefit of the Company and its Shareholders as a whole; and (iv) general market conditions.

Under the Offer Size Adjustment Option, the Company may be required to issue and allot any number of Shares up to an aggregate of 762,000,000 additional Offer Shares (being 15% of the total number of Offer Shares initially available under the Global Offering) at the Offer Price per Offer Share (plus brokerage of 1.0%, SFC transaction levy of 0.003% and Hong Kong Stock Exchange trading fee of 0.005% of the Offer Price).

Commissions and Expenses

According to the Hong Kong Underwriting Agreement, the Hong Kong Underwriters will receive, except as otherwise specified in the Hong Kong Underwriting Agreement, a commission of 1.5% and an incentive commission of up to 0.5% (at the sole discretion of the Company) of the aggregate Offer Price of all the Hong Kong Offer Shares (including the offer shares issued under the Offer Size Adjustment Option pursuant to the Hong Kong Underwriting Agreement and ignoring for this purpose any Hong Kong Offer Shares reallocated to and from the International Offering). The underwriting commission for such reallocated Offer Shares will continue to be payable under the International Underwriting Agreement, out of which the Hong Kong Underwriters will pay any sub-underwriting commission.

Assuming an Offer Price of HK$4.05 per Offer Share (being the midpoint of the indicative offer price range of HK$3.83 to HK$4.27 per Offer Share), the aggregate commissions and fees, together with the Hong Kong Stock Exchange listing fee, SFC transaction levy and Hong Kong Stock Exchange trading fee, legal and other professional fees, printing and other expense relating to the Global Offering, are estimated to amount to approximately HK$458 million (assuming that the Offer Size Adjustment Option and the Over-allotment Option are both not exercised) in total.

Indemnity

We have agreed to indemnify the Hong Kong Underwriters for certain losses which they may suffer, including losses arising from their performance of their obligations under the Hong Kong Underwriting Agreement and any breach by us of the Hong Kong Underwriting Agreement.

Underwriters' Interests

Following the completion of the Global Offering, the Underwriters and their affiliates may hold a certain portion of our H Shares in connection with the performance of their obligations under the Underwriting Agreements.

Except as disclosed in this prospectus and except for its obligations under the Underwriting Agreements, none of the Underwriters has any shareholding interests in our Company or in any of our subsidiaries or has any right, legally enforceable or not, to subscribe for or to nominate persons to subscribe for our securities or securities of any of our subsidiaries.

Joint Sponsors' Independence

Each of the Joint Sponsors, except China Everbright Capital Limited, satisfies the independence criteria applicable to sponsors as set out in Rule 3A.07 of the Listing Rules.

As China Everbright Capital Limited is ultimately owned by one of our major shareholders, China Everbright (Group), hence it is not independent from our Company according to Rule 3A.07 of the Listing Rules.

THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering which forms part of the Global Offering. The Global Offering comprises (assuming the Offer Size Adjustment Option and the Over-allotment Option are both not exercised):

- the Hong Kong Public Offering of initial 254,000,000 H Shares (subject to adjustment as mentioned below) (representing 5% of the initial total number of Offer Shares) in Hong Kong as described in the paragraph headed "The Hong Kong Public Offering" of this section; and
- the International Offering of initial 4,826,000,000 H Shares (subject to adjustment as mentioned below) (representing 95% of the initial total number of Offer Shares) (a) in the United States with QIBs in reliance on Rule 144A or another available exemption; and (b) outside the United States in reliance on Regulation S, including to professional and institutional investors in Hong Kong.

The number of Offer Shares to be offered under the Hong Kong Public Offering and the International Offering, respectively, may be subject to reallocation the exercise of the Offer Size Adjustment Option as described below in the paragraph headed "Offer Size Adjustment Option" and, in the case of the International Offering only, the Over-allotment Option as described below in the paragraph headed "Over-Allotment and Stabilization" of this section.

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement and is subject to our Company and the Joint Global Coordinators (on behalf of the Underwriters), agreeing on the Offer Price. Our Company expects to enter into the International Underwriting Agreement relating to the International Offering on the Price Determination Date. These underwriting arrangements, and the respective Underwriting Agreements, are summarized in "Underwriting."

THE HONG KONG PUBLIC OFFERING

Number of H Shares Initially Offered

Under the Hong Kong Public Offering, our Company is initially offering 254,000,000 H Shares at the Offer Price for subscription by the public in Hong Kong, representing 5% of the total number of H Shares initially available under the Global Offering. Subject to the reallocation of Offer Shares between (i) the International Offering and (ii) the Hong Kong Public Offering, the Hong Kong Offer Shares will represent 0.56% of our Company's enlarged issued share capital immediately after completion of the Global Offering, assuming that the Offer Size Adjustment Option and the Over-allotment Option are both not exercised.

Completion of the Hong Kong Public Offering is subject to the conditions as set out in the paragraph headed "Conditions of the Hong Kong Public Offering" of this section.

Conditions of the Hong Kong Public Offering

Acceptance of all applications for the Hong Kong Offer Shares in the Hong Kong Public Offering will be conditional on:

(i) the Listing Committee of the Hong Kong Stock Exchange granting the listing of, and permission to deal in, the H Shares to be issued pursuant to the Global Offering (including any H Shares which may be made available pursuant to the exercise of the Offer Size Adjustment Option and the Over-allotment Option);

(ii) the Offer Price having been fixed on or around the Price Determination Date;

(iii) the execution and delivery of the International Underwriting Agreement on or around the Price Determination Date; and

(iv) the obligations of the Underwriters under each of the respective Underwriting Agreements becoming and remaining unconditional and not having been terminated in accordance with the terms of the respective agreements, in each case on or before the dates and times specified in the respective Underwriting Agreement (unless and to the extent such conditions are validly waived on or before such dates and times).

If, for any reason, the Offer Price is not agreed on or around December 19, 2013 between our Company and the Joint Global Coordinators (on behalf of the Underwriters), the Global Offering will not proceed.

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, among other things, the other offering becoming and remaining unconditional and not having been terminated in accordance with their respective terms.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Hong Kong Stock Exchange will be notified immediately. Notice of the lapse of the Hong Kong Public Offering will be published by us in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on the next day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set out in "How to Apply for Hong Kong Offer Shares." In the meantime, all application monies will be held in separate bank account(s) with the receiving bankers or other licensed bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

Allocation

Allocation of Hong Kong Offer Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants. Such allocation could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

The total number of Offer Shares available under the Hong Kong Public Offering (after taking account of any reallocation referred to below) is to be divided into two pools for allocation purposes: pool A and pool B. The Hong Kong Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with an aggregate price of HK$5 million (excluding the brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee payable) or less. The Hong Kong Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with an aggregate price of more than HK$5 million (excluding the brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee payable). Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If Hong Kong Offer Shares in one (but not both) of the pools are under subscribed, the surplus Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in this other pool and be allocated accordingly. For the purpose of this paragraph only, the "price" for the H Shares means the price payable on application therefor (without regard to the Offer Price as finally determined). Applicants can only receive an allocation of Hong Kong Offer Shares from either pool A or pool B but not from both pools. Multiple or suspected multiple applications and any application for more than 127,000,000 Hong Kong Offer Shares (being 50% of the 254,000,000 Hong Kong Offer Shares initially comprised in the Hong Kong Public Offering) are liable to be rejected.

Reallocation

Paragraph 4.2 of the Practice Note 18 of the Listing Rules requires a clawback mechanism to be put in place, which would have the effect of increasing the number of Hong Kong Offer Shares to certain percentages of the total number of Offer Shares offered in the Global Offering if certain prescribed total demand levels are reached. An application has been made for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with Paragraph 4.2 of Practice Note 18 of the Listing Rules such that the allocation of the Offer Shares between the Hong Kong Public Offering and the International Offering is subject to the following adjustments:

- If the number of the Offer Shares validly applied for under the Hong Kong Public Offering represents 15 times or more but less than 50 times the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering, so that the total number of the Offer Shares available under the Hong Kong Public Offering will be 381,000,000 Offer Shares, representing 7.5% of the Offer Shares initially available under the Global Offering;
- If the number of the Offer Shares validly applied for under the Hong Kong Public Offering represents 50 times or more but less than 100 times the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased so that the total number of the Offer Shares available under the Hong Kong Public Offering will be 508,000,000 Offer Shares, representing 10% of the Offer Shares initially available under the Global Offering; and
- If the number of the Offer Shares validly applied for under the Hong Kong Public Offering represents 100 times or more the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased, so that the total number of the Offer Shares available under the Hong Kong Public Offering will be 1,016,000,000 Offer Shares, representing 20% of the Offer Shares initially available under the Global Offering.

The Offer Shares to be offered in the Hong Kong Public Offering and the International Offering may, in certain circumstances, be reallocated as between these offerings at the discretion of the Joint Global Coordinators. If either the Hong Kong Public Offering or the International Offering is not fully subscribed for, the Joint Global Coordinators have the authority to reallocate all or any unsubscribed Offer Shares from such offering to the other, in such proportions as the Joint Global Coordinators deem appropriate.

Applications

Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the application submitted by him or her that he or she and any person(s) for whose benefit he or she is making the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering, and such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be) or if he or she has been or will be placed or allocated Offer Shares under the International Offering.

The listing of the H Shares on the Hong Kong Stock Exchange is sponsored by the Joint Sponsors. Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum price of HK$4.27 per Hong Kong Offer Share in addition to any brokerage, SFC transaction levy and Hong

Kong Stock Exchange trading fee payable on each Hong Kong Offer Share. If the Offer Price, as finally determined in the manner described in the paragraph headed "Pricing of the Global Offering" of this section below, is less than the maximum price of HK$4.27 per Hong Kong Offer Share, appropriate refund payments (including the brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. Further details are set out below in "How to Apply for Hong Kong Offer Shares."

References in this prospectus to applications, Application Forms, application monies or the procedure for application relate solely to the Hong Kong Public Offering.

THE INTERNATIONAL OFFERING

Number of H Shares offered

Subject to reallocation as described above, the International Offering will consist of 4,826,000,000 H Shares, assuming that the Offer Size Adjustment Option and the Over-allotment Option are both not exercised.

Allocation

The International Offering will include selective marketing of Offer Shares to institutional and professional investors and other investors anticipated to have a sizeable demand for such Offer Shares. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. Allocation of Offer Shares pursuant to the International Offering will be effected in accordance with the "book-building" process described in the paragraph headed "Pricing of the Global Offering" in this section and based on a number of factors, including the level and timing of demand, the total size of the relevant investor's invested assets or equity assets in relevant sector and whether or not it is expected that the relevant investor is likely to buy further H Shares, and/or hold or sell its H Shares, after the listing of the H Shares on the Hong Kong Stock Exchange. Such allocation is intended to result in a distribution of the H Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to the benefit, of our Company and our Shareholders as a whole.

The Joint Global Coordinators (on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the International Offering, and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Joint Global Coordinators so as to allow them to identify the relevant applications under the Hong Kong Public Offering and to ensure that it is excluded from any application of Offer Shares under the Hong Kong Public Offering.

Over-allotment Option

In connection with the Global Offering, the Company is expected to grant an Over-allotment Option to the International Underwriters exercisable by the Joint Global Coordinators (on behalf of the International Underwriters).

Pursuant to the Over-allotment Option, the Joint Global Coordinators have the right, exercisable at any time from the day on which trading of the H Shares commences on the Hong Kong Stock Exchange until 30 days after the last day for the lodging of applications under the Hong Kong Public Offering (i.e. January 12, 2014), to require the Company to issue up to 762,000,000 additional H Shares, representing approximately 15% of the initial Offer Shares, at the same price per Offer Share under the International Offering, to cover over-allocations in the International Offering, if any. If the Over-allotment Option is exercised in full, the additional H Shares will represent approximately 1.65% of our enlarged issued share capital immediately following the completion of the Global Offering (assuming the Offer Size Adjustment Option is not exercised). In the event that the Over-allotment Option is exercised, a press announcement will be made.

PRICING OF THE GLOBAL OFFERING

The International Underwriters will be soliciting from prospective investors indications of interest in acquiring the Offer Shares in the International Offering. Prospective professional and institutional investors will be required to specify the number of the Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price. This process, known as "book-building," is expected to continue up to, and to cease on or around, the last day for lodging applications under the Hong Kong Public Offering.

Pricing for the Offer Shares for the purpose of the various offerings under the Global Offering will be fixed on the Price Determination Date, which is expected to be on or around December 13, 2013, and in any event on or before December 19, 2013, by agreement between the Joint Global Coordinators (on behalf of the Underwriters) and our Company and the number of Offer Shares to be allocated under various offerings will be determined shortly thereafter.

The Offer Price will not be more than HK$4.27 per Offer Share and is expected to be not less than HK$3.83 per Offer Share unless otherwise announced, as further explained below, not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. **Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this prospectus.**

The Joint Global Coordinators (on behalf of the Underwriters), may, where considered appropriate, based on the level of interest expressed by prospective professional and institutional investors during the book-building process, and with the consent of our Company, reduce the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range below that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, our Company will, as soon as practicable following the decision to make any such reduction, and in any event not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering, cause there to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) notices of any such reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative offer price range. Upon issue of a notice in the reduction of the Offer Price, the revised offer price range will be final and conclusive and the Offer Price, if agreed upon by the Joint Global Coordinators (on behalf of the Underwriters) and our Company, will be fixed within such revised offer price range. **Applicants should have regard to the possibility that any announcement of any such reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering.** Such notice will also include confirmation or revision, as appropriate, of the Global Offering statistics as currently set out in this prospectus and any other financial information which may change as a result of such reduction. If the number of Offer Shares and/or the indicative Offer Price range is so reduced, applicant(s) who have already submitted an application may or may not (depending on the information contained in the supplemental prospectus) be notified that they are required to confirm their applications. All applicant(s) who have already submitted an application need to confirm their applications in accordance with the procedures set out in the supplemental prospectus and all unconfirmed applications will not be valid. In the absence of any notice published in relation to the reduction in the Offer Price, the

Offer Price, if agreed upon with our Company and the Joint Global Coordinators will under no circumstances be set outside the offer price range as stated in this prospectus.

The net proceeds of the Global Offering accruing to our Company (after deduction of underwriting fees, brokerage, SFC transaction levy, Hong Kong Stock Exchange trading fees and estimated expenses payable by our Company in relation to the Global Offering, assuming the Offer Size Adjustment Option and the Over-allotment Option are both not exercised) are estimated to be approximately HK$19,036 million, assuming an Offer Price per Offer Share of HK$3.83, or approximately HK$21,238 million, assuming an Offer Price per Offer Share of HK$4.27.

The final Offer Price is expected to be announced on December 13, 2013.

The indications of interest in the Global Offering, the results of applications and the basis of allotment of Offer Shares available under the Hong Kong Public Offering, are expected to be announced on December 19, 2013, in the manner set out in the paragraph "How to Apply for Hong Kong Offer Shares – How to find out if your application is successful" in this prospectus.

OFFER SIZE ADJUSTMENT OPTION

The Offer Size Adjustment Option provides flexibility to increase the number of Offer Shares available for purchase under the Global Offering to cover additional market demand, if any. The Offer Size Adjustment Option is exercisable by the Joint Global Coordinators on behalf of the Hong Kong Underwriters and the International Underwriters on or before the Price Determination Date, and will lapse immediately thereafter. In considering whether to exercise the Offer Size Adjustment Option, the Joint Global Coordinators will take into account a number of factors, including: (i) the level of interest expressed by prospective professional and institutional investors during the book-building process under the International Offering (including whether the level of such demand is two times or more the number of Offer Shares initially available under the International Offering); (ii) the prices at which prospective professional and institutional investors have indicated they would be prepared to acquire the Offer Shares in the course of the bookbuilding process; (iii) the quality of investors, with a view to establishing a solid professional institutional and investor shareholder base to the benefit of the Company and its Shareholders as a whole; and (iv) general market conditions.

Under the Offer Size Adjustment Option, the Company may be required to issue and allot any number of Shares up to an aggregate of 762,000,000 additional Offer Shares (being 15% of the Offer Shares initially available under the Global Offering) at the Offer Price. These additional Offer Shares, if any, will be allocated so as to maintain the proportionality between the Hong Kong Public Offer and the International Offering following the application of the clawback arrangements described in "– Reallocation" in this section. The Offer Size Adjustment Option will not be used for price stabilisation purposes and will not be subject to the provisions of the Securities and Futures (Price Stabilisation) Rules.

The dilution effect of the Offer Size Adjustment Option (assuming the Over-allotment Option is not exercised) is set out below:

Number of H Shares issued under the Global Offering before the exercise of the Offer Size Adjustment Option ("Original Subscribers")	Approximate percentage of total issued share capital held by the Original Subscribers before the exercise of the Offer Size Adjustment Option	Number of H Shares issued under the Global Offering after the exercise of the Offer Size Adjustment Option	Approximate percentage of total issued share capital held by the Original Subscribers after the exercise of the Offer Size Adjustment Option
5,080,000,000	11.16%	5,842,000,000	10.98%

The Company will disclose in its allotment results announcement if and to what extent the Offer Size Adjustment Option has been exercised, or will confirm that if the Offer Size Adjustment Option has not been exercised by the Price Determination Date, it will lapse and cannot be exercised at any future date. The Company intends to use the net proceeds from the exercise of the Offer Size Adjustment Option to supplement its core capital base, to increase capital adequacy, to strengthen its ability to resist risks as well as to strengthen its profitability and to support growth of its business.

OVER-ALLOTMENT AND STABILIZATION

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the underwriters may bid for, or purchase, the newly issued securities in the secondary market, during a specified period of time, to retard and, if possible, prevent a decline in the market price of the securities below the offer price. In Hong Kong, the price at which stabilization is effected is not permitted to exceed the offer price.

Morgan Stanley Asia Limited has been appointed by us as the stabilizing manager for the purposes of the Global Offering in accordance with the Securities and Futures (Price Stabilizing) Rules made under the SFO. In connection with the Global Offering, Morgan Stanley Asia Limited, its affiliates or any person acting for it, as stabilizing manager, on behalf of the Underwriters, may over-allot or effect transactions with a view to stabilizing or maintaining the market price of the H Shares at a level higher than that which might otherwise prevail for a limited period after the issue date. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements. However, there is no obligation on Morgan Stanley Asia Limited, its affiliates or any person acting for it to do this. Such stabilization, if commenced, will be conducted at the absolute discretion of Morgan Stanley Asia Limited, its affiliates or any person acting for it and may be discontinued at any time, and must be brought to an end after a limited period. The number of H Shares that may be over-allotted will not be greater than the number of H Shares which may be made available upon exercise of the Over-allotment Option, being 762,000,000 H Shares, which is approximately 15% of the Shares initially available under the Global Offering. Morgan Stanley Asia Limited, its affiliates or any person acting for it may take all or any of the following stabilizing actions in Hong Kong during the stabilization period:

(i) purchase, or agree to purchase, any of the H Shares or offer or attempt to do so for the sole purpose of preventing or minimizing any reduction in the market price of the H Shares;

(ii) in connection with any action described in paragraph (i) above:

(A) (1) over-allocate the H Shares; or

(2) sell or agree to sell the H Shares so as to establish a short position in them, for the sole purpose of preventing or minimizing any reduction in the market price of the H Shares;

(B) exercise the Over-allotment Option and purchase or subscribe for or agree to purchase or subscribe for the H Shares in order to close out any position established under paragraph (A) above;

(C) sell or agree to sell any of the H Shares acquired by it in the course of the stabilizing action referred to in paragraph (i) above in order to liquidate any position that has been established by such action; or

(D) offer or attempt to do anything as described in paragraphs (ii)(A)(2), (ii)(B) or (ii)(C) above.

Morgan Stanley Asia Limited, its affiliates or any person acting for it, may, in connection with the stabilizing action, maintain a long position in the H Shares, and there is no certainty as to the extent to which and the time period for which it will maintain such a position. Investors should be warned of the possible impact of any liquidation of the long position by Morgan Stanley Asia Limited, its affiliates or any person acting for it, which may include a decline in the market price of the H Shares.

Stabilization cannot be used to support the price of the H Shares for longer than the stabilization period, which begins on the day on which trading of the H Shares commences on the Hong Kong Stock Exchange and ends on the earlier of the thirtieth day after (i) the last day for lodging of applications under the Hong Kong Public Offering or (ii) the commencement of trading of the H Shares. The stabilization period is expected to expire on January 12, 2014, after which an announcement will be made pursuant to section 9 and schedule 3 of the Securities and Futures (Price Stabilizing) Rules made under the SFO. After this date, when no further stabilizing action may be taken, demand for the H Shares, and therefore then market price, could fall.

Any stabilizing action taken by Morgan Stanley Asia Limited, its affiliates or any person acting for it, may not necessarily result in the market price of the H Shares staying at or above the Offer Price either during or after the stabilization period. Stabilizing bids or market purchases effected in the course of the stabilization action may be made at any price at or below the Offer Price and can therefore be done at a price below the price the investor has paid in acquiring the Offer Shares.

DEALING

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on December 20, 2013, it is expected that dealings in the H Shares on the Hong Kong Stock Exchange will commence at 9:00 a.m. on December 20, 2013.

The H Shares will be traded in board lots of 1,000 H Shares each.

1. HOW TO APPLY

If you apply for Hong Kong Offer Shares, then you may not apply for or indicate an interest for International Offer Shares.

To apply for Hong Kong Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **www.eipo.com.hk**; or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

The Company, the Joint Bookrunners, the Computershare Hong Kong Investor Services Limited and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

2. WHO CAN APPLY

You can apply for Hong Kong Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S under the U.S. Securities Act); and
- are not a legal or natural person of the PRC (except a QDII).

If you apply online through the **White Form eIPO**, in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the application form must be signed by a duly authorised officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Joint Global Coordinators may accept it at their discretion and on any conditions they think fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of **White Form eIPO** for the Hong Kong Offer Shares.

Unless permitted by the Listing Rules, you cannot apply for any Hong Kong Offer Shares if you are:

- an existing beneficial owner of Shares in the Company and/or any its subsidiaries;
- a Director or chief executive officer of the Company and/or any of its subsidiaries;
- an associate (as defined in the Listing Rules) of any of the above;
- a connected person (as defined in the Listing Rules) of the Company or will become a connected person of the Company immediately upon completion of the Global Offering; and
- have been allocated or have applied for any International Offer Shares or otherwise participate in the International Offering.

3. APPLYING FOR HONG KONG OFFER SHARES

Which Application Channel to Use

For Hong Kong Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through **www.eipo.com.hk**.

For Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

Where to Collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Tuesday, December 10, 2013 until 12:00 noon on Friday, December 13, 2013 from:

(i) any of the following offices of the Hong Kong Underwriters:

China International Capital Corporation Hong Kong Securities Limited	29/F, One International Finance Centre 1 Harbour View Street, Central Hong Kong
UBS AG, Hong Kong Branch	52/F, Two International Finance Centre 8 Finance Street, Central Hong Kong
Morgan Stanley Asia Limited	Level 46, International Commerce Centre 1 Austin Road West Kowloon Hong Kong
China Everbright Securities (HK) Limited	36/F, Far East Finance Centre 16 Harcourt Road, Admiralty Hong Kong
BNP Paribas Securities (Asia) Limited	62/F, Two International Finance Centre 8 Finance Street, Central Hong Kong
BOCI Asia Limited	26th Floor, Bank of China Tower 1 Garden Road Hong Kong
ABCI Securities Company Limited	Room 701,7/F, One Pacific Place 88 Queensway Hong Kong
Haitong International Securities Company Limited	22/F, Li Po Chun Chambers 189 Des Voeux Road Central Hong Kong
Essence International Securities (Hong Kong) Limited	39/F., One Exchange Square, Central Hong Kong

China Merchants Securities (HK) Co., Limited	48/F, One Exchange Square Central Hong Kong
CCB International Capital Limited	12/F., CCB Tower 3 Connaught Road Central, Central Hong Kong
Bright Smart Securities International (H.K.) Limited	10/F, Wing On House 71 Des Voeux Road, Central Hong Kong
Core Pacific-Yamaichi International (H.K.) Limited	36 Floor, Cosco Tower, Grand Millennium Plaza 183 Queen's Road, Central Hong Kong
Shenyin Wanguo Capital (H.K.) Limited	28th Floor, Citibank Tower, Citibank Plaza 3 Garden Road, Central Hong Kong
Tung Shing Securities (Brokers) Limited	22/F, China Overseas Building 139 Hennessy Road, Wanchai Hong Kong
Emperor Securities Ltd.	23-24/F, Emperor Group Centre 288 Hennessy Road, Wanchai Hong Kong

(ii) any of the branches of the following receiving banks:

(i) Bank of China (Hong Kong) Limited

	Branch Name	Address
Hong Kong Island	Central District Branch	2A Des Voeux Road Central
	Gilman Street Branch	136 Des Voeux Road Central
Kowloon	Kowloon Plaza Branch	Unit 1, Kowloon Plaza, 485 Castle Peak Road
New Territories	Kau Yuk Road Branch	18-24 Kau Yuk Road, Yuen Long
	Fo Tan Branch	No 2, 1/F Shatin Galleria, 18-24 Shan Mei Street, Fo Tan
	Sheung Shui Branch Securities Services Centre	136 San Fung Avenue, Sheung Shui

(ii) Standard Chartered Bank (Hong Kong) Limited

	Branch Name	Address
Hong Kong Island ...	88 Des Voeux Road Branch	88 Des Voeux Road Central, Central
	North Point Centre Branch	Shop G, G/F, North Point Centre, 284 King's Road, North Point
Kowloon	Kwun Tong Branch	G/F, 414 Kwun Tong Road, Kowloon
New Territories	Metroplaza Branch	Shop No. 175-176, Level 1, Metroplaza, 223 Hing Fong Road, Kwai Chung
	Tuen Mun Town Plaza Branch	Shop No. G047-G052, Tuen Mun Town Plaza Phase I, Tuen Mun

(iii) Industrial and Commercial Bank of China (Asia) Limited

	Branch Name	Address
Hong Kong Island ...	West Point Branch	242-244 Queen's Road West, Sai Ying Pun
Kowloon	Prince Edward Branch	777 Nathan Road, Mongkok
	Mei Foo Branch	Shop N95A, 1/F, Mount Sterling Mall, Mei Foo Sun Chuen
New Territories	Tseung Kwan O Branch	Shop Nos. 2011-2012, Level 2, Metro City, Plaza II, 8 Yan King Road, Tseung Kwan O
	Kwai Chung Branch	Unit G02, Tower A, Regent Centre, 63 Wo Yi Hop Road, Kwai Chung

(iv) Bank of Communications Co., Ltd. Hong Kong Branch

	Branch Name	Address
Hong Kong Island ...	Hong Kong Branch	20 Pedder Street, Central
	Taikoo Shing Sub-Branch	Shop 38, G/F., CityPlaza 2, 18 Taikoo Shing Road
Kowloon	Cheung Sha Wan Plaza Sub-Branch	Unit G04, Cheung Sha Wan Plaza, 833 Cheung Sha Wan Road
New Territories	Sha Tsui Road Sub-Branch	122-124 Sha Tsui Road, Tsuen Wan
	Tai Po Sub-Branch	Shop No.1, G/F., Wing Fai Plaza, 29-35 Ting Kok Road, Tai Po

(v) *Wing Lung Bank Limited*

	Branch Name	Address
Hong Kong Island.......	Head Office	45 Des Voeux Road Central
Kowloon.......................	Mongkok Branch	B/F Wing Lung Bank Centre, 636 Nathan Road
	Tsim Sha Tsui Branch	4 Carnarvon Road
	Lam Tin Sceneway Plaza Branch	Shop 59, 3/F Sceneway Plaza, 8 Sceneway Road, Lam Tin
New Territories	Shatin Plaza Branch	21 Shatin Centre Street

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Tuesday, December 10, 2013 until 12:00 noon on Friday, December 13, 2013 from the Depository Counter of HKSCC at 2nd Floor, Infinitus Plaza, 199 Des Voeux Road Central, Hong Kong or from your stockbroker.

Time for Lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to Bank of China (Hong Kong) Nominees Limited – China Everbright Bank Public Offer for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving banks listed above, at the following times:

- **Tuesday, December 10, 2013 – 9:00 a.m to 5:00 p.m.**
- **Wednesday, December 11, 2013 – 9:00 a.m to 5:00 p.m.**
- **Thursday, December 12, 2013 – 9:00 a.m to 5:00 p.m.**
- **Friday, December 13, 2013 – 9:00 a.m to 12:00 noon**

The application lists will be open from 11:45 a.m. to 12:00 noon on Friday, December 13, 2013, the last application day or such later time as described in "Effect of Bad Weather on the Opening of the Applications Lists" in this section.

4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through the **White Form eIPO**, among other things, you:

(i) undertake to execute all relevant documents and instruct and authorise the Company and/or the Joint Global Coordinators (or their agents or nominees), as agents of the Company, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;

(ii) agree to comply with the Hong Kong Companies Ordinance, the PRC Company Law, the Special Regulations and the Articles of Association;

(iii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;

(iv) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;

(v) confirm that you are aware of the restrictions on the Global Offering in this prospectus;

(vi) agree that none of the Company, the Joint Global Coordinators, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering is or will be liable for any information and representations not in this prospectus (and any supplement to it);

(vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering nor participated in the International Offering;

(viii) agree to disclose to the Company, our Hong Kong Share Registrar, receiving banks, the Joint Global Coordinators, the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;

(ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of the Company, the Joint Global Coordinators and the Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;

(x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;

(xi) agree that your application will be governed by the laws of Hong Kong;

(xii) represent, warrant and undertake that (i) you understand that the Hong Kong Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Hong Kong Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;

(xiii) warrant that the information you have provided is true and accurate;

(xiv) agree to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to you under the application;

(xv) authorise the Company to place your name(s) or the name of the HKSCC Nominees, on the Company's register of members as the holder(s) of any Hong Kong Offer Shares allocated to you, and the Company and/or its agents to send any share certificate(s) and/or any e-Refund payment instructions and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you have chosen to collect the share certificate(s) and/or refund cheque(s) in person;

(xvi) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;

(xvii) understand that the Company and the Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;

(xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **White Form eIPO** service provider by you or by any one as your agent or by any other person; and

(xix) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; and (ii) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as their agent.

Additional Instructions for Yellow Application Form

You may refer to the Yellow Application Form for details.

5. APPLYING THROUGH WHITE FORM eIPO

General

Individuals who meet the criteria in "Who can apply" section, may apply through the **White Form eIPO** for the Offer Shares to be allotted and registered in their own names through the designated website at **www.eipo.com.hk**.

Detailed instructions for application through the **White Form eIPO** are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to the Company. If you apply through the designated website, you authorise the **White Form eIPO** to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **White Form eIPO**.

Time for Submitting Applications under the White Form eIPO

You may submit your application to the **White Form eIPO** service provider at **www.eipo.com.hk** (24 hours daily, except on the last application day) from 9:00 a.m. on Tuesday, December 10, 2013 until 11:30 a.m. on Friday, December 13, 2013 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Friday, December 13, 2013 or such later time under the "Effects of Bad Weather on the Opening of the Applications Lists" in this section.

No Multiple Applications

If you apply by means of **White Form eIPO**, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit through the **White Form eIPO** to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under **White Form eIPO** more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **White Form eIPO** or by any other means, all of your applications are liable to be rejected.

Section 40 of the Hong Kong Companies Ordinance

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Hong Kong Companies Ordinance (as applied by Section 342E of the Companies Ordinance).

Environmental Protection

The obvious advantage of **White Form eIPO** is to save the use of paper via the self-serviced and electronic application process. Computershare Hong Kong Investor Services Limited, being the designated eIPO Service Provider, will contribute HK$2 for each China Everbright Bank Company Limited **White Form eIPO** application submitted via the **www.eipo.com.hk** to support the funding of "Source of DongJiang – Hong Kong Forest" project initiated by Friends of the Earth (HK).

6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

General

CCASS Participants may give **electronic application instructions** to apply for the Hong Kong Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these **electronic application instructions** through the CCASS Phone System by calling +852 2979 7888 or through the CCASS Internet System https://ip.ccass.com (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited
Customer Service Center
2nd Floor, Infinitus Plaza, 199 Des Voeux Road Central, Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You will be deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to the Company, the Joint Global Coordinators and our Hong Kong Share Registrar.

Giving Electronic Application Instructions to HKSCC via CCASS

Where you have given **electronic application instructions** to apply for the Hong Kong Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

(i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;

(ii) HKSCC Nominees will do the following things on your behalf:

- agree that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
- agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated;
- undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering;
- declare that only one set of **electronic application instructions** has been given for your benefit;
- (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorised to give those instructions as their agent;
- confirm that you understand that the Company, the Directors and the Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted if you make a false declaration;
- authorise the Company to place HKSCC Nominees' name on the Company's register of members as the holder of the Hong Kong Offer Shares allocated to you and to send share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;

- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
- confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;
- agree that none of the Company, the Joint Global Coordinators, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
- agree to disclose your personal data to the Company, our Hong Kong Share Registrar, receiving banks, the Joint Global Coordinators, the Underwriters and/or its respective advisers and agents;
- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;
- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of the Company agreeing that it will not offer any Hong Kong Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Hong Kong Companies Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;
- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the Company's announcement of the Hong Kong Public Offering results;
- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving **electronic application instructions** to apply for Hong Kong Offer Shares;
- agree with the Company, for itself and for the benefit of each Shareholder (and so that the Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Hong Kong Companies Ordinance and the Articles of Association; and
- agree that your application, any acceptance of it and the resulting contract will be governed by the Laws of Hong Kong.

Effect of Giving Electronic Application Instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to

HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to the Company or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;
- instructed and authorised HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and
- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

Minimum Purchase Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of number of 1,000 Hong Kong Offer Shares. Instructions for more than 1,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

Time for Inputting Electronic Application Instructions

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

- **Tuesday, December 10, 2013 – 9:00 a.m. to 8:30 p.m.(1)**
- **Wednesday, December 11, 2013 – 8:00 a.m. to 8:30 p.m.(1)**
- **Thursday, December 12, 2013 – 8:00 a.m. to 8:30 p.m.(1)**
- **Friday, December 13, 2013 – 8:00 a.m.(1) to 12:00 noon**

Note:

(1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Tuesday, December 10, 2013 until 12:00 noon on Friday, December 13, 2013 (24 hours daily, except on the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Friday, December 13, 2013, the last application day or such later time as described in "Effect of Bad Weather on the Opening of the Application Lists" in this section.

No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

Section 40 of the Hong Kong Companies Ordinance

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Hong Kong Companies Ordinance (as applied by Section 342E of the Companies Ordinance).

Personal Data

The section of the Application Form headed "Personal Data" applies to any personal data held by the Company, the Hong Kong Share Registrar, the receiving bankers, the Joint Global Coordinators, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Offer Shares through the **White Form eIPO** is also only a facility provided by the **White Form eIPO** service provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. The Company, the Directors, the Joint Bookrunners, the Joint Sponsors, the Joint Global Coordinators and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **White Form eIPO** will be allotted any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CASS Internet System for submission of **electronic application instructions**, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC's Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon, Friday, December 13, 2013.

8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Hong Kong Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked "For nominees" you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through **White Form eIPO**, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

"Unlisted company" means a company with no equity securities listed on the Stock Exchange.

"Statutory control" means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

9. HOW MUCH ARE THE HONG KONG OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **White Form eIPO** in respect of a minimum of 1,000 Hong Kong Public Offer Shares. Each application or **electronic application instruction** in respect of more than 1,000 Hong Kong Public Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified on the designated website at **www.eipo.com.hk**.

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, see the section headed "Structure of the Global Offering – Pricing and Allocation".

10. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warming signal number 8 or above; or
- a "black" rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, December 13, 2013. Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Friday, December 13, 2013 or if there is a tropical cyclone warning signal number 8 or above or a "black" rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in the section headed "Expected Timetable", an announcement will be made in such event.

11. PUBLICATION OF RESULTS

The Company expects to announce the final Offer Price, the level of indication of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares on Thursday, December 19, 2013 in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) on the Company's website at **www.cebbank.com** and the website of the Stock Exchange at **www.hkexnews.hk**.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and date and in the manner specified below:

- in the announcement to be posted on the Company's website at **www.cebbank.com** and the Stock Exchange's website at **www.hkexnews.hk** by no later than Thursday, December 19, 2013;
- from the designated results of allocations website at **www.iporesults.com.hk** with a "search by ID" function on a 24-hour basis from 8:00 a.m. on Thursday, December 19, 2013 to 12 midnight on Wednesday, December 25, 2013;
- by telephone enquiry line by calling +852 2862 8669 between 9:00 a.m. and 10:00 p.m. from Thursday, December 19, 2013 to Sunday, December 22, 2013;
- in the special allocation results booklets which will be available for inspection during opening hours from Thursday, December 19, 2013 to Saturday, December 21, 2013 at all the receiving bank branches and sub-branches.

If the Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are contained in the section headed "Structure of the Global Offering".

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED OFFER SHARES

You should note the following situations in which the Hong Kong Offer Shares will not be allotted to you:

(i) If your application is revoked:

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or to **White Form eIPO** service provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with the Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Hong Kong Companies Ordinance (as applied by Section 342E of the Hong Kong Companies Ordinance) gives a public notice under that section which excludes or limits that person's responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(ii) If the Company or its agents exercise their discretion to reject your application:

The Company, the Joint Global Coordinators, the **White Form eIPO** service provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

(iii) If the allotment of Hong Kong Offer Shares is void:

The allotment of Hong Kong Offer Shares will be void if the Listing Committee of the Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies the Company of that longer period within three weeks of the closing date of the application lists.

(iv) If:

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Offer Shares and International Offer Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your **electronic application instructions** through the **White Form eIPO** are not completed in accordance with the instructions, terms and conditions on the designated website;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- the Company or the Joint Global Coordinators believe that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering.

13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum offer price of HK$4.27 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with "Structure of the Global Offering – Conditions of the Hong Kong Public Offering" in this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest or the cheque or banker's cashier order will not be cleared.

Any refund of your application monies will be made on Thursday, December 19, 2013.

14. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one share certificate for all Hong Kong Offer Shares allotted to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- share certificate(s) for all the Hong Kong Offer Shares allotted to you (for **YELLOW** Application Forms, share certificates will be deposited into CCASS as described below); and
- refund cheque(s) crossed "Account Payee Only" in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Hong Kong Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest).

Part of the Hong Kong identity card number/ passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on dispatch/collection of share certificates and refund monies as mentioned below, any refund cheques and share certificates are expected to be posted on or around Thursday, December 19, 2013. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker's cashier's order(s).

Share certificates will only become valid at 8:00 a.m. on Friday, December 20, 2013 provided that the Global Offering has become unconditional and the right of termination described in the "Underwriting" section in this prospectus has not been exercised. Investors who trade shares prior to the receipt of Share certificates or the Share certificates becoming valid do so at their own risk.

Personal Collection

(i) If you apply using a WHITE Application Form

If you apply for 1,000,000 or more Hong Kong Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or share certificate(s) from the Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, December 19, 2013 or such other date as notified by us in the newspapers.

If you are an individual who is eligible for personal collection, you must not authorise any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorised representative must bear a letter of authorisation from your corporation stamped with your corporation's chop. Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Share Registrar.

If you do not collect your refund cheque(s) and/or share certificate(s) personally within the time specified for collection, they will be despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) and/or share certificate(s) will be sent to the address on the relevant Application Form on Thursday, December 19, 2013, by ordinary post and at your own risk.

(ii) If you apply using a YELLOW Application Form

If you apply for 1,000,000 Hong Kong Offer Shares or more, please follow the same instructions as described above. If you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on Thursday, December 19, 2013, by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Thursday, December 19, 2013, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- *If you apply through a designated CCASS participant (other than a CCASS investor participant)*

For Hong Kong Public Offering Shares credited to your designated CCASS participant's stock account (other than CCASS Investor Participant), you can check the number of Hong Kong Public Offering Shares allotted to you with that CCASS participant.

- *If you are applying as a CCASS investor participant*

The Company will publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the manner described in "Publication of Results" above. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, December 19, 2013 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

(iii) If you apply through the White Form eIPO

If you apply for 1,000,000 Hong Kong Offer Shares or more and your application is wholly or partially successful, you may collect your Share certificate(s) from Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, December 19, 2013, or such other date as notified by the Company in the newspapers as the date of despatch/collection of Share certificates/ e-Refund payment instructions/refund cheques.

If you do not collect your Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on Thursday, December 19, 2013 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

(iv) If you apply via Electronic Application Instructions to HKSCC

Allocation of Hong Kong Offer Shares

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

Deposit of Share Certificates into CCASS and Refund of Application Monies

- If your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated

CCASS Participant's stock account or your CCASS Investor Participant stock account on Thursday, December 19, 2013, or, on any other date determined by HKSCC or HKSCC Nominees.

- The Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, the Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the manner specified in "Publication of Results" above on Thursday, December 19, 2013. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, December 19, 2013 or such other date as determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Thursday, December 19, 2013. Immediately following the credit of the Hong Kong Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Thursday, December 19, 2013.

15. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from the Bank's independent reporting accountants, KPMG, Certified Public Accountants, Hong Kong. As described in "Appendix VIII – Documents Delivered to the Registrar of Companies and Available for Inspection", a copy of the Accountants' Report is available for inspection.

8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

December 10, 2013

The Directors
China Everbright Bank Company Limited

China International Capital Corporation Hong Kong Securities Limited
UBS Securities Hong Kong Limited
Morgan Stanley Asia Limited
China Everbright Capital Limited
BNP Paribas Securities (Asia) Limited
BOCI Asia Limited

INTRODUCTION

We set out below our report on the financial information relating to China Everbright Bank Company Limited (the "Bank") and its subsidiaries (hereinafter collectively referred to as the "Group") comprising the consolidated statements of financial position of the Group and the statements of financial position of the Bank as at December 31, 2010, 2011 and 2012 and June 30, 2013, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated cash flow statements for each of the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013 (the "Relevant Periods"), together with the explanatory notes thereto (the "Financial Information"), for inclusion in the prospectus of the Bank dated December 10, 2013 (the "Prospectus").

The Bank commenced operation in the People's Republic of China (the "PRC") on August 18, 1992 as a commercial bank. The Bank undertook a capital restructuring and became a joint stock commercial bank on January 15, 1997. The Bank's "A" shares were listed on the Shanghai Stock Exchange on August 18, 2010.

The Group has prepared statutory financial statements in accordance with the "Accounting Standards for Business Enterprises – Basic Standard" issued by the Ministry of Finance of the PRC (the"MOF") on February 15, 2006, as well as 38 additional specific accounting standards, the Application Guide and Interpretations of Accounting Standards, and other relevant regulations (collectively known as the "PRC GAAP") (the "PRC Accounting Standard Financial Statements"). KPMG Huazhen has acted as the statutory auditor of the Group and has audited the PRC Accounting Standard Financial Statements for each of the years ended December 31, 2010 and 2011. KPMG Huazhen (SGP) has acted as the statutory auditor of the Group and has audited the PRC Accounting Standard Financial Statements for the year ended December 31, 2012.

All subsidiaries of the Bank have adopted December 31 as their financial year end date. Details of the Bank's subsidiaries and the names of the respective auditors are set out in Note 25 of Section V. The Bank's subsidiaries, except for Jiangsu Huai'an Everbright Village Bank Co., Ltd., have prepared statutory financial statements in accordance with the PRC GAAP.

The directors of the Bank have also prepared the Group's consolidated financial statements for the Relevant Periods in accordance with the International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB") (the "Underlying Financial Statements"). The Underlying Financial Statements for each of the Relevant Periods were audited by us in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The Financial Information has been prepared by the directors of the Bank for inclusion in the Prospectus in connection with the listing of shares of the Bank on the Main Board of The Stock Exchange of Hong Kong Limited based on the Underlying Financial Statements, with no adjustments made thereon and in accordance with the applicable disclosure provisions of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL INFORMATION

The directors of the Bank are responsible for the preparation of the Financial Information that gives a true and fair view in accordance with IFRSs, the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Listing Rules, and for such internal control as the directors of the Bank determine is necessary to enable the preparation of the Financial Information that is free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANTS' RESPONSIBILITY

Our responsibility is to form an opinion on the Financial Information based on our procedures performed in accordance with Auditing Guideline "Prospectuses and the Reporting Accountant" (Statement 3.340) issued by HKICPA. We have not audited any financial statements of the Bank, its subsidiaries or the Group in respect of any period subsequent to June 30, 2013.

OPINION

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Group and the Bank as at December 31, 2010, 2011 and 2012 and June 30, 2013 and the Group's consolidated results and cash flows for the Relevant Periods then ended.

CORRESPONDING FINANCIAL INFORMATION

For the purpose of this report, we have also reviewed the unaudited corresponding interim financial information of the Group comprising the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the six months ended June 30, 2012, together with the explanatory notes thereon (the "Corresponding Financial Information"), for which the directors are responsible, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA.

The directors of the Bank are responsible for the preparation of the Corresponding Financial Information in accordance with the same basis adopted in respect of the Financial Information. Our responsibility is to express a conclusion on the Corresponding Financial Information based on our review.

A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the Corresponding Financial Information.

Based on our review, for the purpose of this report, nothing has come to our attention that causes us to believe that the Corresponding Financial Information is not prepared, in all material respects, in accordance with the same basis adopted in respect of the Financial Information.

I CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Expressed in millions of Renminbi, unless otherwise stated)

	Note	Years ended December 31,			Six months ended June 30,	
		2010	2011	2012	2012	2013
					(Unaudited)	
Interest income		54,156	77,884	103,971	50,736	58,368
Interest expense		(23,733)	(38,444)	(53,708)	(25,428)	(32,314)
Net interest income	4	30,423	39,440	50,263	25,308	26,054
Fee and commission income		5,081	7,381	9,994	5,163	7,666
Fee and commission expense		(372)	(408)	(515)	(225)	(317)
Net fee and commission income	5	4,709	6,973	9,479	4,938	7,349
Net trading (losses)/gains	6	(347)	(1,063)	(238)	500	48
Dividend income		2	2	3	3	–
Net gains/(losses) arising from investment securities	7	326	(115)	75	29	121
Foreign exchange gains/(losses)		360	760	208	(350)	140
Other operating income		255	201	280	103	126
Operating income		35,728	46,198	60,070	30,531	33,838
Operating expenses	8	(15,126)	(18,289)	(22,685)	(10,802)	(12,160)
Operating profit before impairment		20,602	27,909	37,385	19,729	21,678
Impairment losses on assets	11	(3,491)	(3,698)	(5,795)	(2,439)	(2,250)
Profit before tax		17,111	24,211	31,590	17,290	19,428
Income tax	12	(4,317)	(6,126)	(7,970)	(4,354)	(4,489)
Net profit		12,794	18,085	23,620	12,936	14,939
Other comprehensive income:						
Items that may be reclassified subsequently to profit or loss						
– Net change in fair value of available-for-sale financial assets		(982)	179	(202)	1,160	80
– Income tax relating to other comprehensive income		245	(45)	50	(290)	(20)
– Net change in fair value of available-for-sale financial assets reclassified to profit or loss		(119)	293	82	120	60
Other comprehensive income, net of tax		(856)	427	(70)	990	120
Total comprehensive income		11,938	18,512	23,550	13,926	15,059
Net profit attributable to:						
Equity shareholders of the Bank		12,791	18,068	23,591	12,920	14,917
Non-controlling interests		3	17	29	16	22
		12,794	18,085	23,620	12,936	14,939
Total comprehensive income attributable to:						
Equity shareholders of the Bank		11,935	18,495	23,521	13,910	15,037
Non-controlling interests		3	17	29	16	22
		11,938	18,512	23,550	13,926	15,059
Basic and diluted earnings per share (in RMB)	13	0.36	0.45	0.58	0.32	0.37

II(A) CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Expressed in millions of Renminbi, unless otherwise stated)

		December 31,			June 30,
	Note	2010	2011	2012	2013
Assets					
Cash and deposits with the central bank	14	185,745	228,666	285,478	311,708
Deposits with banks and other financial institutions	15	53,275	105,263	47,019	73,870
Placements with banks and other financial institutions	16	23,833	81,746	135,979	137,060
Financial assets at fair value through profit or loss	17	22,397	22,727	29,453	31,779
Positive fair value of derivatives	18	3,025	2,262	1,677	1,560
Financial assets held under resale agreements	19	170,037	206,941	230,726	181,384
Interests receivable	20	4,139	6,100	10,140	13,735
Loans and advances to customers	21	760,555	868,782	997,331	1,078,665
Available-for-sale financial assets	22	77,241	54,502	91,900	99,408
Held-to-maturity investments	23	87,793	83,985	95,824	93,048
Debt securities classified as receivables	24	–	–	261,207	350,334
Fixed assets	26	10,141	10,810	11,869	11,893
Goodwill	27	1,281	1,281	1,281	1,281
Deferred tax assets	28	1,306	1,857	2,454	2,496
Other assets	29	83,182	58,424	76,957	82,947
Total assets		1,483,950	1,733,346	2,279,295	2,471,168
Liabilities and equity					
Liabilities					
Deposits from banks and other financial institutions	31	197,214	270,627	527,561	564,122
Placements from banks and other financial institutions	32	18,214	27,362	23,205	40,222
Negative fair value of derivatives	18	2,960	3,062	1,861	1,716
Financial assets sold under repurchase agreements	33	12,679	40,609	74,285	72,217
Deposits from customers	34	1,063,180	1,225,278	1,426,941	1,554,691
Accrued staff costs	35	5,187	6,257	7,405	7,210
Taxes payable	36	1,663	2,534	3,174	2,375
Interests payable	37	8,536	12,625	18,414	18,569
Debt securities issued	38	16,000	16,000	52,700	44,700
Other liabilities	39	76,854	32,842	29,427	38,280
Total liabilities		1,402,487	1,637,196	2,164,973	2,344,102
Equity					
Share capital	40	40,435	40,435	40,435	40,435
Capital reserve	41	19,901	20,328	20,258	20,378
Surplus reserve	42	2,434	4,226	6,560	6,560
General reserve	42	11,632	13,877	28,063	28,063
Retained earnings	43	6,963	17,169	18,862	31,434
Total equity attributable to equity shareholders of the Bank		81,365	96,035	114,178	126,870
Non-controlling interests		98	115	144	196
Total equity		81,463	96,150	114,322	127,066
Total liabilities and equity		1,483,950	1,733,346	2,279,295	2,471,168

II(B) STATEMENTS OF FINANCIAL POSITION

(Expressed in millions of Renminbi, unless otherwise stated)

	Note	December 31, 2010	December 31, 2011	December 31, 2012	June 30, 2013
Assets					
Cash and deposits with the central bank	14	185,713	228,600	285,418	311,614
Deposits with banks and other financial institutions	15	52,774	104,790	46,918	73,790
Placements with banks and other financial institutions	16	23,833	81,746	135,979	137,060
Financial assets at fair value through profit or loss	17	22,397	22,727	29,453	31,779
Positive fair value of derivatives	18	3,025	2,262	1,677	1,560
Financial assets held under resale agreements	19	170,037	206,941	230,726	181,384
Interests receivable	20	4,121	6,061	10,050	13,627
Loans and advances to customers	21	760,463	868,666	997,178	1,078,334
Available-for-sale financial assets	22	77,241	54,502	91,900	99,408
Held-to-maturity investments	23	87,793	83,985	95,824	93,048
Debt securities classified as receivables	24	–	–	261,207	350,334
Investments in subsidiaries	25	755	755	755	825
Fixed assets	26	10,138	10,795	11,854	11,878
Goodwill	27	1,281	1,281	1,281	1,281
Deferred tax assets	28	1,306	1,845	2,430	2,472
Other assets	29	79,058	50,524	64,518	67,559
Total assets		1,479,935	1,725,480	2,267,168	2,455,953
Liabilities and equity					
Liabilities					
Deposits from banks and other financial institutions	31	197,239	270,963	528,677	564,870
Placements from banks and other financial institutions	32	14,984	20,962	13,115	28,522
Negative fair value of derivatives	18	2,960	3,062	1,861	1,716
Financial assets sold under repurchase agreements	33	12,679	40,609	74,285	72,217
Deposits from customers	34	1,062,997	1,224,923	1,426,533	1,554,028
Accrued staff costs	35	5,182	6,243	7,381	7,198
Taxes payable	36	1,651	2,512	3,134	2,343
Interests payable	37	8,529	12,552	18,329	18,460
Debt securities issued	38	16,000	16,000	52,700	44,700
Other liabilities	39	76,377	31,795	27,399	35,637
Total liabilities		1,398,598	1,629,621	2,153,414	2,329,691
Equity					
Share capital	40	40,435	40,435	40,435	40,435
Capital reserve	41	19,901	20,328	20,258	20,378
Surplus reserve	42	2,434	4,226	6,560	6,560
General reserve	42	11,632	13,877	28,063	28,063
Retained earnings	43	6,935	16,993	18,438	30,826
Total equity		81,337	95,859	113,754	126,262
Total liabilities and equity		1,479,935	1,725,480	2,267,168	2,455,953

III CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Expressed in millions of Renminbi, unless otherwise stated)

		Attributable to equity shareholders of the Bank							
	Note	Share Capital	Capital reserve	Surplus reserve	General reserve	Retained earnings	Sub-total	Non-controlling interests	Total
Balance at January 1, 2010		33,435	6,434	1,158	5,486	1,594	48,107	15	48,122
Changes in equity for the year:									
Total comprehensive income		–	(856)	–	–	12,791	11,935	3	11,938
Changes in share capital:									
– Issue of ordinary shares		7,000	14,323	–	–	–	21,323	–	21,323
– Non-controlling interests of new subsidiaries		–	–	–	–	–	–	80	80
Appropriation of profit:									
– Appropriation to surplus reserve	43	–	–	1,276	–	(1,276)	–	–	–
– Appropriation to general reserve	43	–	–	–	6,146	(6,146)	–	–	–
Balance at December 31, 2010		40,435	19,901	2,434	11,632	6,963	81,365	98	81,463
Balance at January 1, 2011		40,435	19,901	2,434	11,632	6,963	81,365	98	81,463
Changes in equity for the year:									
Total comprehensive income		–	427	–	–	18,068	18,495	17	18,512
Appropriation of profit:									
– Appropriation to surplus reserve	43	–	–	1,792	–	(1,792)	–	–	–
– Appropriation to general reserve	43	–	–	–	2,245	(2,245)	–	–	–
– Appropriation to shareholders	43	–	–	–	–	(3,825)	(3,825)	–	(3,825)
Balance at December 31, 2011		40,435	20,328	4,226	13,877	17,169	96,035	115	96,150
Balance at January 1, 2012		40,435	20,328	4,226	13,877	17,169	96,035	115	96,150
Changes in equity for the year:									
Total comprehensive income		–	(70)	–	–	23,591	23,521	29	23,550
Appropriation of profit:									
– Appropriation to surplus reserve	43	–	–	2,334	–	(2,334)	–	–	–
– Appropriation to general reserve	43	–	–	–	14,186	(14,186)	–	–	–
– Appropriation to shareholders	43	–	–	–	–	(5,378)	(5,378)	–	(5,378)
Balance at December 31, 2012		40,435	20,258	6,560	28,063	18,862	114,178	144	114,322
Balance at January 1, 2013		40,435	20,258	6,560	28,063	18,862	114,178	144	114,322
Changes in equity for the period:									
Total comprehensive income		–	120	–	–	14,917	15,037	22	15,059
Changes in share capital:									
– Non-controlling interests of new subsidiaries		–	–	–	–	–	–	30	30
Appropriation of profit:									
– Appropriation to shareholders	43	–	–	–	–	(2,345)	(2,345)	–	(2,345)
Balance at June 30, 2013		40,435	20,378	6,560	28,063	31,434	126,870	196	127,066
Balance at January 1, 2012 (unaudited)		40,435	20,328	4,226	13,877	17,169	96,035	115	96,150
Changes in equity for the period:									
Total comprehensive income		–	990	–	–	12,920	13,910	16	13,926
Appropriation of profit:									
– Appropriation to shareholders	43	–	–	–	–	(5,378)	(5,378)	–	(5,378)
Balance at June 30, 2012 (unaudited)		40,435	21,318	4,226	13,877	24,711	104,567	131	104,698

IV CONSOLIDATED CASH FLOW STATEMENTS

(Expressed in millions of Renminbi, unless otherwise stated)

	Years ended December 31,			Six months ended June 30,	
	2010	2011	2012	2012	2013
				(Unaudited)	
Cash flows from operating activities					
Net profit	12,794	18,085	23,620	12,936	14,939
Adjustments for:					
Impairment losses on assets	3,491	3,698	5,795	2,439	2,250
Depreciation and amortization	877	1,117	1,394	669	794
Unwinding of discount	(66)	(52)	(156)	(52)	(171)
Dividend income	(2)	(2)	(3)	(3)	–
Unrealized foreign exchange losses/(gains)	29	93	20	(18)	29
Net (gains)/losses on disposal of investment securities	(326)	115	(75)	(29)	(121)
Net (gains)/losses on disposal of trading securities	(119)	20	439	219	129
Revaluation losses/(gains) on financial instruments at fair value through profit or loss	466	1,043	(201)	(719)	(177)
Interest expense on debt securities issued	859	753	1,953	734	1,140
Net losses/(gains) on disposal of fixed assets	4	3	(8)	–	2
Income tax	4,317	6,126	7,970	4,354	4,489
	22,324	30,999	40,748	20,530	23,303
Changes in operating assets					
Net increase in deposits with the central bank, banks and other financial institutions	(33,592)	(59,764)	(37,475)	(42,456)	(54,434)
Net increase in placements with banks and other financial institutions	(7,079)	(27,463)	(34,083)	(12,241)	(33,435)
Net increase in loans and advances to customers	(131,341)	(112,186)	(134,003)	(82,802)	(83,644)
Net (increase)/decrease in financial assets held under resale agreements	(49,277)	(37,829)	(23,764)	(142,168)	50,230
Net (increase)/decrease in other operating assets	(555)	25,062	(22,120)	(64,142)	(10,064)
	(221,844)	(212,180)	(251,445)	(343,809)	(131,347)
Changes in operating liabilities					
Net (decrease)/increase in deposits from banks and other financial institutions	(34,046)	73,413	256,934	133,883	36,561
Net (decrease)/increase in placements from banks and other financial institutions	(4,877)	9,148	(4,157)	8,778	17,017
Net (decrease)/increase in financial assets sold under repurchase agreements	(1,981)	28,050	33,798	7,804	(2,281)
Net increase in deposits from customers	255,551	162,100	201,663	157,934	127,750
Income tax paid	(4,168)	(6,305)	(8,242)	(4,960)	(5,365)
Net increase/(decrease) in other operating liabilities	2,701	(38,892)	2,706	8,180	10,002
	213,180	227,514	482,702	311,619	183,684
Net cash flows from/(used in) operating activities	13,660	46,333	272,005	(11,660)	75,640

IV CONSOLIDATED CASH FLOW STATEMENTS (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

	Note	Years ended December 31, 2010	2011	2012	Six months ended June 30, 2012 (Unaudited)	2013
Cash flows from investing activities						
Proceeds from disposal and redemption of investments		280,879	424,752	326,171	180,396	163,421
Dividends received		2	2	3	3	–
Proceeds from disposal of fixed assets and other assets		99	32	50	9	21
Payments on acquisition of investments		(330,894)	(398,629)	(644,507)	(240,196)	(259,309)
Payments on acquisition of fixed assets, intangible assets and other assets		(2,238)	(1,961)	(2,748)	(442)	(793)
Net cash flows (used in)/from investing activities		(52,152)	24,196	(321,031)	(60,230)	(96,660)
Cash flows from financing activities						
Proceeds from capital injection		21,323	–	–	–	–
Capital contribution by non-controlling interests		80	–	–	–	30
Net proceeds from new debt securities issued		–	–	36,700	36,700	–
Repayment of debt securities issued		(5,550)	–	–	–	(8,000)
Interest paid on debt securities issued		(870)	(736)	(770)	(561)	(2,208)
Dividends paid		(1,167)	(3,674)	(5,528)	(5,316)	(2,256)
Net cash flows from/(used in) financing activities		13,816	(4,410)	30,402	30,823	(12,434)
Effect of foreign exchange rate changes on cash and cash equivalents		(147)	(539)	(108)	86	(257)
Net (decrease)/increase in cash and cash equivalents	45(a)	(24,823)	65,580	(18,732)	(40,981)	(33,711)
Cash and cash equivalents as at January 1		115,888	91,065	156,645	156,645	137,913
Cash and cash equivalents as at December 31/June 30	45(b)	91,065	156,645	137,913	115,664	104,202
Interest received		53,926	77,338	99,565	47,926	53,793
Interest paid (excluding interest expense on debt securities issued)		(20,592)	(33,739)	(47,270)	(23,234)	(29,738)

V NOTES TO THE FINANCIAL INFORMATION

(Expressed in millions of Renminbi, unless otherwise stated)

1 Background information

The Bank commenced operation in Beijing, the PRC on August 18, 1992 as a commercial bank wholly owned by China Everbright (Group) Corporation ("China Everbright (Group)").

On January 15, 1997, the Bank was restructured and became a joint stock commercial bank with the approval of the People's Bank of China (the "PBOC") in the notices "Approval for the Restructuring of China Everbright Bank" (Yin Fu [1995] No. 70) and "Approval for Shareholders of China Everbright Bank" (Yin Guan [1997] No. 8). Its registered share capital increased to RMB2,800 million comprising 2,800 million ordinary shares.

In 1999, the Bank increased its registered capital from RMB2,800 million to RMB4,312 million by transferring RMB1,512 million from its capital reserve with the approval of the PBOC (Yin Fu [1999] No. 278) and shareholder's resolution. The Bank issued 1,512 million new shares at par value of RMB1 per share to existing shareholders at 54 new ordinary shares for every 100 existing shares.

In 2001, the Bank issued 3,157.9 million new ordinary shares at a price of RMB1.95 per share with par value of RMB1 for each share with the approval of the PBOC (Yin Fu [2000] No. 217 and Yin Fu [2001] No. 147) and shareholder's resolution passed in 2000. The registered capital of the Bank increased from RMB4,312 million to RMB7,469.9 million.

In 2002, the Bank increased its registered capital from RMB7,469.9 million to RMB8,216.89 million by transferring RMB746.99 million from its capital reserve with the approval of the PBOC (Yin Fu [2002] No. 119) and shareholder's resolution. The Bank issued 746.99 million new shares at par value of RMB1 per share to existing shareholders at 1 new ordinary share for every 10 existing shares.

In 2007, the Bank went through a series of restructuring measures under a restructuring plan (the "Restructuring") approved by the State Council of the PRC and announced in August 2007. The Restructuring included the following major measures which are highlighted as below:

(1) Debt restructuring

On July 20, 2007, the Bank entered into a debt restructuring agreement with China Everbright (Group) and Everbright Finance Limited. Under the terms set out in the agreement, the aforementioned companies made full repayments for their debts to the Bank and released the Bank from most of the guarantee obligations for guarantees made on behalf of the China Everbright (Group). China Everbright (Group) further made arrangements with its creditors for releasing of the remaining guarantee of the Bank (Note 46(d)).

(2) Capital injection

Under the Restructuring, with the approval of the Bank's fourth board of directors on November 13, 2007 and of its shareholders at the first 2007 extraordinary general meeting held on November 28, 2007, the Bank and Central Huijin Investment Ltd. ("Huijin") reached an agreement on investment into the Bank on November 28, 2007. According to the agreement, Huijin injected US dollars at an amount equivalent to RMB20 billion into the Bank to acquire 20 billion new ordinary shares at a price of RMB1 per share (issue price at RMB1 per share). In accordance with the revised Articles of Association and resolutions of the meetings as mentioned above, as well as the approval of the China Banking Regulatory Commission (the "CBRC") (Yin Jian Fu [2007] No. 596), the registered capital of the Bank increased from RMB8,216.89 million to RMB28,216.89 million. Accordingly the ordinary shares issued increased from 8,216.89 million to 28,216.89 million.

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

1 Background information (continued)

(3) Disposal of impaired financial assets

The Bank disposed impaired financial assets in April 2008 through public auction. The Bank entered into assets transfer agreements ("Agreements") with three asset management companies on April 18, 2008 to transfer, on a non-recourse basis, impaired financial assets with an original principal amount of RMB14,206 million (and a provision for impairment losses of RMB12,354 million) as at December 31, 2007 to the three asset management companies. The Bank received cash consideration of RMB1,644 million in return. According to the Agreements, all the risks and rewards related to the impaired financial assets were transferred to the three asset management companies on the date of transfer. The difference of RMB208 million between the amount of cash received and the carrying amounts of the impaired financial assets was recorded as disposal loss in the statements of comprehensive income.

(4) Tax policies in the restructuring

Pursuant to the Notice jointly issued by the MOF and State Administration of Taxation on relevant tax policies during the Restructuring of China Everbright Bank (Cai Shui [2008] No. 29), the tax policies on the Bank's restructuring is as follows:

(i) The accumulated losses of RMB13.9 billion after provision for impairment losses during the Restructuring is permitted to offset against profit before tax during the period from January 1, 2008 to December 31, 2010;

(ii) The losses resulted from the disposal of impaired assets (Note 1(3)), which had been deducted before tax according to point (i) above, cannot be deducted again for the purpose of income tax.

Pursuant to the Bank's resolution and approval of the CBRC (Yin Jian Fu [2009] No.368), the Bank issued 5,217.9 million ordinary shares at a price of RMB2.2 with a face value of RMB1 per share in August 2009. Accordingly, the registered capital of the Bank increased from RMB28,216.89 million to RMB33,434.79 million.

Pursuant to the Bank's resolution, approval of the CBRC (Yin Jian Fu [2009] No.517) and approval from the China Securities Regulatory Commission ("the CSRC") (Zheng Jian Xu Ke [2010] No.1019), by August 18, 2010, the Bank issued 6,100 million A shares in its initial public offering on the Shanghai Stock Exchange, and by September 16, 2010 the Bank executed its over-allotment options and issued another 900 million shares. Accordingly, the registered capital of the Bank increased from RMB33,434.79 million to RMB40,434.79 million.

The principal activities of the Group are the provision of corporate and retail deposits, loans and advances, settlement, treasury business and other financial services as approved by the CBRC. The Bank mainly operated in mainland China, which, for the purpose of this report, excludes the Hong Kong Special Administration Region of the PRC ("Hong Kong"), the Macau Special Administration Region of the PRC and Taiwan.

The Bank has branches in 28 provinces, autonomous regions, municipalities in mainland China and Hong Kong as at June 30, 2013.

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

2 Significant accounting policies

(1) Statement of compliance and basis of preparation

The Financial Information set out in this report have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and related interpretations, issued by the International Accounting Standards Board (the "IASB"), as well as with the disclosure requirements of the Hong Kong Companies Ordinance. The Financial Information also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

For the purpose of preparing the Financial Information, the Group has adopted all the new and revised IFRSs in issue which are relevant to the Group for the Relevant Periods, except for any new standards or interpretations that are not yet effective for the accounting period ended June 30, 2013. The revised and new accounting standards and interpretations issued but not yet effective for the accounting period ended June 30, 2013 are set out below:

		Effective for accounting period beginning on or after
Amendments to IAS 32	Financial instruments: *Presentation* – Offsetting financial assets and financial liabilities	January 1, 2014
Amendments to IFRS 10, IFRS 12 and IAS 27	Investment entities	January 1, 2014
IFRS 9	Financial Instruments	To be determined (no earlier than January 1, 2017)

The Financial Information are presented in RMB, rounded to the nearest million, which is the functional currency of the Group.

The preparation of Financial Information in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for judgements on the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years. Judgements that have a significant effect on the Financial Information and estimates with a significant risk of material adjustments in the subsequent period are discussed in Note 2(24).

The measurement basis used in the preparation of the Financial Information is historical cost, with the exception of financial assets and financial liabilities, which are measured at fair value, as stated in Note 2(5).

(2) Basis of consolidation

The Financial Information comprise financial statements of the Bank and its subsidiaries. Control exists when the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its operating activities. The financial statements of subsidiaries are included in Financial Information from the date that control commences until the date that control ceases.

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

2 Significant accounting policies (continued)

(2) Basis of consolidation (continued)

Intra-group balances and transactions, and any unrealized profit arising from intra-group transactions, are eliminated in full in preparing the Financial Information. Unrealized losses resulting from intra-group transactions are eliminated in the same way as unrealized gains but only to the extent that there is no evidence of impairment.

Non-controlling interests is presented separately in the consolidated statements of financial position within equity as well as in the consolidated statements of comprehensive income within net profit and total comprehensive income. Where losses attributable to the non-controlling interests of a subsidiary exceed the non-controlling interests in the equity of the subsidiary, the excess, and any further losses attributable to the non-controlling interests, are allocated against the equity attributable to the Group.

In the Bank's statements of financial position, investments in subsidiaries are stated at cost less provision for impairment losses.

(3) Translation of foreign currencies

When the Group receives capital in foreign currencies from investors, the capital is translated to RMB at the spot exchange rate on the date of receipt. Other foreign currency transactions are, on initial recognition, translated to RMB at the spot exchange rates or the rates that approximate the spot exchange rates at the dates of transactions.

A spot exchange rate is quoted by the PBOC, the State Administration of Foreign Exchange, or a cross rate determined based on quoted exchange rates. A rate that approximates the spot exchange rate is determined by a systematic and rational method, normally the average exchange rate of the current period.

Monetary items denominated in foreign currencies are translated to RMB at the spot exchange rate at the end of the Relevant Periods. The resulting exchange differences are recognized in profit or loss. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated to RMB using the foreign exchange rates at the transaction date. Non-monetary items denominated in foreign currencies that are measured at fair value are translated using the foreign exchange rates at the date the fair value is determined; the exchange differences are recognized in profit or loss, except for the exchange differences arising from the translation of non-monetary available-for-sale financial assets which are recognized in capital reserve.

(4) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, non-restricted balances with central banks, short-term deposits and placements with banks and other financial institutions, and highly liquid short-term investments which are readily convertible into known amounts of cash and are subject to an insignificant risk of change in value.

(5) Financial instruments

(i) Recognition and measurement of financial assets and liabilities

A financial asset or financial liability is recognized in the statements of financial position when the Group becomes a party to the contractual provisions of a financial instrument.

The Group classifies financial assets and liabilities into different categories at initial recognition based on the purpose of acquiring assets or assuming liabilities: financial assets and financial liabilities at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets and other financial liabilities.

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

2 Significant accounting policies (continued)

(5) Financial instruments (continued)

(i) Recognition and measurement of financial assets and liabilities (continued)

Financial assets and financial liabilities are measured initially at fair value. For financial assets and financial liabilities at fair value through profit or loss, any directly attributable transaction costs are charged to profit or loss; for other categories of financial assets and financial liabilities, any attributable transaction costs are included in their initial costs.

Financial assets and financial liabilities are categorized as follows:

- Financial assets and financial liabilities at fair value through profit or loss (including financial assets or financial liabilities held for trading).

A financial asset or financial liability is classified as at fair value through profit or loss if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term, a financial instrument managed in a pattern of short-term profit taking, a derivative, or if it is designated at fair value through profit or loss.

Financial assets and financial liabilities are designated at fair value through profit or loss upon initial recognition when:

– the financial assets or financial liabilities are managed, evaluated and reported internally on a fair value basis;

– the designation eliminates or significantly reduces the discrepancies in the recognition or measurement of relevant gains or losses arising from the different basis of measurement of the financial assets or financial liabilities;

– the financial assets or financial liabilities contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract; or

– the separation of the embedded derivatives from the financial instrument is prohibited.

Subsequent to initial recognition, financial assets and financial liabilities at fair value through profit or loss are measured at fair value, without any deduction for transactions costs that may occur on sale, and changes therein are recognized in profit or loss.

- Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity, other than

(a) those that the Group, upon initial recognition, designates as at fair value through profit or loss or as available-for-sale; or

(b) those that meet the definition of loans and receivables.

Subsequent to initial recognition, held-to-maturity investments are stated at amortized cost using the effective interest method.

- Loans and receivables

Loans and receivables are non-derivative financial assets held by the Group with fixed or determinable recoverable amounts that are not quoted in an active market, other than

(a) those that the Group intends to sell immediately or in the near-term, which will be classified as held for trading;

(b) those that the Group, upon initial recognition, designates as at fair value through profit or loss or as available-for-sale; or

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

2 Significant accounting policies (continued)

(5) Financial instruments (continued)

(i) Recognition and measurement of financial assets and liabilities (continued)

(c) those where the Group may not recover substantially all of its initial investment, other than because of credit deterioration, which will be classified as available-for-sale.

Loans and receivables mainly comprise loans and advances to customers, deposits and placements with banks and other financial institutions and financial assets held under resale agreements. Subsequent to initial recognition, loans and receivables are stated at amortized cost using the effective interest method.

• Available-for-sale financial assets

Available-for-sale financial assets include non-derivative financial assets that are designated upon initial recognition as available-for-sale and other financial assets which do not fall into any of the above categories.

Subsequent to initial recognition, available-for-sale financial assets are measured at fair value, without any deduction for transaction costs that may occur on sale and changes therein, except for impairment losses and foreign exchange gains and losses from monetary financial assets, are recognized directly in other comprehensive income. Investments in available-for-sale equity instruments that do not have a quoted price in an active market and whose fair value cannot be reliably measured, are measured at cost less impairment losses, if any. When an investment is derecognized, the cumulative gain or loss in other comprehensive income is reclassified to the profit or loss.

• Other financial liabilities

Financial liabilities other than the financial liabilities at fair value through profit or loss are classified as other financial liabilities.

Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest method.

(ii) Impairment of financial assets

The carrying amounts of financial assets other than those at fair value through profit or loss are reviewed by the Group at the end of the Relevant Periods to determine whether there is objective evidence of impairment. If any such evidence exists, impairment loss is provided. Objective evidence of impairment in the financial asset represents events that occur after the initial recognition of the financial asset and have impact on the estimated future cash flows of the asset, which can be estimated reliably.

Objective evidence includes the following loss event:

– significant financial difficulty of the issuer or borrower;
– a breach of contract, such as a default or delinquency in interest or principal payments;
– it is becoming probable that the borrower will enter bankruptcy or other financial reorganization;
– disappearance of an active market for financial assets because of financial difficulties;
– significant changes in the technological, market, economic or legal environment that have an adverse effect on the borrower; and
– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

• Loans and receivables

The Group uses two methods of assessing impairment losses: those assessed individually and those assessed on a collective basis.

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

2 Significant accounting policies (continued)

(5) Financial instruments (continued)

(ii) Impairment of financial assets (continued)

Individual assessment

Loans and receivables, which are considered individually significant, are assessed individually for impairment. If there is objective evidence of impairment of loans and receivables, the amount of loss is measured as the excess of its carrying amount over the present value of the estimated future cash flows (exclusive of future credit losses that have not been incurred) discounted at the original effective interest rate. The impairment losses are recognized in profit or loss.

It may not be possible to identify a single, discrete event that caused the impairment but it may be possible to identify impairment through the combined effect of several events.

Cash flows relating to short-term loans and receivables are not discounted when assessing impairment loss if the difference between the estimated future cash flows and its present value is immaterial.

The calculation of the present value of the estimated future cash flows of a collateralized loan or receivable reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

Collective assessment

Loans and receivables which are assessed collectively for impairment include individually assessed loans and receivables with no objective evidence of impairment on an individual basis, and homogeneous groups of loans and receivables which are not considered individually significant and not assessed individually. Loans and receivables are grouped for similar credit risk characteristics for collective assessment. The objective evidence of impairment mainly includes that, though it is unable to identify the decrease of cash flow of each individual asset, after collective assessment based on observable data, there is observable evidence indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets.

Homogeneous groups of loans not considered individually significant

For homogeneous groups of loans that are not considered individually significant, the Group adopts a flow rate methodology to collectively assess impairment losses. This methodology utilizes a statistical analysis of historical trends of probability of default and amount of consequential loss, as well as an adjustment of observable data that reflects the current economic conditions and judgement based on management's historical experience.

Individually assessed loans with no objective evidence of impairment on an individual basis

Loans which are individually significant and therefore have been individually assessed but for which no objective evidence of impairment can be identified, either due to the absence of any loss events or due to an inability to measure reliably the impact of loss events on future cash flows, are grouped together in portfolios of similar credit risk characteristics for the purpose of assessing a collective impairment loss. This assessment covers those loans and advances that were impaired at the end of the Relevant Periods but which will not be individually identified as such until some time in the future.

The collective impairment loss is assessed after taking into account:

– historical loss experience in portfolios of similar credit risk characteristics;
– the emergence period between a loss occurring and that loss being identified; and

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

2 Significant accounting policies (continued)

(5) Financial instruments (continued)

(ii) Impairment of financial assets (continued)

– the current economic and credit environments and the judgement on inherent loss based on management's historical experience.

The emergence period between a loss occurring and its identification is determined by management based on the historical experience of the markets where the Group operates.

As soon as information is available that specifically identifies objective evidence of impairment on individual assets in a portfolio, those assets are removed from the portfolio of financial assets. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment for impairment.

The Group periodically reviews and assesses the impaired loans and receivables for any subsequent changes to the estimated recoverable amounts and the resulted changes in the provision for impairment losses.

If, in a subsequent period the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognized, the impairment loss is reversed through profit or loss. The reversal shall not result in a carrying amount of the financial asset that exceeds the amortized cost at the date of the reversal had the impairment not been recognized.

When the Group determines that a loan has no reasonable prospect of recovery after the Group has completed all the necessary legal or other claim proceedings, the loan is written off against its provision for impairment losses upon necessary approval. If in a subsequent period the loan written off is recovered, the amount recovered is recognized in profit or loss through impairment losses.

Rescheduled loans are loans that have been restructured due to deterioration in the borrower's financial position to the extent that the borrower is unable to repay according to the original terms and where the Group has made concessions that it would not otherwise consider under normal circumstances. Rescheduled loans are assessed individually and classified as impaired loans upon restructuring. Rescheduled loans are subject to ongoing monitoring. Once a rescheduled loan meets specific conditions, it is no longer considered as impaired.

• Held-to-maturity investments

The impairment loss is calculated based on the excess of its carrying amount over the present value of the estimated future cash flows (exclusive of future credit losses that have not been incurred) discounted at the original effective interest rate. All impairment losses are recognized in profit or loss.

If, in a subsequent period the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognized, the impairment loss is reversed through profit or loss. The reversal shall not result in a carrying amount of the financial asset that exceeds the amortized cost at the date of the reversal had the impairment not been recognized.

• Available-for-sale financial assets

When an available-for-sale financial asset is impaired, the cumulative loss arising from decline in fair value that had been recognized in other comprehensive income is reclassified to the profit or loss even though the financial asset has not been derecognized.

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

2 Significant accounting policies (continued)

(5) Financial instruments (continued)

(ii) Impairment of financial assets (continued)

The amount of the cumulative loss that is removed from equity is the difference between the acquisition cost net of any principal repayment and amortization and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss.

If, after an impairment loss has been recognized on available-for-sale debt instruments, the fair value of the assets increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognized, the impairment loss is reversed through profit or loss. An impairment loss recognized for an equity instrument classified as available-for-sale is not reversed through profit or loss but recognized directly in other comprehensive income.

For investments in equity instruments measured at cost, the amount of any impairment loss is measured as the difference between the carrying amount of the financial asset, and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset and recognized in profit or loss.

(iii) Fair value measurement principles

If there is an active market for a financial asset or financial liability, the quoted price in the active market without adjusting for transaction costs that may be incurred upon future disposal or settlement is used to establish the fair value of the financial asset or financial liability. For a financial asset held or a financial liability to be assumed, the quoted price is the current bid price. For a financial asset to be acquired or a financial liability assumed, it is the current asking price. The quoted prices from an active market are prices that are readily and regularly available from an exchange, broker, industry group or pricing service agency, and represent actual and regularly occurring market transactions on an arm's length basis.

If no active market exists for a financial instrument, a valuation technique is used to establish the fair value. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models. Where discounted cash flow technique is used, future cash flows are estimated based on management's best estimates and the discount rate used is the prevailing market rate applicable for instrument with similar terms and conditions at the end of the Relevant Periods. Where other pricing models are used, inputs are based on market data at the end of the Relevant Periods.

In estimating the fair value of a financial asset and financial liability, the Group considers all factors including, but not limited to, risk-free interest rate, credit risk, foreign exchange rate and market volatility, that are likely to affect the fair value of the financial asset and financial liability.

The Group obtains market data from the same market where the financial instrument was originated or purchased.

(iv) Derecognition of financial assets and financial liabilities

Financial assets (or a part of a financial asset or group of financial assets) are derecognized when the financial assets meet one of the following conditions:

– the contractual rights to the cash flows from the financial asset expire; or

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

2 Significant accounting policies (continued)

(5) Financial instruments (continued)

(iv) Derecognition of financial assets and financial liabilities (continued)

– the Group transfers substantially all the risks and rewards of ownership of the financial assets or where substantially all the risks and rewards of ownership of a financial asset are neither retained nor transferred, the control over that asset is relinquished.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, but retains control, the Group continues to recognize the financial asset and relevant liability to the extent of its continuing involvement in the financial asset.

The financial liability (or part of it) is derecognized only when the underlying present obligation (or part of it) specified in the contracts is discharged, cancelled or expired. An agreement between the Group and an existing lender to replace the original financial liability with a new financial liability with substantially different terms, or a substantial modification of the terms of an existing financial liability is accounted for as an extinguishment of the original financial liability and recognition of a new financial liability. The difference between the carrying amount of the derecognized financial liability and the consideration paid is recognized in profit or loss.

(v) Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the statements of financial position when the Group has a legally enforceable right to set off the recognized amounts and the transactions are intended to be settled on a net basis, or by realising the asset and settling the liability simultaneously.

(6) Financial assets held under resale and repurchase agreements

Financial assets purchased under agreements to resell are reported not as purchases of the assets but as receivables and are carried in the statements of financial position at amortized cost.

Financial assets sold subject to a simultaneous agreement to repurchase these assets are retained in the statements of financial position and measured in accordance with their original measurement principles. The proceeds from the sale are reported as liabilities and are carried at amortized cost.

Interest earned on reverse repurchase agreements and interest incurred on repurchase agreements are recognized respectively as interest income and interest expense over the life of each agreement using the effective interest method.

(7) Investment in subsidiaries

In the Group's consolidated financial statements, investments in subsidiaries are accounted for in accordance with the principles described in Note 2(2).

In the Bank's financial statements, investments in subsidiaries are accounted for using the cost method. An investment in a subsidiary acquired other than through a business combination is initially recognized at actual payment cost if the Bank acquires the investment by cash. The investment is stated at cost less impairment loss (Note 2(14)) in the statements of financial position. Except for declared but not yet distributed cash dividends or profits distribution that have been included in the price or consideration paid in obtaining the investments, the Group recognizes its share of the cash dividends or profit distribution declared by the investees as investment income.

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

2 Significant accounting policies (continued)

(8) Investment property

Investment property is a property held either for earning rental income or for capital appreciation or for both. Investment property is accounted for using the cost model and stated in the statements of financial position at cost less accumulated depreciation and impairment loss (Note 2(14)). Investment property is depreciated using the straight-line method over its estimated useful life after taking into account its estimated residual value.

	Estimated useful life	Estimated rate of residual value	Depreciation rate
Premises	30-35 years	3%	2.8%-3.2%

(9) Fixed assets and construction in progress

Fixed assets are assets held by the Group for operation and administration purposes with useful lives over one year.

Fixed assets are stated in the statements of financial position at cost less accumulated depreciation and impairment loss (Note 2(14)). Construction in progress is stated in the statements of financial position at cost less impairment loss (Note 2(14)).

The cost of a purchased fixed asset comprises the purchase price, related taxes, and any expenditure directly attributable to bringing the asset into working condition for its intended use.

All direct and indirect costs that are related to the construction of fixed assets and incurred before the assets are ready for their intended use are capitalized as the cost of construction in progress. Construction in progress is transferred to fixed assets when the item being constructed is ready for its intended use. No depreciation is provided against construction in progress.

Where the individual component parts of an item of fixed assets have different useful lives or provide benefits to the Group in different patterns thus necessitating use of different depreciation rates or methods, they are recognized as a separate fixed asset.

The subsequent costs including the cost of replacing part of an item of fixed assets are recognized in the carrying amount of the item if the recognition criteria are satisfied, and the carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of fixed assets are recognized in profit or loss as incurred.

Gains or losses arising from the retirement or disposal of an item of fixed asset are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognized in profit or loss on the date of retirement or disposal.

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

2 Significant accounting policies (continued)

(9) Fixed assets and construction in progress (continued)

Fixed assets are depreciated using the straight-line method over their estimated useful lives, after taking into account their estimated residual values. The estimated useful lives, residual values and depreciation rates of each class of fixed assets are as follows:

Asset category	Estimated useful life	Estimated rate of residual value	Depreciation rate
Premises	30-35 years	3%	2.8%-3.2%
Electronic equipment	3-5 years	3%-5%	19.0%-32.3%
Others	5-10 years	3%-5%	9.5%-19.4%

Useful lives, residual values and depreciation methods are reviewed at least each year-end.

(10) Lease

A lease is classified as either a finance lease or an operating lease. A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of a leased asset to the lessee, irrespective of whether the legal title to the asset is eventually transferred or not. An operating lease is a lease other than a finance lease.

(a) Operating lease charges

Rental payments under operating leases are recognized as costs or expenses on a straight-line basis over the lease term. Contingent rental payments are recognized as expenses in the accounting period in which they are incurred.

(b) Assets leased-out under finance lease

The Group recognizes the sum of the minimum lease receipts determined at the inception of a lease and the initial direct costs as finance lease receivable, and recognizes unguaranteed residual value at the same time.

Unearned finance income is allocated to each accounting period during the lease term using the effective interest method. At the end of the Relevant Periods, finance lease receivables, net of unearned finance income, are presented as finance lease receivables in the statements of financial position.

The Group accounted for impairment losses on finance lease receivables in accordance with the accounting policies as set out Note 2(5)(ii).

The unguaranteed residual values are reviewed at least at each year end. Any excess of the carrying amount of the unguaranteed residual values over their estimated recoverable amounts is recognized as impairment loss. If there is an indication that there has been a change in the factors used to determine the provision for impairment losses and as a result the estimated recoverable amount of the unguaranteed residual values is greater than its carrying amount, the impairment loss recognized in prior years is reversed. Reversals of impairment losses are recognized in profit or loss.

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

2 Significant accounting policies (continued)

(11) Intangible assets

The intangible assets of the Group have finite useful lives. The intangible assets are stated at cost less accumulated amortization and impairment loss (Note 2(14)). The cost of intangible assets less residual value and impairment loss is amortized on the straight-line method over the estimated useful lives.

The respective amortization periods for intangible assets are as follows:

Asset category	Estimated useful lives
Computer software	5 years
Others	5-10 years

(12) Goodwill

Goodwill represents the excess of cost of acquisition over the Group's interest in the fair value of the identifiable net assets of the acquiree under the business combination involving entities not under common control. Goodwill is not amortized and is stated at cost less accumulated impairment loss (Note 2(14)). On disposal of the related cash-generating unit ("CGU") or group of CGUs, any attributable amount of purchased goodwill is written off and included in the calculation of the profit or loss on disposal.

(13) Repossessed assets

Repossessed assets are physical assets or property rights obtained by the Group from debtors, warrantors or third parties following the enforcement of its creditor's rights. The initial cost of repossessed assets is measured at the lower of the net carrying amount of loans and advances and the fair value of the assets less costs to sell on the acquisition date. Repossessed assets are not depreciated or amortized. The impairment losses of initial measurement and subsequent revaluation are charged to the profit or loss.

(14) Provision for impairment losses on non-financial assets

The carrying amounts of the following assets are reviewed at the end of each of the Relevant Periods based on the internal and external sources of information to determine whether there is any indication of impairment:

– fixed assets
– construction in progress
– intangible assets
– goodwill
– investment property measured using a cost model
– investment in subsidiaries

If any indication exists that an asset may be impaired, the recoverable amount of the asset is estimated. In addition, the Group estimates the recoverable amounts of goodwill at no later than each year-end, irrespective of whether there is any indication of impairment or not. Goodwill is allocated to the CGU, or group of CGUs, that is expected to benefit from the synergies of the combination for the purpose of impairment testing.

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

2 Significant accounting policies (continued)

(14) Provision for impairment losses on non-financial assets (continued)

A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or asset groups. A CGU is composed of assets directly relating to cash-generation. Identification of a CGU is based on whether major cash inflows generated by the asset group are largely independent of the cash inflows from other assets or asset groups. In identifying an asset group, the Group also considers how management monitors the Group's operations and how management makes decisions about continuing or disposing of the Group's assets.

The recoverable amount of an asset or CGU, or a group of CGUs (hereinafter called "asset") is the higher of its fair value less costs to sell and its present value of expected future cash flows. If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset; if it is not possible to estimate the recoverable amount of the individual asset, the Group determines the recoverable amount of the asset group to which the assets belongs.

An asset's fair value less costs to sell is the amount determined by the price of a sale agreement in an arm's length transaction, less the costs that are directly attributable to the disposal of the asset. The present value of expected future cash flows of an asset is determined by discounting the future cash flows, estimated to be derived from continuing use of the asset and from its ultimate disposal, to their present value using a pre-tax discount rate that reflects expected future cash flows, the useful life and the discount rate specific to the asset.

An impairment loss is recognized if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in profit or loss. A provision for an impairment loss of the asset is recognized accordingly. Impairment losses related to an asset group or a set of asset groups first reduce the carrying amount of any goodwill allocated to the asset group or set of asset groups, and then reduce the carrying amount of the other assets in the asset group or set of asset groups on a pro rata basis. However, the carrying amount of an impaired asset will not be reduced below the highest of its individual fair value less costs to sell (if determinable), the present value of expected future cash flows (if determinable) and zero.

An impairment loss in respect of goodwill is not reversed. If, in a subsequent period, the amount of impairment loss of the non-financial asset except for goodwill decreases and the decrease can be linked objectively to an event occurring after impairment was recognized, the previously recognized impairment loss is reversed through the profit or loss. A reversal of impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognized in prior periods.

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

2 Significant accounting policies (continued)

(15) Employee benefits

Employee benefits are all forms of considerations given and other relevant expenditures incurred in exchange for services rendered by employees. Except for termination benefits, employee benefits are recognized as a liability in the period in which the associated services are rendered by employees, with a corresponding increase in cost of relevant assets or the expenses in profit or loss.

(i) Retirement benefits

Social pension schemes

Pursuant to the relevant laws and regulations in the PRC, the Group has the social pension schemes for the employees arranged by local government labor and security authorities. The Group makes contributions to the retirement schemes at the applicable rates based on the amounts stipulated by the government. The contributions are charged to the profit or loss on an accrual basis. When employees retire, the local government labor and security authorities are responsible for the payment of the basic retirement benefits to the retired employees.

Annuity plan

The Group provides an annuity plan to the eligible employees. The Group makes annuity contributions in proportion to its employees' gross wages, which are expensed in profit or loss when the contributions are made.

Supplementary retirement benefits

The Group pays supplementary retirement benefits to its eligible employees. The Group's obligations in respect of supplementary retirement benefits are calculated by estimating, the present value of the total amount of future benefits that the Group is committed to pay to the employees after their retirement using actuarial techniques. Such obligations were discounted at the interest yield of government bonds with similar duration at the reporting date.

Except for the above mentioned, the Group has no significant responsibilities to pay any other retirement benefits to employees.

(ii) Housing fund and other social insurances

In addition to the retirement benefits, the Group has joined defined social security contributions schemes for employees pursuant to the relevant laws and regulations of the PRC. These include a housing fund, basic medical insurance, unemployment insurance, injury insurance and maternity insurance. The Group makes monthly contributions to the housing fund and other social insurances mentioned above at the applicable rates based on the amounts stipulated by the relevant government organizations. The contributions are charged to profit or loss on an accrual basis.

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

2 Significant accounting policies (continued)

(16) Income tax

Current tax and deferred tax are recognized in profit or loss except to the extent that they relate to items that are recognized in other comprehensive income, in which case they are recognized in other comprehensive income.

Current tax is the expected tax payable calculated at the applicable tax rate on taxable income for the year, and any adjustment to tax payable in respect of previous years.

At the end of each of the Relevant Periods, current tax assets and liabilities are offset if the taxable entity has a legally enforceable right to set off them and the entity intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases, which include the deductible losses and tax credits carried forward to subsequent periods. Deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be used.

Deferred tax is not recognized for the temporary differences arising from the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting profit nor taxable profit (or tax loss). Deferred tax is not recognized for taxable temporary differences arising from the initial recognition of goodwill.

At the end of each of the Relevant Periods, the amount of deferred tax recognized is measured based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities using tax rates that are expected to be applied in the period when the asset is realized or the liability is settled in accordance with tax laws.

The carrying amount of a deferred tax asset is reviewed at the end of each of the Relevant Periods. The carrying amount of a deferred tax asset is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the benefit of the deferred tax asset to be utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

At the end of each of the Relevant Periods, deferred tax assets and liabilities are offset if all the following conditions are met:

– the taxable entity has a legally enforceable right to set off current tax assets against current tax liabilities; and

– they relate to income taxes levied by the same tax authority on either the same taxable entity or different taxable entities which either intend to settle the current tax liabilities and assets on a net basis, or to simultaneously realize the assets and settle the liabilities in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

2 Significant accounting policies (continued)

(17) Financial guarantees, provisions and contingent liabilities

(i) Financial guarantees

Financial guarantees are contracts that require the issuer (the "guarantor") to make specified payments to reimburse the beneficiary of the guarantee ("holder") for a loss that the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. The fair value of the guarantee (being the guarantee fees received) is initially recognized as deferred income in other liabilities. The deferred income is amortized in profit or loss over the term of the guarantee as income from financial guarantees issued. Provisions are recognized in the statements of financial position as stated in Note 2(17)(ii) if and when it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and the amount of that claim on the Group is expected to exceed the carrying amount of the deferred income.

(ii) Other provisions and contingent liabilities

A provision is recognized for an obligation related to a contingency if the Group has a present obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. A provision is initially measured at the best estimate of the expenditure required to settle the related present obligation. Factors pertaining to a contingency such as the risks, uncertainties and time value of money are taken into account as a whole in reaching the best estimate. Where the effect of time value of money is material, provisions are determined by discounting the expected future cash flows.

For a possible obligation resulting from a past transaction or event whose existence will only be confirmed by the occurrence or non-occurrence of uncertain future events or a present obligation resulting from a past transaction or event, where it is not probable that the settlement of the above obligation will cause an outflow of economic benefits, or the amount of the outflow cannot be estimated reliably, the possible or present obligation is disclosed as a contingent liability.

(18) Fiduciary activities

The Group acts in a fiduciary activity as a manager, a custodian, or an agent for customers. Assets held by the Group and the related undertakings to return such assets to customers are recorded as off-balance sheet items as the risks and rewards of the assets reside with customers.

The Group enters into entrusted loan agreements with customers, whereby the customers provide funding ("entrusted funds") to the Group, and the Group grants loans to third parties ("entrusted loans") under instructions of the customers. As the Group does not assume the risks and rewards of the entrusted loans and the corresponding entrusted funds, the entrusted loans and funds are recorded as off-balance sheet items at their principal amount. No provision for impairment loss is made for entrusted loans.

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

2 Significant accounting policies (continued)

(19) Income recognition

Income is the gross inflow of economic benefit in the periods arising in the course of the Group's ordinary activities when the inflows result in an increase in shareholder's equity, other than an increase relating to contributions from shareholders. Income is recognized in profit or loss when it is probable that the economic benefits will flow to the Group, the income and costs can be measured reliably and the following respective conditions are met:

(i) Interest income

Interest income for financial assets is recognized in profit or loss as it is incurred, based on the time for alienation of right to use capital and effective interest rates. Interest income includes the amortization of any discount or premium or differences between the initial carrying amount of an interest-bearing asset and its amount at maturity calculated using the effective interest rate.

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating the interest income over the Relevant Periods. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract, transaction costs and all other premiums or discounts that are an integral part of the effective interest rate.

Interest on the impaired assets is recognized using the rate of interest used to discount future cash flows ("unwinding of discount") for the purpose of measuring the related impairment loss.

(ii) Fee and commission income

Fee and commission income is recognized in profit or loss when the corresponding service is provided.

Origination or commitment fees received by the Group which result in the creation or acquisition of a financial asset are deferred and recognized as an adjustment to the effective interest rate. If the commitment expires without making a loan, the fee is recognized as fee and commission income upon its expiry.

(iii) Other income

Other income is recognized on an accrual basis.

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

2 Significant accounting policies (continued)

(20) Expenses recognition

(i) Interest expenses

Interest expenses from financial liabilities are accrued on a time proportion basis with reference to the amortized cost and the applicable effective interest rate.

(ii) Other expenses

Other expenses are recognized on an accrual basis.

(21) Dividends

Dividends or distributions of profits proposed in the profit appropriation plan which will be authorized and declared after the end of the Relevant Periods are not recognized as a liability at the end of the Relevant Periods but disclosed separately in the notes to the Financial Information.

(22) Related parties

If a Group has the power to control, jointly control or exercise significant influence over another party, or vice versa, or where the Group and one or more parties are subject to common control or joint control from another party, they are considered to be related parties. Related parties may be individuals or enterprises. Enterprises with which the Group is under common control only from the State and that have no other related party relationships are not regarded as related parties of the Group. Related parties of the Group and the Bank include, but are not limited to:

(a) the Bank's parent;

(b) the Bank's subsidiaries;

(c) enterprises that are controlled by the Bank's parent;

(d) investors that have joint control or exercise significant influence over the Group;

(e) enterprises or individuals if a party has control or joint control over both the enterprises or individuals and the Group;

(f) joint ventures of the Group, including subsidiaries of joint ventures;

(g) associates of the Group;

(h) principal individual investors and close family members of such individuals;

(i) key management personnel of the Group and close family members of such individuals;

(j) key management personnel of the Bank's parent;

(k) close family members of key management personnel of the Bank's parent;

(l) other enterprises that are controlled or jointly controlled by principal individual investors, key management personnel of the Group, and close family members of such individuals; and

(m) a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

2 Significant accounting policies (continued)

(23) Segment reporting

Reportable segments are identified based on operating segments which are determined based on the structure of the Group's internal organization, management requirements and internal reporting system, whose operating results are regularly reviewed by the Group's management to make decisions about resources to be allocated to the segment and assess its performance. Any segments which do not comply with the reporting of segments by division of quantities are reported at consolidation level.

(24) Significant accounting estimates and judgements

The preparation of Financial Information requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

(i) Impairment losses on loans and advances, available-for-sale financial assets and held-to-maturity investments

The Group reviews portfolios of loans and advances, available-for-sale financial assets and held-to-maturity investments periodically to assess whether any impairment losses exist and the amount of impairment losses if there is any indication of impairment. Objective evidence for impairment includes observable data indicating that there is a measurable decrease in the estimated future cash flows for loans and advances, available-for-sale financial assets and held-to-maturity investments. It also includes observable data indicating adverse changes in the repayment status of the debtors, or change in national or local economic conditions that causes the default in payment.

The impairment loss for loans, advances, and held-to-maturity investments that is individually assessed for impairment is the net decrease in the estimated discounted future cash flow of the assets. When the financial assets are collectively assessed for impairment, the estimate is based on historical loss experience for assets with credit risk characteristics similar to the financial assets. Historical loss experience is adjusted on the basis of the relevant observable data that reflect current economic conditions and the judgement based on management's historical experience. Management reviews the methodology and assumptions used in estimating future cash flows regularly to reduce any difference between loss estimates and actual loss.

The objective evidence of impairment for available-for-sale investments includes significant or continual decline in fair value of investment. When deciding whether there is significant or continual decline in fair value, the Group will consider the historical fluctuation records of market and debtors' credit condition, financial position and performance of related industry.

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

2 Significant accounting policies (continued)

(24) Significant accounting estimates and judgements (continued)

(ii) Fair value of financial instruments

There are no quoted prices from an active market for a number of financial instruments. The fair values for these financial instruments are established by using valuation techniques. These techniques include using recent arm's length market transactions by referring to the current fair value of similar instruments, discounted cash flow analysis, and option pricing models. The Group has established a work flow to ensure that the valuation techniques are constructed by qualified personnel and are validated and reviewed by independent personnel. Valuation techniques are certified and calibrated before implementation to ensure the valuation result reflects the actual market conditions. Valuation models established by the Group make maximum use of market input and rely as little as possible on the Group's specific data. However, it should be noted that some input, such as credit and counterparty risk, and risk correlations require management's estimates. The Group reviews the above estimations and assumptions periodically and makes adjustment if necessary.

(iii) The classification of the held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity investments, if the Group has the intention and ability to hold them until maturity. In evaluating whether requirements to classify a financial asset as held-to-maturity are met, management makes significant judgements. Failure in correctly assessing the Group's intention and ability to hold specific investments until maturity may result in reclassification of the whole portfolio as available-for-sale.

(iv) Income taxes

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates the tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation. Deferred tax assets are recognized for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognized to the extent that it is probable that future taxable profits will be available against which the unused tax credits can be utilized, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognized if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered.

(v) Impairment of non-financial assets

Non-financial assets are reviewed regularly to determine whether the carrying amount exceeds the recoverable amount of the assets. If any such indication exists, an impairment loss is provided.

Since the market price of an asset (the asset group) cannot be obtained reliably, the fair value of the asset cannot be estimated reliably. In assessing the present value of future cash flows, significant judgements are exercised over the asset's selling price, related operating expenses and discounting rate to calculate the present value. All relevant materials which can be obtained are used for estimation of the recoverable amount, including the estimation of the selling price and related operating expenses based on reasonable and supportable assumption.

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

2 Significant accounting policies (continued)

(24) Significant accounting estimates and judgements (continued)

(vi) Depreciation and amortization

Investment properties, fixed assets and intangible assets are depreciated and amortized using the straight-line method over their estimated useful lives after taking into account residual values. The estimated useful lives are regularly reviewed to determine the depreciation and amortization costs charged in each of the Relevant Periods. The estimated useful lives are determined based on historical experiences of similar assets and the estimated technical changes. If there is an indication that there has been a change in the factors used to determine the depreciation or amortization, the amount of depreciation or amortization will be revised.

3 Taxes

The Group's main applicable taxes and tax rates are as follows:

(a) Business tax

Business tax is charged at 5% on taxable income.

(b) City construction tax

City construction tax is calculated as 1% – 7% of business tax.

(c) Education surcharge

Education surcharge is calculated as 3% of business tax.

(d) Income tax

The income tax is calculated on taxable income. The statutory income tax rate is 25%.

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

4 Net interest income

	Note	Years ended December 31, 2010	2011	2012	Six months ended June 30, 2012 (Unaudited)	2013
Interest income arising from						
Deposits with the central bank		2,107	3,106	3,901	1,830	2,193
Deposits with banks and other financial institutions		1,400	3,030	1,943	1,458	431
Placements with banks and other financial institutions		587	1,742	5,781	2,844	2,889
Loans and advances to customers	4(a)					
– Corporate loans and advances		27,065	36,992	46,526	23,085	23,040
– Personal loans and advances		8,833	12,667	17,017	7,740	10,259
– Discounted bills		576	913	1,318	801	462
Financial assets held under resale agreements		7,157	11,266	13,137	7,643	5,150
Investments		5,766	7,821	13,689	4,953	13,585
Re-discounted bills		665	347	659	382	359
Sub-total		54,156	77,884	103,971	50,736	58,368
Interest expenses arising from						
Deposits from banks and other financial institutions		6,702	11,593	16,890	7,655	11,744
Placements from banks and other financial institutions		311	1,455	1,522	861	629
Deposits from customers						
– Corporate customers		12,317	19,919	25,801	12,231	13,872
– Individual customers		2,086	3,523	5,645	2,850	3,795
Financial assets sold under repurchase agreements		1,260	1,201	1,897	1,097	1,134
Debt securities issued	4(b)	859	753	1,953	734	1,140
Re-discounted bills		198	–	–	–	–
Sub-total		23,733	38,444	53,708	25,428	32,314
Net interest income		30,423	39,440	50,263	25,308	26,054

Notes:

(a) The interest income arising from impaired financial assets for the six months ended June 30, 2013 amounted to RMB171 million (2012: RMB156 million; 2011: RMB52 million; 2010: RMB66 million; six months ended June 30, 2012 (unaudited): RMB52 million).

(b) Interest expense on financial liabilities with maturity over five years mainly included the interest expense on debt securities issued.

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

5 Net fee and commission income

	Years ended December 31			Six months ended June 30,	
	2010	2011	2012	2012	2013
				(Unaudited)	
Fee and commission income					
Bank card service fees	988	1,808	3,360	1,784	3,200
Underwriting and advisory fees	997	1,443	1,594	904	1,152
Wealth management service fees	948	993	1,547	519	1,174
Settlement and clearing fees	940	1,376	1,405	869	850
Acceptance and guarantee fees	486	649	610	321	432
Agency services fees	339	505	651	350	303
Custody and other fiduciary business fees	193	352	558	280	388
Others	190	255	269	136	167
Sub-total	5,081	7,381	9,994	5,163	7,666
Fee and commission expense					
Bank card transaction fees	253	285	388	165	253
Settlement and clearing fees	46	51	53	27	33
Others	73	72	74	33	31
Sub-total	372	408	515	225	317
Net fee and commission income	4,709	6,973	9,479	4,938	7,349

6 Net trading (losses)/gains

	Years ended December 31			Six months ended June 30,	
	2010	2011	2012	2012	2013
				(Unaudited)	
Trading financial instruments					
– Debt securities	114	(41)	(556)	10	(151)
– Derivatives	(284)	(865)	616	714	28
Financial instruments designated at fair value through profit or loss	(177)	(157)	(298)	(224)	171
Total	(347)	(1,063)	(238)	500	48

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

7 Net gains/(losses) arising from investment securities

	Years ended December 31,			Six months ended June 30,	
	2010	2011	2012	2012	2013
				(Unaudited)	
Net gains on disposal of available-for-sale financial assets	189	264	124	189	175
Net revaluation gains/(losses) reclassified from other comprehensive income on disposal	159	(391)	(109)	(160)	(80)
Net (losses)/gains on disposal of held-to-maturity investments	(22)	12	2	–	(1)
Net gains on disposal of debt securities classified as receivables	–	–	58	–	27
Total	326	(115)	75	29	121

8 Operating expenses

		Years ended December 31,			Six months ended June 30,	
	Note	2010	2011	2012	2012	2013
					(Unaudited)	
Staff costs						
– Salaries and bonuses		6,060	6,816	8,294	4,534	4,566
– Staff welfares		123	162	203	86	93
– Pension and annuity		480	596	713	335	422
– Housing allowances		222	287	377	167	217
– Supplementary retirement benefits		7	60	46	6	4
– Others		525	678	768	383	439
Sub-total		7,417	8,599	10,401	5,511	5,741
Premises and equipment expenses						
– Depreciation of fixed assets		612	807	997	483	566
– Amortization of intangible assets		98	98	138	64	82
– Amortization of long-term assets		167	212	259	122	146
– Rental and property management expenses		921	1,140	1,413	661	812
Sub-total		1,798	2,257	2,807	1,330	1,606
Business tax and surcharges		2,431	3,448	4,551	2,187	2,709
Other general and administrative expenses	8(a)	3,480	3,985	4,926	1,774	2,104
Total		15,126	18,289	22,685	10,802	12,160

Note:

(a) Auditors' remuneration for six months ended June 30, 2013 was nil (2012: RMB8.90 million; 2011: RMB8.90 million; 2010: RMB7.80 million; six months ended June 30, 2012 (unaudited): nil).

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

9 Directors' and supervisors' emoluments

The emoluments before individual income tax in respect of the directors and supervisors who held office during the Relevant Periods are as follows:

	Year ended December 31, 2010							
			Discretionary bonus			Contributions to social pension schemes	Other welfares	
	Fees	Salaries	Paid	Payable	Sub-total			Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors								
Guo You	–	430	–	924	1,354	28	203	1,585
Wu Qing	–	433	–	876	1,309	28	197	1,534
Non-executive directors								
Tang Shuangning	–	–	–	–	–	–	–	–
Luo Zhefu	–	–	–	–	–	–	–	–
Yu Erniu	–	–	–	–	–	–	–	–
Feng Ailing	–	–	–	–	–	–	–	–
Wang Xia	–	–	–	–	–	–	–	–
Wu Jian	–	–	–	–	–	–	–	–
Narentuya	–	–	–	–	–	–	–	–
Wu Gang	–	–	–	–	–	–	–	–
Independent non-executive directors								
Chung Shui Ming	200	–	–	–	200	–	–	200
James Parks Stent	200	–	–	–	200	–	–	200
Wang Wei	200	–	–	–	200	–	–	200
Jia Kang	200	–	–	–	200	–	–	200
Cai Hongbin	200	–	–	–	200	–	–	200
Supervisors								
Mu Huijun	–	438	–	–	438	28	192	658
Chen Shuang	–	–	–	–	–	–	–	–
Pang Jiying	–	–	–	–	–	–	–	–
Zhang Chuanju	–	–	–	–	–	–	–	–
Wu Junhao	–	–	–	–	–	–	–	–
Xia Bin	160	–	–	–	160	–	–	160
Wang Huanbang	160	–	–	–	160	–	–	160
Chen Yu	–	573	431	–	1,004	28	83	1,115
Yang Bingbing	–	479	351	–	830	28	74	932
Li Wei	–	185	183	221	589	28	59	676
Former non-executive directors								
Lin Yan	–	–	–	–	–	–	–	–
Duan Yicai	–	–	–	–	–	–	–	–
Former supervisor								
Nan Jingming	–	308	–	–	308	18	114	440
	1,320	2,846	965	2,021	7,152	186	922	8,260

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

9 Directors' and supervisors' emoluments (continued)

The emoluments before individual income tax in respect of the directors and supervisors who held office during the Relevant Periods are as follows: (continued)

	Year ended December 31, 2011							
			Discretionary bonus					
	Fees	Salaries	Paid	Payable	Sub-total	Contributions to social pension schemes	Other welfares	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors								
Guo You	–	428	–	968	1,396	30	202	1,628
Wu Qing	–	398	458	458	1,314	30	190	1,534
Non-executive directors								
Tang Shuangning	–	–	–	–	–	–	–	–
Luo Zhefu	–	–	–	–	–	–	–	–
Yu Erniu	–	–	–	–	–	–	–	–
Wang Shumin	–	–	–	–	–	–	–	–
Wang Xia	–	–	–	–	–	–	–	–
Wu Jian	–	–	–	–	–	–	–	–
Narentuya	–	–	–	–	–	–	–	–
Wu Gang	–	–	–	–	–	–	–	–
Independent non-executive directors								
Chung Shui Ming	200	–	–	–	200	–	–	200
James Parks Stent	200	–	–	–	200	–	–	200
Wang Wei	200	–	–	–	200	–	–	200
Zhang Xinze	17	–	–	–	17	–	–	17
Cai Hongbin	200	–	–	–	200	–	–	200
Supervisors								
Mu Huijun	–	398	458	458	1,314	30	189	1,533
Chen Shuang	–	–	–	–	–	–	–	–
Pang Jiying	–	–	–	–	–	–	–	–
Zhang Chuanju	–	–	–	–	–	–	–	–
Wu Junhao	–	–	–	–	–	–	–	–
Xia Bin	160	–	–	–	160	–	–	160
Wang Huanbang	160	–	–	–	160	–	–	160
Chen Yu	–	661	502	545	1,708	30	81	1,819
Yang Bingbing	–	522	420	552	1,494	30	72	1,596
Li Wei	–	247	222	392	861	30	64	955
Former non-executive director								
Feng Ailing	–	–	–	–	–	–	–	–
Former independent non-executive director								
Jia Kang	17	–	–	–	17	–	–	17
	1,154	2,654	2,060	3,373	9,241	180	798	10,219

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

9 Directors' and supervisors' emoluments (continued)

The emoluments before individual income tax in respect of the directors and supervisors who held office during the Relevant Periods are as follows: (continued)

		Year ended December 31, 2012							
				Discretionary bonus			Contributions to social pension schemes	Other welfares	
	Note	Fees	Salaries	Paid	Payable	Sub-total			Total
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors									
Guo You	(i)	–	447	–	–	447	33	198	678
Wu Qing	(i)	–	568	–	–	568	33	189	790
Non-executive directors									
Tang Shuangning		–	–	–	–	–	–	–	–
Luo Zhefu		–	–	–	–	–	–	–	–
Wu Jian		–	–	–	–	–	–	–	–
Narentuya		–	–	–	–	–	–	–	–
Wu Gang		–	–	–	–	–	–	–	–
Wang Shumin		–	–	–	–	–	–	–	–
Wang Zhongxin	(ii)	–	–	–	–	–	–	–	–
Wu Gaolian	(ii)	–	–	–	–	–	–	–	–
Independent non-executive directors									
Zhou Daojiong	(ii)	–	–	–	–	–	–	–	–
Wang Wei		200	–	–	–	200	–	–	200
Zhang Xinze		200	–	–	–	200	–	–	200
Qiao Zhimin	(ii)	–	–	–	–	–	–	–	–
Xie Rong	(ii)	–	–	–	–	–	–	–	–
Supervisors									
Cai Haoyi	(i)/(ii)	–	48	–	–	48	3	17	68
Mu Huijun	(i)	–	568	–	–	568	33	189	790
Chen Shuang		–	–	–	–	–	–	–	–
Wang Pingsheng	(ii)	–	–	–	–	–	–	–	–
Zhang Chuanju		–	–	–	–	–	–	–	–
Wu Junhao		–	–	–	–	–	–	–	–
Yu Erniu	(ii)	27	–	–	–	27	–	–	27
James Parks Stent	(ii)	–	–	–	–	–	–	–	–
Chen Yu		–	662	1,103	–	1,765	33	69	1,867
Ye Donghai	(ii)	–	114	177	–	291	6	12	309
Ma Ning	(ii)	–	137	236	–	373	6	12	391
Former non-executive directors									
Wang Xia	(ii)	–	–	–	–	–	–	–	–
Yu Erniu	(ii)	–	–	–	–	–	–	–	–
Former independent non-executive directors									
James Parks Stent	(ii)	200	–	–	–	200	–	–	200
Chung Shui Ming	(ii)	200	–	–	–	200	–	–	200
Cai Hongbin	(ii)	200	–	–	–	200	–	–	200
Former supervisors									
Pang Jiying	(ii)	–	–	–	–	–	–	–	–
Xia Bin	(ii)	147	–	–	–	147	–	–	147
Wang Huanbang	(ii)	160	–	–	–	160	–	–	160
Yang Bingbing	(ii)	–	514	959	–	1,473	27	56	1,556
Li Wei	(ii)	–	238	442	–	680	27	50	757
		1,334	3,296	2,917	–	7,547	201	792	8,540

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

9 Directors' and supervisors' emoluments (continued)

The emoluments before individual income tax in respect of the directors and supervisors who held office during the Relevant Periods are as follows: (continued)

	Six months ended June 30, 2012 (Unaudited)							
			Discretionary bonus					
	Fees	Salaries	Paid	Payable	Sub-total	Contributions to social pension schemes	Other welfares	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors								
Guo You	–	369	–	–	369	16	95	480
Wu Qing	–	382	–	–	382	16	87	485
Non-executive directors								
Tang Shuangning	–	–	–	–	–	–	–	–
Luo Zhefu	–	–	–	–	–	–	–	–
Yu Erniu	–	–	–	–	–	–	–	–
Wang Shumin	–	–	–	–	–	–	–	–
Wang Zhongxin	–	–	–	–	–	–	–	–
Wu Jian	–	–	–	–	–	–	–	–
Narentuya	–	–	–	–	–	–	–	–
Wu Gang	–	–	–	–	–	–	–	–
Independent non-executive directors								
Chung Shui Ming	100	–	–	–	100	–	–	100
James Parks Stent	100	–	–	–	100	–	–	100
Wang Wei	100	–	–	–	100	–	–	100
Zhang Xinze	100	–	–	–	100	–	–	100
Cai Hongbin	100	–	–	–	100	–	–	100
Supervisors								
Mu Huijun	–	382	–	–	382	16	87	485
Chen Shuang	–	–	–	–	–	–	–	–
Pang Jiying	–	–	–	–	–	–	–	–
Zhang Chuanju	–	–	–	–	–	–	–	–
Wu Junhao	–	–	–	–	–	–	–	–
Xia Bin	80	–	–	–	80	–	–	80
Wang Huanbang	80	–	–	–	80	–	–	80
Chen Yu	–	331	246	–	577	16	34	627
Yang Bingbing	–	295	212	–	507	16	31	554
Li Wei	–	143	81	–	224	16	29	269
	660	1,902	539	–	3,101	96	363	3,560

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

9 Directors' and supervisors' emoluments (continued)

The emoluments before individual income tax in respect of the directors and supervisors who held office during the Relevant Periods are as follows: (continued)

	Six months ended June 30, 2013							
			Discretionary bonus					
	Fees	Salaries	Paid	Payable	Sub-total	Contributions to social pension schemes	Other welfares	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors								
Guo You	–	288	–	–	288	17	103	408
Wu Qing	–	288	–	–	288	17	103	408
Non-executive directors								
Tang Shuangning	–	–	–	–	–	–	–	–
Luo Zhefu	–	–	–	–	–	–	–	–
Wu Jian	–	–	–	–	–	–	–	–
Narentuya	–	–	–	–	–	–	–	–
Wu Gang	–	–	–	–	–	–	–	–
Wang Shumin	–	–	–	–	–	–	–	–
Wang Zhongxin	–	–	–	–	–	–	–	–
Wu Gaolian	–	–	–	–	–	–	–	–
Independent non-executive directors								
Zhou Daojiong	100	–	–	–	100	–	–	100
Wang Wei	100	–	–	–	100	–	–	100
Zhang Xinze	100	–	–	–	100	–	–	100
Qiao Zhimin	100	–	–	–	100	–	–	100
Xie Rong	100	–	–	–	100	–	–	100
Supervisors								
Cai Haoyi	–	288	–	–	288	17	103	408
Mu Huijun	–	288	–	–	288	17	103	408
Chen Shuang	–	–	–	–	–	–	–	–
Wang Pingsheng	–	–	–	–	–	–	–	–
Zhang Chuanju	–	–	–	–	–	–	–	–
Wu Junhao	–	–	–	–	–	–	–	–
Yu Erniu	67	–	–	–	67	–	–	67
James Parks Stent	67	–	–	–	67	–	–	67
Chen Yu	–	331	248	–	579	17	36	632
Ye Donghai	–	344	243	–	587	17	36	640
Ma Ning	–	448	321	–	769	17	36	822
	634	2,275	812	–	3,721	119	520	4,360

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

9 Directors' and supervisors' emoluments (continued)

The emoluments before individual income tax in respect of the directors and supervisors who held office during the Relevant Periods are as follows: (continued)

Notes:

(i) The total compensation package for these directors and supervisors for the year ended December 31, 2012 has not yet been finalised in accordance with regulations of the PRC relevant authorities. The amount of the compensation not provided for is not expected to have significant impact on the Group's and the Bank's financial statements for the year ended December 31, 2012.

(ii) Mrs. Wang Xia ceased to serve as the non-executive director of the Bank due to her resignation for other working arrangement since May 4, 2012.

The Bank's Fifth General Meeting held on May 15, 2012 elected Mr. Wang Zhongxin as non-executive director of the Bank.

The Bank's First meeting of The Second Workers Congress held on November 5, 2012 elected Mr. Ye Donghai and Mr. Ma Ning as supervisors of the Bank; Mr. Yang Bingbing and Mr. Li Wei are no longer supervisors of the Bank.

The Bank's 2012 first Extraordinary General Meeting held on November 19, 2012 elected Mr. Wu Gaolian as non-executive director of the Bank; Mr. Zhou Daojiong, Mr. Qiao Zhimin and Mr. Xie Rong as independent non-executive directors of the Bank; Mr. Yu Erniu as supervisor of the Bank, he thus ceased to serve as the non-executive director of the Bank; Mr. James Parks Stent as supervisor of the Bank, he thus ceased to serve as the independent non-executive director of the Bank; Mr. Chung Shui Ming and Mr. Cai Hongbin are no longer independent non-executive directors of the Bank; Mr. Cai Haoyi and Mr. Wang Pingsheng as supervisors of the Bank; Mr. Pang Jiying, Mr. Xia Bin and Mr. Wang Huanbang are no longer supervisors of the Bank.

The above persons' compensations are calculated on the basis of their actual time acting as the Directors or Supervisors of the Bank in 2012.

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

10 Individuals with highest emoluments

The emoluments before individual income tax of the five individuals with highest emoluments during the Relevant Periods are as follows:

	Years ended December 31,			Six months ended June 30,	
	2010	2011	2012	2012	2013
				(Unaudited)	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Salaries and other emoluments	1,141	2,277	1,963	1,649	1,705
Discretionary bonuses	20,745	22,951	23,534	4,116	3,957
Contributions to pension schemes	129	150	159	74	81
Others	304	294	281	145	154
Total	22,319	25,672	25,937	5,984	5,897

None of the five individuals with the highest emoluments are directors or supervisors. The number of these individuals whose emoluments before individual income tax are within the following bands is set out below:

	Years ended December 31,			Six months ended June 30,	
	2010	2011	2012	2012	2013
				(Unaudited)	
RMB500,001-1,000,000	–	–	–	1	–
RMB1,000,001-1,500,000	–	–	–	4	5
RMB3,500,001-4,000,000	1	–	1	–	–
RMB4,000,001-4,500,000	3	2	1	–	–
RMB5,000,001-5,500,000	–	1	1	–	–
RMB5,500,001-6,000,000	1	1	1	–	–
RMB6,000,001-6,500,000	–	1	–	–	–
RMB6,500,001-7,000,000	–	–	1	–	–

None of these individuals received any inducements or compensation for loss of office, or waived any emoluments during the Relevant Periods.

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

11 Impairment losses on assets

	Years ended December 31,			Six months ended June 30,	
	2010	2011	2012	2012	2013
				(Unaudited)	
Loans and advances to customers	3,254	3,420	5,690	2,410	2,266
Held-to-maturity investments	50	143	30	8	(33)
Available-for-sale financial assets	9	–	–	–	(1)
Others	178	135	75	21	18
Total	3,491	3,698	5,795	2,439	2,250

12 Income tax

(a) Income tax for the Relevant Periods:

		Years ended December 31,			Six months ended June 30,	
	Note	2010	2011	2012	2012	2013
					(Unaudited)	
Current tax		4,758	6,691	8,512	4,190	4,854
Deferred tax	28(b)	(445)	(693)	(574)	134	(82)
Adjustments for prior years		4	128	32	30	(283)
Total		4,317	6,126	7,970	4,354	4,489

(b) Reconciliations between income tax and accounting profit are as follows:

	Years ended December 31,			Six months ended June 30,	
	2010	2011	2012	2012	2013
				(Unaudited)	
Profit before tax	17,111	24,211	31,590	17,290	19,428
Statutory tax rate	25%	25%	25%	25%	25%
Income tax calculated at statutory tax rate	4,278	6,053	7,898	4,323	4,857
Non-deductible expenses					
– Staff costs	30	27	22	27	25
– Impairment losses on assets	148	156	385	76	178
– Others	121	123	181	44	90
	299	306	588	147	293
Non-taxable income					
– Interest income from the PRC government bonds	(264)	(361)	(548)	(146)	(378)
Sub-total	4,313	5,998	7,938	4,324	4,772
Adjustments for prior years	4	128	32	30	(283)
Income tax	4,317	6,126	7,970	4,354	4,489

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

13 Basic and diluted earnings per share

		Years ended December 31,			Six months ended June 30,	
	Note	2010	2011	2012	2012	2013
					(Unaudited)	
Weighted average number of ordinary shares (in millions)	13(a)	35,693	40,435	40,435	40,435	40,435
Net profit attributable to equity shareholders of the Bank		12,791	18,068	23,591	12,920	14,917
Basic and diluted earnings per share attributable to equity shareholders of the Bank (in RMB)		0.36	0.45	0.58	0.32	0.37

There is no difference between basic and diluted earnings per share as there were no potentially dilutive shares outstanding during the Relevant Periods.

(a) Weighted average number of ordinary shares (in millions)

	Years ended December 31,			Six months ended June 30,	
	2010	2011	2012	2012	2013
				(Unaudited)	
Number of ordinary shares as at January 1	33,435	40,435	40,435	40,435	40,435
New added weighted average number of ordinary shares	2,258	–	–	–	–
Weighted average number of ordinary shares	35,693	40,435	40,435	40,435	40,435

The Bank issued 7,000 million shares at RMB3.1 per share in its initial public offering on the Shanghai Stock Exchange in August 2010, accordingly the registered capital of the Bank increased from RMB33,434.79 million to RMB40,434.79 million, the total number of shares in issue increased from 33,434.79 million to 40,434.79 million.

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

14 Cash and deposits with the central bank

The Group

		December 31,			June 30,
	Note	2010	2011	2012	2013
Cash on hand		3,888	5,092	6,873	8,359
Deposits with the central bank					
– Statutory deposit reserves	14(a)	146,677	193,751	250,350	275,306
– Surplus deposit reserves	14(b)	32,271	25,981	24,130	22,499
– Fiscal deposits		2,909	3,842	4,125	5,544
Sub-total		181,857	223,574	278,605	303,349
Total		185,745	228,666	285,478	311,708

The Bank

		December 31,			June 30,
	Note	2010	2011	2012	2013
Cash on hand		3,886	5,089	6,869	8,350
Deposits with the central bank					
– Statutory deposit reserves	14(a)	146,656	193,688	250,300	275,221
– Surplus deposit reserves	14(b)	32,262	25,981	24,124	22,499
– Fiscal deposits		2,909	3,842	4,125	5,544
Sub-total		181,827	223,511	278,549	303,264
Total		185,713	228,600	285,418	311,614

(a) The Group places statutory deposit reserves with the People's Bank of China (the "PBOC") in accordance with relevant regulations. As at the end of the Relevant Periods, the statutory deposit reserve ratios applicable to the Bank were as follows:

	December 31,			June 30,
	2010	2011	2012	2013
Reserve ratio for RMB deposits	17.0%	19.0%	18.0%	18.0%
Reserve ratio for foreign currency deposits	5.0%	5.0%	5.0%	5.0%

The statutory deposit reserves are not available for the Group's daily business.

(b) The surplus deposit reserves are maintained with the PBOC for the purpose of clearing.

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

15 Deposits with banks and other financial institutions

Analyzed by type and location of counterparty

The Group

	December 31,			June 30,
	2010	2011	2012	2013
Deposits in mainland China				
– Banks	50,427	99,709	43,428	71,040
– Other financial institutions	96	136	116	149
Sub-total	50,523	99,845	43,544	71,189
Deposits outside mainland China				
– Banks	2,776	5,433	3,505	2,710
Sub-total	2,776	5,433	3,505	2,710
Total	53,299	105,278	47,049	73,899
Less: Provision for impairment losses	(24)	(15)	(30)	(29)
Net balances	53,275	105,263	47,019	73,870

The Bank

	December 31,			June 30,
	2010	2011	2012	2013
Deposits in mainland China				
– Banks	49,926	99,236	43,327	70,960
– Other financial institutions	96	136	116	149
Sub-total	50,022	99,372	43,443	71,109
Deposits outside mainland China				
– Banks	2,776	5,433	3,505	2,710
Sub-total	2,776	5,433	3,505	2,710
Total	52,798	104,805	46,948	73,819
Less: Provision for impairment losses	(24)	(15)	(30)	(29)
Net balances	52,774	104,790	46,918	73,790

As at the end of each of the Relevant Periods, part of the deposits with banks and other financial institutions mentioned above was pledged for the swap and secured transactions (Note 30(a)).

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

16 Placements with banks and other financial institutions

The Group and the Bank

	December 31,			June 30,
	2010	2011	2012	2013
Placements in mainland China				
– Banks	14,143	64,816	109,527	114,281
– Other financial institutions	9,166	16,702	26,460	21,159
Sub-total	23,309	81,518	135,987	135,440
Placements outside mainland China				
– Banks	528	229	–	1,626
Sub-total	528	229	–	1,626
Total	23,837	81,747	135,987	137,066
Less: Provision for impairment losses	(4)	(1)	(8)	(6)
Net balances	23,833	81,746	135,979	137,060

17 Financial assets at fair value through profit or loss

The Group and the Bank

		December 31,			June 30,
	Note	2010	2011	2012	2013
Debt securities held for trading	17(a)	21,728	22,170	29,084	31,473
Financial assets designated at fair value through profit or loss	17(b)	669	557	369	306
Total		22,397	22,727	29,453	31,779

(a) Debt securities held for trading

The Group and the Bank

		December 31,			June 30,
	Note	2010	2011	2012	2013
Issued by the following governments or institutions					
In mainland China					
– Government		–	30	138	318
– The PBOC		382	19	100	120
– Banks and other financial institutions		–	219	6,589	6,435
– Other institutions	(i)	21,346	21,902	22,257	24,600
Total	(ii)	21,728	22,170	29,084	31,473
Unlisted		21,728	22,170	29,084	31,473
Total		21,728	22,170	29,084	31,473

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

17 Financial assets at fair value through profit or loss (continued)

(a) Debt securities held for trading (continued)

Notes:

(i) As at the end of each of the Relevant Periods, debt securities issued by other institutions in mainland China mainly represented debt securities issued by state-owned enterprises and joint stock enterprises in mainland China.

(ii) No investments were subject to material restrictions on realization.

(b) Financial assets designated at fair value through profit or loss represented fixed interest rate personal mortgage loans. The Group used interest rate swap to manage the associated interest rate risk. As at June 30, 2013, the contractual amount of these mortgage loans was RMB311 million (December 31, 2012: RMB362 million; December 31, 2011: RMB540 million; December 31, 2010: RMB690 million). The changes in fair value during the Relevant Periods and the accumulated changes attributable to credit risk were immaterial.

18 Derivatives

Derivative financial instruments include forward and swap contracts undertaken by the Group in foreign currency and interest rate markets. The Group acts as an intermediary between a wide range of customers for structuring deals to provide risk management solutions to meet customer needs. These positions are actively managed through entering into back-to-back deals with external parties to ensure the Group's net exposures are within acceptable risk level. The Group also uses derivative financial instruments in the management of its own asset and liability portfolios and structural positions.

The following tables provide an analysis of the notional amounts of derivative financial instruments of the Group and the corresponding fair values at the end of each of the Relevant Periods. The notional amounts of the derivatives indicate the volume of transactions outstanding at the end of the Relevant Periods, they do not represent amounts at risk.

(a) Analyzed by nature of contract

The Group and the Bank

	December 31, 2010		
	Notional amount	Fair value	
		Assets	Liabilities
Interest rate derivatives			
– Interest rate swap	84,908	2,277	(2,213)
– Bond option	66	–	–
Currency derivatives			
– Foreign exchange forward	21,907	97	(72)
– Foreign exchange swap	73,640	647	(672)
Credit derivatives			
– Credit default swap	600	4	(3)
Total	181,121	3,025	(2,960)

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

18 Derivatives (continued)

(a) Analyzed by nature of contract (continued)

The Group and the Bank

	December 31, 2011		
	Notional amount	Fair value	
		Assets	Liabilities
Interest rate derivatives			
– Interest rate swap	132,463	1,604	(2,080)
Currency derivatives			
– Foreign exchange forward	48,876	270	(297)
– Foreign exchange swap	76,317	384	(682)
Credit derivatives			
– Credit default swap	400	4	(3)
Total	258,056	2,262	(3,062)

The Group and the Bank

	December 31, 2012		
	Notional amount	Fair value	
		Assets	Liabilities
Interest rate derivatives			
– Interest rate swap	128,086	944	(1,065)
Currency derivatives			
– Foreign exchange forward	17,067	122	(173)
– Foreign exchange swap	127,329	611	(623)
Credit derivatives			
– Credit default swap	200	–	–
Total	272,682	1,677	(1,861)

The Group and the Bank

	June 30, 2013		
	Notional amount	Fair value	
		Assets	Liabilities
Interest rate derivatives			
– Interest rate swap	84,056	632	(580)
Currency derivatives			
– Foreign exchange forward	24,490	168	(223)
– Foreign exchange swap	131,047	760	(913)
Total	239,593	1,560	(1,716)

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

18 Derivatives (continued)

(b) Analyzed by credit risk-weighted amounts

As at December 31, 2010, 2011 and 2012, the Group calculated the credit risk weighted assets for derivatives in accordance with "Regulations Governing Capital Adequacy of Commercial Banks" and other relevant requirements promulgated by the CBRC, which were abolished on January 1, 2013. The relevant figures are as follows:

The Group and the Bank

	December 31,		
	2010	2011	2012
Interest rate derivatives			
– Interest rate swap	2,422	1,483	695
Currency derivatives			
– Foreign exchange forward	343	356	187
– Foreign exchange swap	346	615	455
Credit derivatives			
– Credit default swap	15	14	10
Total	3,126	2,468	1,347

The credit risk-weighted amount refers to the amount as computed in accordance with the rules set out by the CBRC, and depends on the status of the counterparty and the maturity characteristics of the instrument. It includes customer driven transactions, which were hedged back to back. The amounts have taken into account the effects of bilateral netting arrangements.

	June 30, 2013
Counterparty default risk-weighted assets	
– Interest rate derivatives	200
– Currency derivatives	1,139
Credit value adjustment	2,201
Total	3,540

Note:

(i) The credit risk weighted amounts represent the counterparty credit risk associated with derivative transactions, which are calculated with reference to the guidelines issued by the CBRC. These amounts include counterparty credit default risk weighted assets and credit valuation adjustment.

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

19 Financial assets held under resale agreements

(a) Analyzed by type and location of counterparty

The Group and the Bank

	December 31,			June 30,
	2010	2011	2012	2013
In mainland China				
– Banks	149,177	181,098	212,755	169,492
– Other financial institutions	20,829	25,814	17,942	11,863
– Other enterprises	31	29	29	29
Total	170,037	206,941	230,726	181,384
Net balances	170,037	206,941	230,726	181,384

(b) Analyzed by type of security held

The Group and the Bank

	December 31,			June 30,
	2010	2011	2012	2013
Debt securities				
– Government bonds	7,909	18,381	2,818	11,620
– Bills issued by the PBOC	3,659	1,578	–	–
– Other debt securities	27,014	53,687	43,678	29,948
– Others	31	29	29	29
Sub-total	38,613	73,675	46,525	41,597
Bank acceptances	130,924	132,666	184,001	137,339
Others	500	600	200	2,448
Total	170,037	206,941	230,726	181,384
Net balances	170,037	206,941	230,726	181,384

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

20 Interests receivable

The Group

	December 31,			June 30,
	2010	2011	2012	2013
Interests receivable from loans and advances to customers	1,502	2,299	3,148	3,383
Interests receivable from investments	2,407	2,671	5,521	9,144
Interests receivable from deposits and placements with banks and other financial institutions	175	1,021	1,325	1,039
Other interests receivable	82	148	191	196
Total	4,166	6,139	10,185	13,762
Less: Provision for impairment losses	(27)	(39)	(45)	(27)
Net balances	4,139	6,100	10,140	13,735

The Bank

	December 31,			June 30,
	2010	2011	2012	2013
Interests receivable from loans and advances to customers	1,502	2,299	3,148	3,382
Interests receivable from investments	2,407	2,671	5,521	9,144
Interests receivable from deposits and placements with banks and other financial institutions	175	1,021	1,325	1,039
Other interests receivable	64	109	101	89
Total	4,148	6,100	10,095	13,654
Less: Provision for impairment losses	(27)	(39)	(45)	(27)
Net balances	4,121	6,061	10,050	13,627

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

21 Loans and advances to customers

(a) Analyzed by nature

The Group

	December 31,			June 30,
	2010	2011	2012	2013
Corporate loans and advances	571,232	641,950	699,090	731,522
Personal loans and advances				
– Residential and commercial mortgage loans	118,280	130,215	154,550	171,227
– Micro-enterprise equipment loans	43,722	49,685	41,756	36,495
– Credit cards	13,000	25,346	69,611	89,496
– Others	18,805	28,208	45,537	63,917
Sub-total	193,807	233,454	311,454	361,135
Discounted bills	13,789	14,421	12,643	11,897
Gross loans and advances to customers	778,828	889,825	1,023,187	1,104,554
Less: Provision for impairment losses				
– Individually assessed	(4,293)	(3,823)	(3,487)	(3,241)
– Collectively assessed	(13,980)	(17,220)	(22,369)	(22,648)
Total provision for impairment losses	(18,273)	(21,043)	(25,856)	(25,889)
Net loans and advances to customers	760,555	868,782	997,331	1,078,665

The Bank

	December 31,			June 30,
	2010	2011	2012	2013
Corporate loans and advances	571,170	641,863	698,974	731,258
Personal loans and advances				
– Residential and commercial mortgage loans	118,261	130,190	154,528	171,211
– Micro-enterprise equipment loans	43,722	49,685	41,756	36,495
– Credit cards	13,000	25,346	69,611	89,496
– Others	18,793	28,200	45,516	63,858
Sub-total	193,776	233,421	311,411	361,060
Discounted bills	13,789	14,421	12,643	11,897
Gross loans and advances to customers	778,735	889,705	1,023,028	1,104,215
Less: Provision for impairment losses				
– Individually assessed	(4,293)	(3,823)	(3,487)	(3,241)
– Collectively assessed	(13,979)	(17,216)	(22,363)	(22,640)
Total provision for impairment losses	(18,272)	(21,039)	(25,850)	(25,881)
Net loans and advances to customers	760,463	868,666	997,178	1,078,334

As at the end of each of the Relevant Periods, part of the above loans and advances to customers was pledged for repurchase agreements (Note 30(a)).

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

21 Loans and advances to customers (continued)

(b) Analyzed by economic sector

The Group

	December 31, 2010		
	Amount	Percentage	Loans and advances secured by collaterals
Manufacturing	140,369	18.02%	18,691
Real estate	81,316	10.44%	51,111
Water, environment and public utility management	67,235	8.63%	16,488
Wholesale and retail trade	67,048	8.61%	17,588
Transportation, storage and postal services	65,122	8.36%	11,565
Leasing and commercial services	55,951	7.19%	14,902
Production and supply of electric power, gas and water	29,625	3.80%	3,229
Mining	19,852	2.55%	2,276
Others	44,714	5.75%	13,658
Sub-total of corporate loans and advances	571,232	73.35%	149,508
Personal loans and advances	193,807	24.88%	177,959
Discounted bills	13,789	1.77%	11,734
Gross loans and advances to customers	778,828	100.00%	339,201
Less: Provision for impairment losses			
– Individually assessed	(4,293)		
– Collectively assessed	(13,980)		
Total provision for impairment losses	(18,273)		
Net loans and advances to customers	760,555		

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

21 Loans and advances to customers (continued)

(b) Analyzed by economic sector (continued)

The Group

	December 31, 2011		
	Amount	Percentage	Loans and advances secured by collaterals
Manufacturing	186,037	20.91%	24,175
Wholesale and retail trade	102,718	11.54%	26,639
Real estate	84,076	9.45%	64,671
Transportation, storage and postal services	67,427	7.58%	14,493
Leasing and commercial services	51,816	5.82%	15,401
Water, environment and public utility management	42,222	4.74%	11,757
Production and supply of electric power, gas and water	30,293	3.40%	3,357
Mining	24,507	2.75%	2,657
Others	52,854	5.95%	13,034
Sub-total of corporate loans and advances	641,950	72.14%	176,184
Personal loans and advances	233,454	26.24%	201,697
Discounted bills	14,421	1.62%	13,758
Gross loans and advances to customers	889,825	100.00%	391,639
Less: Provision for impairment losses			
– Individually assessed	(3,823)		
– Collectively assessed	(17,220)		
Total provision for impairment losses	(21,043)		
Net loans and advances to customers	868,782		

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

21 Loans and advances to customers (continued)

(b) Analyzed by economic sector (continued)

The Group

	December 31, 2012		
	Amount	Percentage	Loans and advances secured by collaterals
Manufacturing	224,411	21.93%	28,216
Wholesale and retail trade	129,590	12.67%	32,605
Real estate	85,469	8.35%	75,433
Transportation, storage and postal services	67,628	6.61%	20,494
Leasing and commercial services	40,775	3.99%	14,104
Water, environment and public utility management	32,643	3.19%	10,183
Mining	27,805	2.72%	3,095
Production and supply of electric power, gas and water	23,125	2.26%	3,643
Others	67,644	6.60%	15,288
Sub-total of corporate loans and advances	699,090	68.32%	203,061
Personal loans and advances	311,454	30.44%	227,334
Discounted bills	12,643	1.24%	11,777
Gross loans and advances to customers	1,023,187	100.00%	442,172
Less: Provision for impairment losses			
– Individually assessed	(3,487)		
– Collectively assessed	(22,369)		
Total provision for impairment losses	(25,856)		
Net loans and advances to customers	997,331		

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

21 Loans and advances to customers (continued)

(b) Analyzed by economic sector (continued)

The Group

	June 30, 2013		
	Amount	Percentage	Loans and advances secured by collaterals
Manufacturing	233,659	21.15%	43,454
Wholesale and retail trade	140,298	12.70%	45,197
Real estate	91,482	8.28%	74,308
Transportation, storage and postal services	67,291	6.09%	19,221
Leasing and commercial services	38,541	3.49%	12,695
Water, environment and public utility management	29,702	2.69%	9,199
Mining	27,778	2.52%	4,079
Production and supply of electric power, gas and water	21,767	1.97%	4,211
Others	81,004	7.34%	23,227
Sub-total of corporate loans and advances	731,522	66.23%	235,591
Personal loans and advances	361,135	32.69%	252,797
Discounted bills	11,897	1.08%	10,432
Gross loans and advances to customers	1,104,554	100.00%	498,820
Less: Provision for impairment losses			
– Individually assessed	(3,241)		
– Collectively assessed	(22,648)		
Total provision for impairment losses	(25,889)		
Net loans and advances to customers	1,078,665		

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

21 Loans and advances to customers (continued)

(b) Analyzed by economic sector (continued)

The Bank

	December 31, 2010		
	Amount	Percentage	Loans and advances secured by collaterals
Manufacturing	140,369	18.03%	18,691
Real estate	81,316	10.44%	51,111
Water, environment and public utility management	67,230	8.63%	16,483
Wholesale and retail trade	67,048	8.61%	17,588
Transportation, storage and postal services	65,122	8.36%	11,565
Leasing and commercial service	55,936	7.18%	14,887
Production and supply of electric power, gas and water	29,625	3.80%	3,229
Mining	19,852	2.55%	2,276
Others	44,672	5.75%	13,628
Sub-total of corporate loans and advances	571,170	73.35%	149,458
Personal loans and advances	193,776	24.88%	177,931
Discounted bills	13,789	1.77%	11,734
Gross loans and advances to customers	778,735	100.00%	339,123
Less: Provision for impairment losses			
– Individually assessed	(4,293)		
– Collectively assessed	(13,979)		
Total provision for impairment losses	(18,272)		
Net loans and advances to customers	760,463		

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

21 Loans and advances to customers (continued)

(b) Analyzed by economic sector (continued)

The Bank

	December 31, 2011		
	Amount	Percentage	Loans and advances secured by collaterals
Manufacturing	186,032	20.91%	24,175
Wholesale and retail trade	102,718	11.55%	26,639
Real estate	84,076	9.45%	64,671
Transportation, storage and postal services	67,427	7.58%	14,493
Leasing and commercial service	51,811	5.82%	15,396
Water, environment and public utility management	42,212	4.74%	11,752
Production and supply of electric power, gas and water	30,293	3.40%	3,357
Mining	24,507	2.75%	2,657
Others	52,787	5.94%	12,987
Sub-total of corporate loans and advances	641,863	72.14%	176,127
Personal loans and advances	233,421	26.24%	201,667
Discounted bills	14,421	1.62%	13,758
Gross loans and advances to customers	889,705	100.00%	391,552
Less: Provision for impairment losses			
– Individually assessed	(3,823)		
– Collectively assessed	(17,216)		
Total provision for impairment losses	(21,039)		
Net loans and advances to customers	868,666		

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

21 Loans and advances to customers (continued)

(b) Analyzed by economic sector (continued)

The Bank

	December 31, 2012		
	Amount	Percentage	Loans and advances secured by collaterals
Manufacturing	224,386	21.93%	28,191
Wholesale and retail trade	129,590	12.67%	32,605
Real estate	85,469	8.35%	75,433
Transportation, storage and postal services	67,628	6.61%	20,494
Leasing and commercial services	40,770	3.99%	14,099
Water, environment and public utility management	32,633	3.19%	10,178
Mining	27,805	2.72%	3,095
Production and supply of electric power, gas and water	23,125	2.26%	3,643
Others	67,568	6.60%	15,221
Sub-total of corporate loans and advances	698,974	68.32%	202,959
Personal loans and advances	311,411	30.44%	227,299
Discounted bills	12,643	1.24%	11,777
Gross loans and advances to customers	1,023,028	100.00%	442,035
Less: Provision for impairment losses			
– Individually assessed	(3,487)		
– Collectively assessed	(22,363)		
Total provision for impairment losses	(25,850)		
Net loans and advances to customers	997,178		

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

21 Loans and advances to customers (continued)

(b) Analyzed by economic sector (continued)

The Bank

	June 30, 2013		
	Amount	Percentage	Loans and advances secured by collaterals
Manufacturing	233,550	21.15%	43,410
Wholesale and retail trade	140,284	12.70%	45,183
Real estate	91,482	8.28%	74,308
Transportation, storage and postal services	67,291	6.09%	19,221
Leasing and commercial services	38,541	3.49%	12,695
Water, environment and public utility management	29,673	2.69%	9,172
Mining	27,778	2.52%	4,079
Production and supply of electric power, gas and water	21,767	1.97%	4,211
Others	80,892	7.33%	23,174
Sub-total of corporate loans and advances	731,258	66.22%	235,453
Personal loans and advances	361,060	32.70%	252,748
Discounted bills	11,897	1.08%	10,432
Gross loans and advances to customers	1,104,215	100.00%	498,633
Less: Provision for impairment losses			
– Individually assessed	(3,241)		
– Collectively assessed	(22,640)		
Total provision for impairment losses	(25,881)		
Net loans and advances to customers	1,078,334		

As at the end of each of the Relevant Periods and during the respective periods, detailed information of the impaired loans and advances to customers as well as the corresponding provision for impairment losses in respect of each economic sectors which constitute 10% or more of gross loans and advances to customers are as follows:

The Group and the Bank

	December 31, 2010				
	Impaired loans and advances	Individually assessed provision for impairment losses	Collectively assessed provision for impairment losses	Impairment charged during the year	Written-off during the year
Manufacturing	1,838	(1,621)	(2,773)	(379)	178
Real estate	451	(405)	(1,644)	(629)	–

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

21 Loans and advances to customers (continued)

(b) Analyzed by economic sector (continued)

The Group and the Bank

	December 31, 2011				
	Impaired loans and advances	Individually assessed provision for impairment losses	Collectively assessed provision for impairment losses	Impairment charged during the year	Written-off during the year
Manufacturing	1,957	(1,490)	(3,853)	(1,092)	158
Wholesale and retail trade	932	(698)	(1,935)	(874)	178

The Group

	December 31, 2012				
	Impaired loans and advances	Individually assessed provision for impairment losses	Collectively assessed provision for impairment losses	Impairment charged during the year	Written-off during the year
Manufacturing	2,246	(1,128)	(5,975)	(2,086)	296
Wholesale and retail trade	1,983	(868)	(3,536)	(1,972)	173

The Bank

	December 31, 2012				
	Impaired loans and advances	Individually assessed provision for impairment losses	Collectively assessed provision for impairment losses	Impairment charged during the year	Written-off during the year
Manufacturing	2,246	(1,128)	(5,974)	(2,085)	296
Wholesale and retail trade	1,983	(868)	(3,536)	(1,972)	173

The Group

	June 30, 2013				
	Impaired loans and advances	Individually assessed provision for impairment losses	Collectively assessed provision for impairment losses	Impairment charged during the period	Written-off during the period
Manufacturing	2,098	(839)	(5,780)	(350)	798
Wholesale and retail trade	3,149	(1,509)	(3,457)	(857)	203

The Bank

	June 30, 2013				
	Impaired loans and advances	Individually assessed provision for impairment losses	Collectively assessed provision for impairment losses	Impairment charged during the period	Written-off during the period
Manufacturing	2,098	(839)	(5,778)	(349)	798
Wholesale and retail trade	3,149	(1,509)	(3,456)	(857)	203

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

21 Loans and advances to customers (continued)

(c) Analyzed by type of collateral

The Group

	December 31,			June 30,
	2010	2011	2012	2013
Unsecured loans	240,206	276,449	312,965	326,988
Guaranteed loans	199,421	221,737	268,050	278,746
Secured loans				
– By tangible assets other than monetary assets	277,293	311,601	355,951	398,818
– By monetary assets	61,908	80,038	86,221	100,002
Gross loans and advances to customers	778,828	889,825	1,023,187	1,104,554
Less: Provision for impairment losses				
– Individually assessed	(4,293)	(3,823)	(3,487)	(3,241)
– Collectively assessed	(13,980)	(17,220)	(22,369)	(22,648)
Total provision for impairment losses	(18,273)	(21,043)	(25,856)	(25,889)
Net loans and advances to customers	760,555	868,782	997,331	1,078,665

The Bank

	December 31,			June 30,
	2010	2011	2012	2013
Unsecured loans	240,191	276,446	312,962	326,985
Guaranteed loans	199,421	221,707	268,031	278,597
Secured loans				
– By tangible assets other than monetary assets	277,221	311,514	355,816	398,633
– By monetary assets	61,902	80,038	86,219	100,000
Gross loans and advances to customers	778,735	889,705	1,023,028	1,104,215
Less: Provision for impairment losses				
– Individually assessed	(4,293)	(3,823)	(3,487)	(3,241)
– Collectively assessed	(13,979)	(17,216)	(22,363)	(22,640)
Total provision for impairment losses	(18,272)	(21,039)	(25,850)	(25,881)
Net loans and advances to customers	760,463	868,666	997,178	1,078,334

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

21 Loans and advances to customers (continued)

(d) Overdue loans analyzed by overdue period

The Group and the Bank

	December 31, 2010				
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	Total
Unsecured loans	345	246	48	85	724
Guaranteed loans	342	23	1,143	1,117	2,625
Secured loans					
– By tangible assets other than monetary assets	3,650	234	530	1,441	5,855
– By monetary assets	12	1	244	475	732
Total	4,349	504	1,965	3,118	9,936
As a percentage of gross loans and advances to customers	0.56%	0.07%	0.25%	0.40%	1.28%

The Group and the Bank

	December 31, 2011				
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	Total
Unsecured loans	1,004	419	23	79	1,525
Guaranteed loans	1,262	63	374	1,347	3,046
Secured loans					
– By tangible assets other than monetary assets	2,909	229	302	1,379	4,819
– By monetary assets	133	5	3	619	760
Total	5,308	716	702	3,424	10,150
As a percentage of gross loans and advances to customers	0.60%	0.08%	0.08%	0.38%	1.14%

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

21 Loans and advances to customers (continued)

(d) Overdue loans analyzed by overdue period (continued)

The Group and the Bank

	December 31, 2012				
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	Total
Unsecured loans	2,432	946	83	97	3,558
Guaranteed loans	1,652	1,885	193	961	4,691
Secured loans					
– By tangible assets other than monetary assets	5,697	668	331	1,157	7,853
– By monetary assets	219	56	12	579	866
Total	10,000	3,555	619	2,794	16,968
As a percentage of gross loans and advances to customers	0.98%	0.35%	0.06%	0.27%	1.66%

The Group and the Bank

	June 30, 2013				
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	Total
Unsecured loans	2,624	1,838	96	46	4,604
Guaranteed loans	2,556	1,326	729	430	5,041
Secured loans					
– By tangible assets other than monetary assets	7,504	1,010	870	950	10,334
– By monetary assets	1,107	559	25	71	1,762
Total	13,791	4,733	1,720	1,497	21,741
As a percentage of gross loans and advances to customers	1.25%	0.43%	0.16%	0.13%	1.97%

Overdue loans represent loans, of which the whole or part of the principal or interest were overdue for one day or more.

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

21 Loans and advances to customers (continued)

(e) Loans and advances and provision for impairment losses

The Group

	December 31, 2010				
	(Note (i)) Loans and advances for which provision are collectively assessed	(Note (ii)) Impaired loans and advances			
		for which provision are collectively assessed	for which provision are individually assessed	Total	Gross impaired loans and advances as a percentage of gross loans and advances
Gross loans and advances to customers	772,999	1,100	4,729	778,828	0.75%
Less: Provision for impairment losses	(13,228)	(752)	(4,293)	(18,273)	
Net loans and advances to customers	759,771	348	436	760,555	

The Group

	December 31, 2011				
	(Note (i)) Loans and advances for which provision are collectively assessed	(Note (ii)) Impaired loans and advances			
		for which provision are collectively assessed	for which provision are individually assessed	Total	Gross impaired loans and advances as a percentage of gross loans and advances
Gross loans and advances to customers	884,098	980	4,747	889,825	0.64%
Less: Provision for impairment losses	(16,509)	(711)	(3,823)	(21,043)	
Net loans and advances to Customers	867,589	269	924	868,782	

The Group

	December 31, 2012				
	(Note (i)) Loans and advances for which provision are collectively assessed	(Note (ii)) Impaired loans and advances			
		for which provision are collectively assessed	for which provision are individually assessed	Total	Gross impaired loans and advances as a percentage of gross loans and advances
Gross loans and advances to customers	1,015,574	1,600	6,013	1,023,187	0.74%
Less: Provision for impairment losses	(21,237)	(1,132)	(3,487)	(25,856)	
Net loans and advances to customers	994,337	468	2,526	997,331	

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

21 Loans and advances to customers (continued)

(e) Loans and advances and provision for impairment losses (continued)

The Group

	June 30, 2013				
	(Note (i)) Loans and advances for which provision are collectively assessed	(Note (ii)) Impaired loans and advances			
		for which provision are collectively assessed	for which provision are individually assessed	Total	Gross impaired loans and advances as a percentage of gross loans and advances
Gross loans and advances to customers	1,095,713	2,163	6,678	1,104,554	0.80%
Less: Provision for impairment losses	(21,315)	(1,333)	(3,241)	(25,889)	
Net loans and advances to customers	1,074,398	830	3,437	1,078,665	

The Bank

	December 31, 2010				
	(Note (i)) Loans and advances for which provision are collectively assessed	(Note (ii)) Impaired loans and advances			
		for which provision are collectively assessed	for which provision are individually assessed	Total	Gross impaired loans and advances as a percentage of gross loans and advances
Gross loans and advances to customers	772,906	1,100	4,729	778,735	0.75%
Less: Provision for impairment losses	(13,227)	(752)	(4,293)	(18,272)	
Net loans and advances to customers	759,679	348	436	760,463	

The Bank

	December 31, 2011				
	(Note (i)) Loans and advances for which provision are collectively assessed	(Note (ii)) Impaired loans and advances			
		for which provision are collectively assessed	for which provision are individually assessed	Total	Gross impaired loans and advances as a percentage of gross loans and advances
Gross loans and advances to customers	883,978	980	4,747	889,705	0.64%
Less: Provision for impairment losses	(16,505)	(711)	(3,823)	(21,039)	
Net loans and advances to Customers	867,473	269	924	868,666	

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

21 Loans and advances to customers (continued)

(e) Loans and advances and provision for impairment losses (continued)

The Bank

	December 31, 2012				
	(Note (i)) Loans and advances for which provision are collectively assessed	(Note (ii)) Impaired loans and advances: for which provision are collectively assessed	(Note (ii)) Impaired loans and advances: for which provision are individually assessed	Total	Gross impaired loans and advances as a percentage of gross loans and advances
Gross loans and advances to customers	1,015,415	1,600	6,013	1,023,028	0.74%
Less: Provision for impairment losses	(21,231)	(1,132)	(3,487)	(25,850)	
Net loans and advances to customers	994,184	468	2,526	997,178	

The Bank

	June 30, 2013				
	(Note (i)) Loans and advances for which provision are collectively assessed	(Note (ii)) Impaired loans and advances: for which provision are collectively assessed	(Note (ii)) Impaired loans and advances: for which provision are individually assessed	Total	Gross impaired loans and advances as a percentage of gross loans and advances
Gross loans and advances to customers	1,095,374	2,163	6,678	1,104,215	0.80%
Less: Provision for impairment losses	(21,307)	(1,333)	(3,241)	(25,881)	
Net loans and advances to customers	1,074,067	830	3,437	1,078,334	

Notes:

(i) Loans and advances collectively assessed for impairment bear relatively insignificant impairment losses as a proportion of the total portfolio. These loans and advances include those which are graded normal or special-mention.

(ii) Impaired loans and advances include those for which objective evidence of impairment has been identified and assessed using the following methods:

– Individually (including corporate loans and advances which are graded substandard, doubtful or loss); or

– Collectively, representing portfolios of homogeneous loans (including personal loans and advances which are graded substandard, doubtful or loss).

(iii) The definitions of the loan classifications, stated in Notes (i) and (ii) above, are set out in Note 48(a).

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

21 Loans and advances to customers (continued)

(f) Movements of provision for impairment losses

The Group

	2010			
	Provision for loans and advances which are collectively assessed	Provision for impaired loans and advances		
		which are collectively assessed	which are individually assessed	Total
As at January 1	(9,186)	(1,137)	(5,442)	(15,765)
Charge for the year	(4,042)	(160)	(131)	(4,333)
Release for the year	–	–	1,079	1,079
Recoveries	–	(74)	(67)	(141)
Unwinding of discount	–	–	66	66
Write-offs	–	619	202	821
As at December 31	(13,228)	(752)	(4,293)	(18,273)

The Group

	2011			
	Provision for loans and advances which are collectively assessed	Provision for impaired loans and advances		
		which are collectively assessed	which are individually assessed	Total
As at January 1	(13,228)	(752)	(4,293)	(18,273)
Charge for the year	(3,281)	(230)	(380)	(3,891)
Release for the year	–	–	471	471
Recoveries	–	(88)	(63)	(151)
Unwinding of discount	–	–	52	52
Write-offs	–	359	390	749
As at December 31	(16,509)	(711)	(3,823)	(21,043)

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

21 Loans and advances to customers (continued)

(f) Movements of provision for impairment losses (continued)

The Group

	2012			
	Provision for loans and advances which are collectively assessed	Provision for impaired loans and advances		
		which are collectively assessed	which are individually assessed	Total
As at January 1	(16,509)	(711)	(3,823)	(21,043)
Charge for the year	(4,728)	(722)	(872)	(6,322)
Release for the year	–	–	632	632
Recoveries	–	(92)	(96)	(188)
Unwinding of discount	–	–	156	156
Write-offs	–	393	516	909
As at December 31	(21,237)	(1,132)	(3,487)	(25,856)

The Group

	Six months ended June 30, 2013			
	Provision for loans and advances which are collectively assessed	Provision for impaired loans and advances		
		which are collectively assessed	which are individually assessed	Total
As at January 1	(21,237)	(1,132)	(3,487)	(25,856)
Charge for the period	(78)	(837)	(1,678)	(2,593)
Release for the period	–	–	327	327
Recoveries	–	(67)	(25)	(92)
Unwinding of discount	–	–	171	171
Disposals	–	–	805	805
Write-offs	–	703	646	1,349
As at June 30	(21,315)	(1,333)	(3,241)	(25,889)

The Bank

	2010			
	Provision for loans and advances which are collectively assessed	Provision for impaired loans and advances		
		which are collectively assessed	which are individually assessed	Total
As at January 1	(9,186)	(1,137)	(5,442)	(15,765)
Charge for the year	(4,041)	(160)	(131)	(4,332)
Release for the year	–	–	1,079	1,079
Recoveries	–	(74)	(67)	(141)
Unwinding of discount	–	–	66	66
Write-offs	–	619	202	821
As at December 31	(13,227)	(752)	(4,293)	(18,272)

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

21 Loans and advances to customers (continued)

(f) Movements of provision for impairment losses (continued)

The Bank

	2011			
	Provision for loans and advances which are collectively assessed	Provision for impaired loans and advances		
		which are collectively assessed	which are individually assessed	Total
As at January 1	(13,227)	(752)	(4,293)	(18,272)
Charge for the year	(3,278)	(230)	(380)	(3,888)
Release for the year	–	–	471	471
Recoveries	–	(88)	(63)	(151)
Unwinding of discount	–	–	52	52
Write-offs	–	359	390	749
As at December 31	(16,505)	(711)	(3,823)	(21,039)

The Bank

	2012			
	Provision for loans and advances which are collectively assessed	Provision for impaired loans and advances		
		which are collectively assessed	which are individually assessed	Total
As at January 1	(16,505)	(711)	(3,823)	(21,039)
Charge for the year	(4,726)	(722)	(872)	(6,320)
Release for the year	–	–	632	632
Recoveries	–	(92)	(96)	(188)
Unwinding of discount	–	–	156	156
Write-offs	–	393	516	909
As at December 31	(21,231)	(1,132)	(3,487)	(25,850)

The Bank

	Six months ended June 30, 2013			
	Provision for loans and advances which are collectively assessed	Provision for impaired loans and advances		
		which are collectively assessed	which are individually assessed	Total
As at January 1	(21,231)	(1,132)	(3,487)	(25,850)
Charge for the period	(76)	(837)	(1,678)	(2,591)
Release for the period	–	–	327	327
Recoveries	–	(67)	(25)	(92)
Unwinding of discount	–	–	171	171
Disposals	–	–	805	805
Write-offs	–	703	646	1,349
As at June 30	(21,307)	(1,333)	(3,241)	(25,881)

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

21 Loans and advances to customers (continued)

(g) Analyzed by geographical sector

The Group

	December 31, 2010		
	Loan balance	Percentage	Loans and advances secured by collaterals
Yangtze River Delta	209,058	26.84%	104,960
Bohai Rim	170,906	21.94%	68,427
Central	113,774	14.61%	40,731
Western	113,487	14.57%	48,940
Pearl River Delta	112,268	14.41%	50,331
Northeastern	46,312	5.95%	25,812
Head Office	13,023	1.68%	–
Gross loans and advances to customers	778,828	100.00%	339,201

The Group

	December 31, 2011		
	Loan balance	Percentage	Loans and advances secured by collaterals
Yangtze River Delta	222,276	24.98%	109,032
Bohai Rim	193,992	21.80%	77,461
Western	132,947	14.94%	62,759
Central	132,157	14.85%	49,890
Pearl River Delta	126,963	14.27%	59,542
Northeastern	56,123	6.31%	32,955
Head Office	25,367	2.85%	–
Gross loans and advances to customers	889,825	100.00%	391,639

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

21 Loans and advances to customers (continued)

(g) Analyzed by geographical sector (continued)

The Group

	December 31, 2012		
	Loan balance	Percentage	Loans and advances secured by collaterals
Yangtze River Delta	243,573	23.81%	121,711
Bohai Rim	199,896	19.54%	81,820
Central	152,891	14.94%	60,736
Western	151,357	14.79%	77,017
Pearl River Delta	144,859	14.16%	68,471
Head Office	69,629	6.80%	–
Northeastern	60,982	5.96%	32,417
Gross loans and advances to customers	1,023,187	100.00%	442,172

The Group

	June 30, 2013		
	Loan balance	Percentage	Loans and advances secured by collaterals
Yangtze River Delta	248,648	22.51%	132,200
Bohai Rim	205,841	18.64%	81,411
Central	168,376	15.24%	72,685
Western	167,649	15.18%	91,433
Pearl River Delta	154,269	13.97%	80,204
Head Office	89,513	8.10%	–
Northeastern	67,208	6.08%	37,979
Hong Kong	3,050	0.28%	2,908
Gross loans and advances to customers	1,104,554	100.00%	498,820

The Bank

	December 31, 2010		
	Loan balance	Percentage	Loans and advances secured by collaterals
Yangtze River Delta	209,058	26.84%	104,960
Bohai Rim	170,906	21.95%	68,427
Central	113,681	14.60%	40,653
Western	113,487	14.57%	48,940
Pearl River Delta	112,268	14.42%	50,331
Northeastern	46,312	5.95%	25,812
Head Office	13,023	1.67%	–
Gross loans and advances to customers	778,735	100.00%	339,123

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

21 Loans and advances to customers (continued)

(g) Analyzed by geographical sector (continued)

The Bank

	December 31, 2011		
	Loan balance	Percentage	Loans and advances secured by collaterals
Yangtze River Delta	222,276	24.98%	109,032
Bohai Rim	193,992	21.80%	77,461
Western	132,947	14.94%	62,759
Central	132,037	14.84%	49,803
Pearl River Delta	126,963	14.27%	59,542
Northeastern	56,123	6.31%	32,955
Head Office	25,367	2.86%	–
Gross loans and advances to customers	889,705	100.00%	391,552

The Bank

	December 31, 2012		
	Loan balance	Percentage	Loans and advances secured by collaterals
Yangtze River Delta	243,573	23.81%	121,711
Bohai Rim	199,896	19.54%	81,820
Central	152,732	14.93%	60,599
Western	151,357	14.80%	77,017
Pearl River Delta	144,859	14.16%	68,471
Head Office	69,629	6.80%	–
Northeastern	60,982	5.96%	32,417
Gross loans and advances to customers	1,023,028	100.00%	442,035

The Bank

	June 30, 2013		
	Loan balance	Percentage	Loans and advances secured by collaterals
Yangtze River Delta	248,494	22.50%	132,169
Bohai Rim	205,841	18.64%	81,411
Central	168,191	15.23%	72,529
Western	167,649	15.18%	91,433
Pearl River Delta	154,269	13.97%	80,204
Head Office	89,513	8.11%	–
Northeastern	67,208	6.09%	37,979
Hong Kong	3,050	0.28%	2,908
Gross loans and advances to customers	1,104,215	100.00%	498,633

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

21 Loans and advances to customers (continued)

(g) Analyzed by geographical sector (continued)

As at the end of each of the Relevant Periods, detailed information of the impaired loans and advances to customers as well as the corresponding impairment provision in respect of geographic sectors which constitute 10% or more of gross loans and advances to customers are as follows:

The Group

	December 31, 2010		
	Impaired loans and advances	Individually assessed provision for impairment losses	Collectively assessed provision for impairment losses
Pearl River Delta	1,426	(1,276)	(2,104)
Yangtze River Delta	1,326	(946)	(3,845)
Central	1,017	(695)	(2,264)
Bohai Rim	795	(601)	(2,839)
Western	645	(512)	(1,863)

The Group

	December 31, 2011		
	Impaired loans and advances	Individually assessed provision for impairment losses	Collectively assessed provision for impairment losses
Pearl River Delta	1,826	(1,412)	(2,515)
Yangtze River Delta	1,203	(743)	(4,416)
Central	897	(609)	(2,677)
Bohai Rim	724	(561)	(3,517)
Western	389	(276)	(2,504)

The Group

	December 31, 2012		
	Impaired loans and advances	Individually assessed provision for impairment losses	Collectively assessed provision for impairment losses
Yangtze River Delta	3,018	(1,020)	(5,627)
Pearl River Delta	1,558	(1,197)	(3,244)
Central	775	(388)	(3,453)
Bohai Rim	635	(454)	(4,380)
Western	507	(274)	(3,078)

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

21 Loans and advances to customers (continued)

(g) Analyzed by geographical sector (continued)

The Group

	June 30, 2013		
	Impaired loans and advances	Individually assessed provision for impairment losses	Collectively assessed provision for impairment losses
Yangtze River Delta	4,088	(1,452)	(5,904)
Central	1,083	(352)	(3,312)
Pearl River Delta	1,065	(610)	(3,246)
Bohai Rim	654	(467)	(4,208)
Western	484	(298)	(3,196)

The Bank

	December 31, 2010		
	Impaired loans and advances	Individually assessed provision for impairment losses	Collectively assessed provision for impairment losses
Pearl River Delta	1,426	(1,276)	(2,104)
Yangtze River Delta	1,326	(946)	(3,845)
Central	1,017	(695)	(2,263)
Bohai Rim	795	(601)	(2,839)
Western	645	(512)	(1,863)

The Bank

	December 31, 2011		
	Impaired loans and advances	Individually assessed provision for impairment losses	Collectively assessed provision for impairment losses
Pearl River Delta	1,826	(1,412)	(2,515)
Yangtze River Delta	1,203	(743)	(4,416)
Central	897	(609)	(2,673)
Bohai Rim	724	(561)	(3,517)
Western	389	(276)	(2,504)

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

21 Loans and advances to customers (continued)

(g) Analyzed by geographical sector (continued)

The Bank

	December 31, 2012		
	Impaired loans and advances	Individually assessed provision for impairment losses	Collectively assessed provision for impairment losses
Yangtze River Delta	3,018	(1,020)	(5,627)
Pearl River Delta	1,558	(1,197)	(3,244)
Central	775	(388)	(3,447)
Bohai Rim	635	(454)	(4,380)
Western	507	(274)	(3,078)

The Bank

	June 30, 2013		
	Impaired loans and advances	Individually assessed provision for impairment losses	Collectively assessed provision for impairment losses
Yangtze River Delta	4,088	(1,452)	(5,903)
Central	1,083	(352)	(3,305)
Pearl River Delta	1,065	(610)	(3,246)
Bohai Rim	654	(467)	(4,208)
Western	484	(298)	(3,196)

The definitions of the regional distributions are set out in Note 47(b).

(h) Rescheduled loans and advances to customers

The Group and the Bank

	December 31,			June 30,
	2010	2011	2012	2013
Rescheduled loans and advances to customers	288	213	96	79
Less: Rescheduled loans and advances to customers overdue more than 90 days	204	144	94	77
Rescheduled loans and advances to customers overdue not more than 90 days	84	69	2	2

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

21 Loans and advances to customers (continued)

(i) Fair value of collaterals

The collateral includes land, buildings and equipments, and etc. The fair value of collateral was estimated by the Group based on the latest available external valuations adjusted by taking into account the current realization experience as well as the market situation.

As at June 30, 2013, the loans and advances of the Group and the Bank for which the provision for impairment losses were individually assessed amounted to RMB6,678 million (December 31, 2012: RMB6,013 million; December 31, 2011: RMB4,747 million; December 31, 2010: RMB4,729 million). The covered portion of these loans and advances were RMB1,360 million (December 31, 2012: RMB734 million; December 31, 2011: RMB337 million; December 31, 2010: RMB231 million). The fair value of collateral held against these loans and advances amounted to RMB1,360 million (December 31, 2012: RMB746 million; December 31, 2011: RMB404 million; December 31, 2010: 231 million).

As at June 30, 2013, the gross amount of loans and advances of the Group and the Bank, which were overdue but not impaired and were subject to individual assessment, was RMB3,347 million (December 31, 2012: RMB1,675 million; December 31, 2011: RMB807 million; December 31, 2010: RMB395 million). The covered portion of these loans and advances were RMB1,548 million (December 31, 2012: RMB599 million; December 31, 2011: RMB105 million; December 31, 2010: RMB91 million). The fair value of collateral held against these loans and advances amounted to RMB3,684 million (December 31, 2012: RMB1,268 million; December 31, 2011: RMB265 million; December 31, 2010: RMB225 million).

22 Available-for-sale financial assets

The Group and the Bank

		December 31,			June 30,
	Note	2010	2011	2012	2013
Available-for-sale debt investments	22(a)	77,142	54,403	91,801	99,309
Available-for-sale equity investments	22(b)	99	99	99	99
Total		77,241	54,502	91,900	99,408
Listed		814	667	724	1,105
– of which in Hong Kong		198	187	187	537
Unlisted		76,427	53,835	91,176	98,303
Total		77,241	54,502	91,900	99,408

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

22 Available-for-sale financial assets (continued)

(a) Available-for-sale debt investments

All available-for-sale debt investments were stated at fair value and issued by the following governments and institutions:

The Group and the Bank

		December 31,			June 30,
	Note	2010	2011	2012	2013
In mainland China					
– Government		8,232	8,287	42,370	43,941
– The PBOC		30,354	–	–	496
– Banks and other financial institutions		6,249	10,135	9,947	10,543
– Other institutions	(i)	31,432	35,256	38,761	43,225
Sub-total		76,267	53,678	91,078	98,205
Outside mainland China					
– Government		73	–	–	–
– Banks and other financial institutions		568	608	610	956
– Other institutions		234	117	113	148
Sub-total		875	725	723	1,104
Total	(ii)	77,142	54,403	91,801	99,309

Notes:

(i) As at the end of each of the Relevant Periods, debt securities issued by other institutions mainly represented debt securities issued by state-owned enterprises and joint stock companies.

(ii) As at the end of each of the Relevant Periods, certain available-for-sale financial assets was pledged for repurchase agreements and time deposits (Note 30(a)). No other investments were subject to material restrictions on the realization.

(b) Available-for-sale equity investments

The Group and the Bank

	December 31,			June 30,
	2010	2011	2012	2013
Cost of investments				
As at January 1	126	100	100	100
Decreases	(26)	–	–	–
As at December 31/June 30	100	100	100	100
Less: Provision for impairment losses	(1)	(1)	(1)	(1)
Net balances	99	99	99	99

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

23 Held-to-maturity investments

Analyzed by type and location of issuer

The Group and the Bank

	Note	December 31, 2010	December 31, 2011	December 31, 2012	June 30, 2013
In mainland China					
– Government		36,966	31,965	45,771	46,326
– Banks and other financial institutions		36,897	30,124	25,593	23,185
– Other institutions	23(a)	13,647	21,899	24,495	23,542
Sub-total		87,510	83,988	95,859	93,053
Outside mainland China					
– Banks and other financial institutions		330	255	253	250
– Other institutions		68	–	–	–
Sub-total		398	255	253	250
Total	23(b)	87,908	84,243	96,112	93,303
Less: Provision for impairment losses		(115)	(258)	(288)	(255)
Net balances		87,793	83,985	95,824	93,048
Listed		491	465	461	364
– of which in Hong Kong		428	405	402	304
Unlisted		87,302	83,520	95,363	92,684
Net balances		87,793	83,985	95,824	93,048
Fair value		87,255	84,363	96,064	93,426

Notes:

(a) As at the end of each of the Relevant Periods, debt securities issued by other institutions mainly represented debt securities issued by state-owned enterprises and joint stock enterprises.

(b) As at the end of each of the Relevant Periods, part of the held-to-maturity investments was pledged as security for certain transactions (Note 30(a)).

(c) The Group disposed of the held-to-maturity debt investments with a notional amount of RMB1,542 million prior to their maturity dates for the six months ended June 30, 2013 (2012: RMB130 million; 2011: RMB502 million; 2010: RMB2,228 million), which account for 1.61% (2012: 0.15%; 2011: 0.57%; 2010: 2.54%;)of the portfolio before the disposal.

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

24 Debt securities classified as receivables

The Group and the Bank

		December 31,			June 30,
	Note	2010	2011	2012	2013
Wealth management products issued by other financial institutions	24(a)	–	–	97,513	86,966
Beneficial interest transfer plans	24(b)/(c)	–	–	163,694	263,368
Total		–	–	261,207	350,334
Carrying amount		–	–	261,207	350,334

Notes:

(a) Wealth management products issued by other financial institutions are fixed term products.

(b) Beneficial interest transfer plans are mainly trust beneficial interests issued by trust companies, securities companies, insurance companies and asset management companies.

(c) As at the end of each of the Relevant Periods, part of investments in beneficial interest transfer plans held by the Bank were under forward sale contracts with financial institutions in mainland China, the notional amount of which as at June 30, 2013 was RMB168,998 million (December 31, 2012: RMB120,188 million; December 31, 2011: nil; December 31, 2010: nil). The fair values of investments mentioned above approximate to their carrying amounts.

25 Investments in subsidiaries

The Bank

		December 31,			June 30,
	Note	2010	2011	2012	2013
Shaoshan Everbright Village Bank Co., Ltd.	25(a)	35	35	35	35
Everbright Financial Leasing Co., Ltd.	25(b)	720	720	720	720
Jiangsu Huai'an Everbright Village Bank Co., Ltd.	25(c)	–	–	–	70
Total		755	755	755	825

Notes:

(a) Shaoshan Everbright Village Bank Co., Ltd. ("Shaoshan Everbright") was incorporated on September 24, 2009 in Shaoshan city of Hunan Province, with registered capital of RMB50 million. The principal activities of Shaoshan Everbright are the provision of corporate and retail banking services. The Bank holds 70% of equity interest of Shaoshan Everbright. The financial statements of Shaoshan Everbright Village Bank Co., Ltd. for the years ended December 31, 2010 and 2011 were audited by Baker Tilly China Certified Public Accountants Co., Ltd, and for the year ended December 31, 2012 was audited by Baker Tilly China Certified Public Accountants.

(b) Everbright Financial Leasing Co., Ltd. ("Everbright Financial Leasing") was incorporated on May 19, 2010 in Wuhan city of Hubei Province, with registered capital of RMB800 million. The principal activities of Everbright Financial Leasing are the provision of leasing services. The Bank holds 90% of equity interest of Everbright Financial Leasing. The financial statements of Everbright Financial Leasing Co., Ltd. for the years ended December 31, 2010 and 2011 were audited by KPMG Huazhen, and for the year ended December 31, 2012 was audited by KPMG Huazhen (SGP).

(c) Jiangsu Huai'an Everbright Village Bank Co., Ltd. ("Huai'an Everbright") was incorporated on 1 February, 2013 in Huai'an city of Jiangsu Province, with registered capital of RMB100 million. The principal activities of Huai'an Everbright are the provision of corporate and retail banking services. The Bank holds 70% of equity interest of Huai'an Everbright.

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

26 Fixed assets

The Group

	Premises	Investment properties	Construction in progress	Electronic equipment	Others	Total
Cost						
As at January 1, 2010	5,244	339	2,948	2,285	807	11,623
Additions	113	–	1,097	477	321	2,008
Transfers in/(out) of construction in progress	4	–	(4)	–	–	–
Transfers (out)/in of investment properties	(100)	100	–	–	–	–
Transfers out to others	–	–	(9)	–	–	(9)
Disposals	(18)	–	–	(164)	(61)	(243)
As at December 31, 2010	5,243	439	4,032	2,598	1,067	13,379
Additions	68	–	517	541	382	1,508
Transfers in/(out) of construction in progress	3,103	–	(3,598)	158	337	–
Transfers in/(out) of investment properties	4	(4)	–	–	–	–
Disposals	–	–	–	(153)	(23)	(176)
As at December 31, 2011	8,418	435	951	3,144	1,763	14,711
Additions	281	–	784	559	451	2,075
Transfers in/(out) of construction in progress	514	16	(606)	7	69	–
Transfers in/(out) of investment properties	6	(6)	–	–	–	–
Disposals	–	–	–	(158)	(38)	(196)
As at December 31, 2012	9,219	445	1,129	3,552	2,245	16,590
Additions	1	–	240	219	137	597
Transfers (out)/in of construction in progress	–	–	(11)	4	7	–
Transfers in/(out) of investment property	18	(18)	–	–	–	–
Disposals	–	–	–	(73)	(8)	(81)
As at June 30, 2013	9,238	427	1,358	3,702	2,381	17,106

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

26 Fixed assets (continued)

The Group

	Premises	Investment properties	Construction in progress	Electronic equipment	Others	Total
Accumulated depreciation						
As at January 1, 2010	(929)	(87)	–	(1,313)	(308)	(2,637)
Charge for the year	(153)	(12)	–	(326)	(121)	(612)
Transfers out/(in) of investment properties	8	(8)	–	–	–	–
Disposals	10	–	–	101	59	170
As at December 31, 2010	(1,064)	(107)	–	(1,538)	(370)	(3,079)
Charge for the year	(214)	(12)	–	(411)	(170)	(807)
Transfers (in)/out of investment properties	(3)	3	–	–	–	–
Disposals	–	–	–	129	15	144
As at December 31, 2011	(1,281)	(116)	–	(1,820)	(525)	(3,742)
Charge for the year	(368)	(13)	–	(392)	(224)	(997)
Transfers (in)/out of investment properties	(8)	8	–	–	–	–
Disposals	–	–	–	145	32	177
As at December 31, 2012	(1,657)	(121)	–	(2,067)	(717)	(4,562)
Charge for the period	(143)	(6)	–	(254)	(163)	(566)
Transfers out/(in) of investment property	3	(3)	–	–	–	–
Disposals	–	–	–	69	5	74
As at June 30, 2013	(1,797)	(130)	–	(2,252)	(875)	(5,054)
Provision for impairment						
As at January 1, 2010	(134)	(25)	–	–	–	(159)
Transfers (in)/out	(1)	1	–	–	–	–
As at December 31, 2010	(135)	(24)	–	–	–	(159)
As at December 31, 2011	(135)	(24)	–	–	–	(159)
Transfers out/(in)	7	(7)	–	–	–	–
As at December 31, 2012	(128)	(31)	–	–	–	(159)
As at June 30, 2013	(128)	(31)	–	–	–	(159)
Net book value						
As at December 31, 2010	4,044	308	4,032	1,060	697	10,141
As at December 31, 2011	7,002	295	951	1,324	1,238	10,810
As at December 31, 2012	7,434	293	1,129	1,485	1,528	11,869
As at June 30, 2013	7,313	266	1,358	1,450	1,506	11,893

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

26 Fixed assets (continued)

The Bank

	Premises	Investment properties	Construction in progress	Electronic equipment	Others	Total
Cost						
As at January 1, 2010	5,244	339	2,948	2,284	807	11,622
Additions	113	–	1,097	473	321	2,004
Transfers in/(out) of construction in progress	4	–	(4)	–	–	–
Transfers (out)/in of investment properties	(100)	100	–	–	–	–
Transfers out to others	–	–	(9)	–	–	(9)
Disposals	(18)	–	–	(164)	(61)	(243)
As at December 31, 2010	5,243	439	4,032	2,593	1,067	13,374
Additions	56	–	517	541	382	1,496
Transfers in/(out) of construction in progress	3,103	–	(3,598)	158	337	–
Transfers in/(out) of investment properties	4	(4)	–	–	–	–
Disposals	–	–	–	(153)	(23)	(176)
As at December 31, 2011	8,406	435	951	3,139	1,763	14,694
Additions	281	–	784	558	451	2,074
Transfers in/(out) of construction in progress	514	16	(606)	7	69	–
Transfers in/(out) of investment properties	6	(6)	–	–	–	–
Disposals	–	–	–	(158)	(38)	(196)
As at December 31, 2012	9,207	445	1,129	3,546	2,245	16,572
Additions	1	–	240	219	136	596
Transfers (out)/in of construction in progress	–	–	(11)	4	7	–
Transfers in/(out) of Investment property	18	(18)	–	–	–	–
Disposals	–	–	–	(73)	(8)	(81)
As at June 30, 2013	9,226	427	1,358	3,696	2,380	17,087

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

26 Fixed assets (continued)

The Bank

	Premises	Investment properties	Construction in progress	Electronic equipment	Others	Total
Accumulated depreciation						
As at January 1, 2010	(929)	(87)	–	(1,312)	(308)	(2,636)
Charge for the year	(153)	(12)	–	(325)	(121)	(611)
Transfers out/(in) of investment properties	8	(8)	–	–	–	–
Disposals	10	–	–	101	59	170
As at December 31, 2010	(1,064)	(107)	–	(1,536)	(370)	(3,077)
Charge for the year	(214)	(12)	–	(410)	(170)	(806)
Transfers (in)/out of investment properties	(3)	3	–	–	–	–
Disposals	–	–	–	128	15	143
As at December 31, 2011	(1,281)	(116)	–	(1,818)	(525)	(3,740)
Charge for the year	(368)	(13)	–	(391)	(224)	(996)
Transfers (in)/out of investment properties	(8)	8	–	–	–	–
Disposals	–	–	–	145	32	177
As at December 31, 2012	(1,657)	(121)	–	(2,064)	(717)	(4,559)
Charge for the Period	(143)	(6)	–	(253)	(163)	(565)
Transfers out/(in) of investment property	3	(3)	–	–	–	–
Disposals	–	–	–	69	5	74
As at June 30, 2013	(1,797)	(130)	–	(2,248)	(875)	(5,050)
Provision for impairment						
As at January 1, 2010	(134)	(25)	–	–	–	(159)
Transfers (in)/out	(1)	1	–	–	–	–
As at December 31, 2010	(135)	(24)	–	–	–	(159)
As at December 31, 2011	(135)	(24)	–	–	–	(159)
Transfers out/(in)	7	(7)	–	–	–	–
As at December 31, 2012	(128)	(31)	–	–	–	(159)
As at June 30, 2013	(128)	(31)	–	–	–	(159)
Net book value						
As at December 31, 2010	4,044	308	4,032	1,057	697	10,138
As at December 31, 2011	6,990	295	951	1,321	1,238	10,795
As at December 31, 2012	7,422	293	1,129	1,482	1,528	11,854
As at June 30, 2013	7,301	266	1,358	1,448	1,505	11,878

As at June 30, 2013, title deeds were not yet finalised for the premises with a carrying amount of RMB74 million (December 31, 2012: RMB82 million; December 31, 2011: RMB84 million; December 31, 2010: RMB90 million). Management of the Group expected that there would be no significant cost in obtaining the title deeds.

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

26 Fixed assets (continued)

The net book values of premises at the end of the Relevant Periods are analyzed by the remaining terms of the land leases as follows:

The Group

	December 31,			June 30,
	2010	2011	2012	2013
Held in mainland China				
– Long term leases (over 50 years)	113	179	171	242
– Medium term leases (10 – 50 years)	3,910	6,803	7,243	7,052
– Short term leases (less than 10 years)	21	20	20	19
Total	4,044	7,002	7,434	7,313

The Bank

	December 31,			June 30,
	2010	2011	2012	2013
Held in mainland China				
– Long term leases (over 50 years)	113	179	171	242
– Medium term leases (10 – 50 years)	3,910	6,791	7,231	7,040
– Short term leases (less than 10 years)	21	20	20	19
Total	4,044	6,990	7,422	7,301

The net book values of investment properties at the end of the Relevant Periods are analyzed by the remaining terms of the land leases is as follows:

The Group and the Bank

	December 31,			June 30,
	2010	2011	2012	2013
Held in mainland China				
– Long term leases (over 50 years)	–	3	3	3
– Medium term leases (10 – 50 years)	308	292	290	263
Total	308	295	293	266

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

27 Goodwill

The Group and the Bank

	December 31,			June 30,
	2010	2011	2012	2013
Cost	6,019	6,019	6,019	6,019
Less: Provision for impairment losses	(4,738)	(4,738)	(4,738)	(4,738)
Net balances	1,281	1,281	1,281	1,281

As approved by the PBOC, the Bank and China Development Bank ("CDB") jointly signed an "Agreement between China Development Bank and China Everbright Bank for the transfer of assets, liabilities and banking premises of China Investment Bank" (the "Agreement") on March 18, 1999. According to the Agreement, CDB transferred the assets, liabilities, equity and 137 outlets of 29 branches of the former China Investment Bank ("CIB") to the Bank. The Agreement became effective on March 18, 1999. The Bank assessed the transferred assets and liabilities at fair value, and recognized the excess of the purchase cost over the sum of the fair value of the net assets transferred and deferred tax assets as goodwill.

The goodwill is tested for impairment annually. The Bank makes provision for impairment if necessary. The Bank calculates the recoverable amount of the CGU using cash flow projections based on financial forecasts approved by management covering a five-year period. The discount rate used reflects specific risks relating to the relevant segments.

28 Deferred tax assets and liabilities

(a) Analyzed by nature

The Group

	December 31,			June 30,
	2010	2011	2012	2013
Deferred tax assets	1,306	1,857	2,454	2,496
Deferred tax liabilities	–	–	–	–
Net balances	1,306	1,857	2,454	2,496

The Bank

	December 31,			June 30,
	2010	2011	2012	2013
Deferred tax assets	1,306	1,845	2,430	2,472
Deferred tax liabilities	–	–	–	–
Net balances	1,306	1,845	2,430	2,472

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

28 Deferred tax assets and liabilities (continued)

(b) Movements of deferred tax

The Group

	Provision for impairment losses	Staff cost payable	Net losses/ (gains) from fair value changes of financial instruments	Net balance of deferred tax assets
	Note(i)		Note(ii)	
January 1, 2010	584	264	(272)	576
Recognized in profit or loss	(98)	426	117	445
Recognized in other comprehensive income	–	–	285	285
December 31, 2010	486	690	130	1,306
Recognized in profit or loss	175	258	260	693
Recognized in other comprehensive income	–	–	(142)	(142)
December 31, 2011	661	948	248	1,857
Recognized in profit or loss	340	284	(50)	574
Recognized in other comprehensive income	–	–	23	23
December 31, 2012	1,001	1,232	221	2,454
Recognized in profit or loss	251	(125)	(44)	82
Recognized in other comprehensive income	–	–	(40)	(40)
June 30, 2013	1,252	1,107	137	2,496

The Bank

	Provision for impairment losses	Staff cost payable	Net losses/ (gains) from fair value changes of financial instruments	Net balance of deferred tax assets
	Note(i)		Note(ii)	
January 1, 2010	584	264	(272)	576
Recognized in profit or loss	(98)	426	117	445
Recognized in other comprehensive income	–	–	285	285
December 31, 2010	486	690	130	1,306
Recognized in profit or loss	166	255	260	681
Recognized in other comprehensive income	–	–	(142)	(142)
December 31, 2011	652	945	248	1,845

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

28 Deferred tax assets and liabilities (continued)

(b) Movements of deferred tax (continued)

	Provision for impairment losses	Staff cost payable	Net losses/ (gains) from fair value changes of financial instruments	Net balance of deferred tax assets
	Note(i)		Note(ii)	
December 31, 2011	652	945	248	1,845
Recognized in profit or loss	331	281	(50)	562
Recognized in other comprehensive income	–	–	23	23
December 31, 2012	983	1,226	221	2,430
Recognized in profit or loss	251	(125)	(44)	82
Recognized in other comprehensive income	–	–	(40)	(40)
June 30, 2013	1,234	1,101	137	2,472

Notes:

(i) The Group made provision for impairment losses on loans and advances to customers and other assets. The provision for impairment losses was determined based on the expected recoverable amount of the relevant assets at the end of the Relevant Periods. However, the amounts deductible for income tax purposes are calculated at 1% of the gross carrying amount of qualifying assets at the end of the Relevant Periods, together with write-offs which fulfill specific criteria as set out in the PRC tax rules and are approved by the tax authorities.

(ii) Net gains or losses on fair value changes of financial instruments are subject to tax when realized.

(iii) Unrecognized deferred tax assets

As at June 30, 2013, the Group has not recognized deferred tax assets of RMB2,369 million (December 31, 2012: RMB2,276 million; December 31, 2011: RMB2,018 million; December 31, 2010: RMB1,867 million) for provision for impairment losses amounting to RMB9,477 million (December 31, 2012: RMB9,103 million; December 31, 2011: RMB8,073 million; December 31, 2010: RMB7,467 million). This was mainly because it was uncertain whether the losses from write-offs of the impaired assets could be approved by the relevant tax authorities in the foreseeable future.

29 Other assets

The Group

		December 31,			June 30,
	Note	2010	2011	2012	2013
Assets held for wealth management products	29(a)	76,794	48,248	60,874	62,469
Finance lease receivables		4,121	7,894	11,644	14,754
Other receivables		656	365	1,454	1,980
Long-term deferred expense		827	970	1,094	1,038
Fixed assets purchase prepayment		390	410	1,031	868
Intangible assets		267	403	532	544
Land use rights		125	127	128	125
Precious metal		2	2	52	970
Repossessed assets		–	5	148	199
Total		83,182	58,424	76,957	82,947

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

29 Other assets (continued)

The Bank

		December 31,			June 30,
	Note	2010	2011	2012	2013
Assets held for wealth management products	29(a)	76,794	48,248	60,874	62,469
Other receivables		655	363	1,454	1,980
Long-term deferred expense		826	969	1,093	1,037
Fixed assets purchase prepayment		390	410	241	239
Intangible assets		266	400	528	540
Land use rights		125	127	128	125
Precious metal		2	2	52	970
Repossessed assets		–	5	148	199
Total		79,058	50,524	64,518	67,559

(a) Assets held for wealth management products

The assets held for wealth management products represent the trust investments purchased by the Group, acting as an agent for wealth management investors, and using the funds collected from investors. The credit risk, interest risk, liquidity risk and investment risk of the underlying trust investments are assumed by the investors who purchase wealth management products. However, the Group has risk exposures in respect of the above wealth management products for which the amounts and maturities do not exactly match the underlying trust funds. Accordingly, the Group accounts for such wealth management assets under other assets and the corresponding trust funds as other liabilities (Note 39(a)).

30 Pledged assets

(a) Assets pledged as collaterals

Financial assets pledged by the Group as collaterals for liabilities or contingent liabilities mainly include discounted bills, debt securities and deposits with banks and other financial institutions. They are mainly pledged for repurchase agreements, time deposits, contingent liabilities and swap transactions. The carrying amounts of the financial assets pledged as collateral as at June 30, 2013 and December 31, 2012, 2011 and 2010 are RMB81,531 million, RMB97,798 million, RMB60,525 million, RMB31,902 million, respectively.

(b) Collaterals received

The Group conducts resale agreements under the usual and customary terms of placements, and holds collaterals for these transactions. As at the end of each of the Relevant Periods, the Group did not hold any resale agreement that collaterals were permitted to sell or repledge in the absence of the counterparty's default on the agreements.

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

31 Deposits from banks and other financial institutions

Analyzed by type and location of counterparty

The Group

	December 31,			June 30,
	2010	2011	2012	2013
Deposits in mainland China				
– Banks	140,749	216,937	399,049	414,363
– Other financial institutions	56,464	49,938	121,102	143,489
Sub-total	197,213	266,875	520,151	557,852
Deposits outside mainland China				
– Banks	1	3,752	7,410	6,270
Sub-total	1	3,752	7,410	6,270
Total	197,214	270,627	527,561	564,122

The Bank

	December 31,			June 30,
	2010	2011	2012	2013
Deposits in mainland China				
– Banks	140,774	217,273	399,194	414,644
– Other financial institutions	56,464	49,938	122,073	143,956
Sub-total	197,238	267,211	521,267	558,600
Deposits outside mainland China				
– Banks	1	3,752	7,410	6,270
Sub-total	1	3,752	7,410	6,270
Total	197,239	270,963	528,677	564,870

32 Placements from banks and other financial institutions

Analyzed by type and location of counterparty

The Group

	December 31,			June 30,
	2010	2011	2012	2013
Placements in mainland China				
– Banks	12,591	22,353	20,040	33,436
– Other financial institutions	–	–	–	338
Sub-total	12,591	22,353	20,040	33,774
Placements outside mainland China				
– Banks	5,623	5,009	3,165	6,448
Sub-total	5,623	5,009	3,165	6,448
Total	18,214	27,362	23,205	40,222

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

32 Placements from banks and other financial institutions (continued)

The Bank

	December 31,			June 30,
	2010	2011	2012	2013
Placements in mainland China				
– Banks	9,361	15,953	9,950	21,736
– Other financial institutions	–	–	–	338
Sub-total	9,361	15,953	9,950	22,074
Placements outside mainland China				
– Banks	5,623	5,009	3,165	6,448
Sub-total	5,623	5,009	3,165	6,448
Total	14,984	20,962	13,115	28,522

33 Financial assets sold under repurchase agreements

(a) Analyzed by type and location of counterparty

The Group and the Bank

	December 31,			June 30,
	2010	2011	2012	2013
In mainland China				
– Banks	7,903	38,747	74,221	70,615
– Other financial institutions	4,775	1,673	3	1,601
– Other enterprises	1	189	61	1
Total	12,679	40,609	74,285	72,217

(b) Analyzed by collateral

The Group and the Bank

	December 31,			June 30,
	2010	2011	2012	2013
Bank acceptances	4,835	17,785	36,621	14,025
PBOC bills	5,460	1,960	–	–
Debt securities	2,384	20,864	37,664	58,192
Total	12,679	40,609	74,285	72,217

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

34 Deposits from customers

The Group

	December 31,			June 30,
	2010	2011	2012	2013
At amortized cost				
Demand deposits				
– Corporate customers	384,456	398,986	397,626	392,407
– Individual customers	59,206	78,712	157,302	192,915
Sub-total	443,662	477,698	554,928	585,322
Time deposits				
– Corporate customers	356,370	409,417	476,737	526,834
– Individual customers	87,503	114,062	127,378	141,001
Sub-total	443,873	523,479	604,115	667,835
Pledged deposits				
– Acceptances	118,187	139,927	184,085	206,276
– Letters of credit	9,481	18,854	20,134	21,902
– Letters of guarantees	7,387	8,882	8,902	10,890
– Others	5,596	7,780	8,841	10,094
Sub-total	140,651	175,443	221,962	249,162
Inward and outward remittances	1,524	2,180	3,319	4,339
Total deposits from customers at amortized cost	1,029,710	1,178,800	1,384,324	1,506,658
At fair value				
Structured deposits				
– Corporate customers	14,132	4,017	14,103	20,109
– Individual customers	19,338	42,461	28,514	27,924
Total deposits from customers at fair value	33,470	46,478	42,617	48,033
Total	1,063,180	1,225,278	1,426,941	1,554,691

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

34 Deposits from customers (continued)

The Bank

	December 31,			June 30,
	2010	2011	2012	2013
At amortized cost				
Demand deposits				
– Corporate customers	384,378	398,733	397,417	392,088
– Individual customers	59,185	78,686	157,274	192,873
Sub-total	443,563	477,419	554,691	584,961
Time deposits				
– Corporate customers	356,313	409,387	476,654	526,681
– Individual customers	87,476	114,016	127,290	140,870
Sub-total	443,789	523,403	603,944	667,551
Pledged deposits				
– Acceptances	118,187	139,927	184,085	206,259
– Letters of credit	9,481	18,854	20,134	21,902
– Letters of guarantees	7,387	8,882	8,902	10,889
– Others	5,596	7,780	8,841	10,094
Sub-total	140,651	175,443	221,962	249,144
Inward and outward remittances	1,524	2,180	3,319	4,339
Total deposits from customers at amortized cost	1,029,527	1,178,445	1,383,916	1,505,995
At fair value				
Structured deposits				
– Corporate customers	14,132	4,017	14,103	20,109
– Individual customers	19,338	42,461	28,514	27,924
Total deposits from customers at fair value	33,470	46,478	42,617	48,033
Total	1,062,997	1,224,923	1,426,533	1,554,028

35 Accrued staff costs

The Group

		December 31,			June 30,
	Note	2010	2011	2012	2013
Salary and welfare payable		4,888	5,857	7,087	6,858
Pension payable	35(a)	24	82	37	71
Supplementary retirement benefits payable	35(b)	275	318	281	281
Total		5,187	6,257	7,405	7,210

The Bank

		December 31,			June 30,
	Note	2010	2011	2012	2013
Salary and welfare payable		4,883	5,843	7,064	6,846
Pension payable	35(a)	24	82	36	71
Supplementary retirement benefits payable	35(b)	275	318	281	281
Total		5,182	6,243	7,381	7,198

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

35 Accrued staff costs (continued)

(a) Pension scheme

Pursuant to the relevant laws and regulations in the PRC, the Group has joined a defined contribution scheme for the employees arranged by local government labor and social security organizations. The Group makes contributions to the retirement scheme at the applicable rates based on the amounts stipulated by the relevant government organizations.

The Group also provides an annuity plan to the eligible employees. The Group makes annuity contributions in proportion to its employees' gross wages in prior year, which are expensed in profit or loss when the contributions are made.

(b) Supplementary retirement benefits ("SRB")

The Group pays SRB for eligible employees. The amount represents the present value of the total estimated amount of future benefits that the Group is committed to pay for eligible employees at the end of the Relevant Periods. (The Group's obligations in respect of the SRB as at December 31, 2010, 2011 and 2012 were reviewed using projected unit credit method by qualified staff (a member of society of Actuaries in America) of an external independent actuary: Towers Watson Management Consulting (Shenzhen) Co., Ltd..)

(i) The balances of SRB of the Group are as follows:

	December 31,			June 30,
	2010	2011	2012	2013
Present value of SRB obligation	275	318	281	281

(ii) Movements of SRB of the Group are as follows:

	2010	2011	2012	2013
As at January 1	720	275	318	281
Expenses recognized in profit or loss				
– Current service cost	11	15	21	4
– Interest cost	11	12	12	–
– Plan amendment cost	(35)	–	–	–
– Actuarial loss	20	33	14	–
Payments made	(8)	(17)	(84)	(4)
Others	(444)	–	–	–
As at December 31/June 30	275	318	281	281

Interest cost was recognized in staff costs (Note 8).

(iii) Principal actuarial assumptions of the Group are as follow:

	December 31,			June 30,
	2010	2011	2012	2013
Discount rate	4.25%	4.20%	4.30%	4.30%
Medical expense increase rate	6.00%	6.00%	6.00%	6.00%
Average expected future lifetime	24.36	22.52	20.89	20.89

Except as mentioned in Note (a) and Note (b) above, the Group has no significant responsibilities to pay any other retirement benefits to retired employees.

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

36 Taxes payable

The Group

	December 31,			June 30,
	2010	2011	2012	2013
Business tax and surcharges payable	795	1,153	1,493	1,510
Income tax payable	752	1,266	1,568	774
Others	116	115	113	91
Total	1,663	2,534	3,174	2,375

The Bank

	December 31,			June 30,
	2010	2011	2012	2013
Business tax and surcharges payable	794	1,151	1,491	1,508
Income tax payable	742	1,247	1,531	739
Others	115	114	112	96
Total	1,651	2,512	3,134	2,343

37 Interests payable

The Group

	December 31,			June 30,
	2010	2011	2012	2013
Deposits from customers	7,295	10,483	13,906	15,877
Debt securities issued	363	380	1,563	495
Others	878	1,762	2,945	2,197
Total	8,536	12,625	18,414	18,569

The Bank

	December 31,			June 30,
	2010	2011	2012	2013
Deposits from customers	7,295	10,482	13,903	15,872
Debt securities issued	363	380	1,563	495
Others	871	1,690	2,863	2,093
Total	8,529	12,552	18,329	18,460

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

38 Debt securities issued

The Group and the Bank

	Note	December 31, 2010	December 31, 2011	December 31, 2012	June 30, 2013
Subordinated debts issued	38(a)	16,000	16,000	22,700	14,700
Financial bonds issued	38(b)	–	–	30,000	30,000
Total		16,000	16,000	52,700	44,700

(a) Subordinated debts issued

The Group and the Bank

	Note	December 31, 2010	December 31, 2011	December 31, 2012	June 30, 2013
Subordinated fixed rate debts maturing in April 2018	(i)	3,500	3,500	3,500	–
Subordinated floating rate debts maturing in April 2018	(ii)	2,500	2,500	2,500	–
Subordinated fixed rate debts maturing in June 2018	(iii)	2,000	2,000	2,000	–
Subordinated fixed rate debts maturing in December 2018	(iv)	5,000	5,000	5,000	5,000
Subordinated fixed rate debts maturing in March 2019	(v)	3,000	3,000	3,000	3,000
Subordinated fixed rate debts maturing in June 2027	(vi)	–	–	6,700	6,700
Total	(vii)	16,000	16,000	22,700	14,700

Notes:

(i) Fixed rate subordinated debts of RMB3.5 billion with a term of ten years was issued on April 25, 2008. The coupon rate for the first five years is 5.85%. The Group redeemed the debts on April 28, 2013.

(ii) Floating rate subordinated debts of RMB2.5 billion with a term of ten years was issued on April 25, 2008. The subordinated debts bear interest at a floating rate based on the PBOC's one-year time deposits rate plus a margin of 1.66%. The Group redeemed the debts on April 28, 2013.

(iii) Fixed rate subordinated debts of RMB2 billion with a term of ten years was issued on June 27, 2008. The coupon rate for the first five years is 5.92%. The Group redeemed the debts on June 30, 2013.

(iv) Fixed rate subordinated debts of RMB5 billion with a term of ten years was issued on December 15, 2008. The coupon rate for the first five years is 4.05%. The Group has an option to redeem the debts on December 17, 2013 at the nominal amount. If the debts are not redeemed by the Group, the coupon rate will increase to 7.05% for the next five years.

(v) Fixed rate subordinated debts of RMB3 billion with a term of ten years was issued on March 13, 2009. The coupon rate for the first five years is 3.75%. The Group has an option to redeem the debts on March 17, 2014 at the nominal amount. If the debts are not redeemed by the Group, the coupon rate will increase to 6.75% for the next five years.

(vi) Fixed rate subordinated debts of RMB6.7 billion with a term of fifteen years was issued on June 7, 2012. The coupon rate is 5.25%. The Group has an option to redeem the debts on June 8, 2022 at the nominal amount.

(vii) As at June 30, 2013, the fair value of the total subordinated debts issued amounts to RMB16,577 million (December 31, 2012: RMB22,486 million; December 31, 2011: RMB15,742 million; December 31, 2010: RMB15,889 million).

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

38 Debt securities issued (continued)

(b) Financial bonds issued

The Group and the Bank

		December 31,			June 30,
	Note	2010	2011	2012	2013
Financial fixed rate bonds maturing in March 2017	(i)	–	–	20,000	20,000
Financial floating rate bonds maturing in March 2017	(ii)	–	–	10,000	10,000
Total		–	–	30,000	30,000

Notes:

(i) Fixed rate financial bonds of RMB20 billion with a term of five years was issued on March 28, 2012. The coupon rate is 4.20%.

(ii) Floating rate financial bonds of RMB10 billion with a term of five years was issued on March 28, 2012. The bonds bear interest at a floating rate based on the PBOC's one-year time deposits rate plus a margin of 0.95%.

(iii) As at June 30, 2013, the fair value of the total financial bond securities issued amounts to RMB29,530 million (December 31, 2012: RMB29,337 million; December 31, 2011: RMB nil; December 31, 2010: RMB nil).

39 Other liabilities

The Group

		December 31,			June 30,
	Note	2010	2011	2012	2013
Wealth management fund payable	39(a)	73,935	29,536	23,442	29,341
Finance lease payable		435	948	1,784	2,275
Deferred income		–	–	1,424	1,553
Payment and collection clearance accounts		970	540	854	1,906
Dormant accounts		340	343	338	299
Dividend payable		27	178	28	117
Provisions	39(b)	43	17	17	63
Others		1,104	1,280	1,540	2,726
Total		76,854	32,842	29,427	38,280

The Bank

		December 31,			June 30,
	Note	2010	2011	2012	2013
Wealth management fund payable	39(a)	73,935	29,536	23,442	29,341
Deferred income		–	–	1,424	1,553
Payment and collection clearance accounts		970	540	854	1,906
Dormant accounts		340	343	338	299
Dividend payable		27	178	28	117
Provisions	39(b)	43	17	17	63
Others		1,062	1,181	1,296	2,358
Total		76,377	31,795	27,399	35,637

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

39 Other liabilities (continued)

(a) Wealth management fund

Details of the assets relating to wealth management products are set out in Note 29(a) .

(b) Provisions

As at June 30, 2013, the accruals of litigation losses estimated by the Group and the Bank based on the status of litigation cases and the probability of losses were RMB17 million (December 31, 2012: RMB17 million; December 31, 2011: RMB17 million; December 31, 2010: RMB43 million).

40 Share capital

The Bank's shareholding structure as at the end of the Relevant Periods are as follows:

		December 31,						June 30,	
		2010		2011		2012		2013	
	Note	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage
Huijin and its affiliates	40(a)	21,025	52.00%	21,025	52.00%	21,025	52.00%	21,111	52.21%
China Everbright (Group)		2,094	5.18%	2,094	5.18%	2,094	5.18%	2,094	5.18%
China Everbright Limited		1,758	4.35%	1,758	4.35%	1,758	4.35%	1,758	4.35%
National Council for Social Security Fund of the PRC		641	1.59%	641	1.59%	544	1.34%	544	1.34%
Other shareholders	40(b)	14,917	36.88%	14,917	36.88%	15,014	37.13%	14,928	36.92%
Total		40,435	100.00%	40,435	100.00%	40,435	100.00%	40,435	100.00%

Notes:

(a) As at June 30, 2013, Huijin holds 48.58% of equity interests in the Bank directly, and it also holds 3.63% of equity interests in the Bank indirectly through its subsidiary, China Reinsurance (Group) Corporation.

(b) As at the end of the Relevant Periods, each of the other shareholders holds less than 5% of the total shares issued.

41 Capital reserve

The Group and the Bank

	December 31,			June 30,
	2010	2011	2012	2013
Fair value changes on available-for-sale financial assets	(652)	(225)	(295)	(175)
Share premium	20,553	20,553	20,553	20,553
Total	19,901	20,328	20,258	20,378

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

42 Surplus reserve and general reserve

(a) Surplus reserve

The surplus reserve at the end of the each of the Relevant Periods represented statutory surplus reserve fund. The Bank is required to appropriate 10% of its net profit, after making good prior year's accumulated loss, to statutory surplus reserve fund until the reserve fund balance reaches 50% of its registered capital.

(b) General reserve

Prior to July 1, 2012, the Bank pursuant to relevant regulations issued by the MOF is required to set aside a general reserve through appropriations of profit after tax according to a certain provision ratio of the ending balance of gross risk-bearing assets to cover potential losses against their assets. In principle, the general reserve balance should not be lower than 1% of the ending balance of gross risk-bearing assets.

With effect from July 1, 2012, pursuant to the "Administrative Measures on Accrual of Provisions by Financial Institutions" issued by the MOF in March 2012, the Bank is required, in principle, to set aside a general reserve not lower than 1.5% of the ending balance of its gross risk-bearing assets.

43 Appropriation of profits

(1) In accordance with the resolution of the Bank's Annual General Meeting on May 30, 2011, the shareholders approved the following profit appropriations for the year ended December 31, 2010:

- Appropriate 10% of the profit after tax, with the amount of RMB1.276 billion, for the statutory surplus reserve fund;
- Appropriate RMB6.146 billion for the general reserve;
- A cash dividend distribution of RMB0.946 per ten shares before tax, with the aggregate amount of RMB3.825 billion, to all existing shareholders.

(2) In accordance with the resolution of the Bank's 2011 Annual General Meeting on May 15, 2012, the shareholders approved the following profit appropriations for the year ended December 31, 2011:

- Appropriate statutory surplus reserve amounted to RMB1.792 billion, based on 10% of the net profit of the Bank.
- Appropriate general reserve amounted to RMB2.245 billion.
- Appropriate cash dividend RMB1.330 per 10 shares before tax and in aggregation amount of RMB5.378 billion to all shareholders.

(3) In accordance with the resolution of the Bank's 2012 Annual General Meeting on May 17, 2013, the shareholders approved the following profit appropriations for the year ended December 31, 2012:

- Appropriate statutory surplus reserve amounted to RMB2.334 billion, based on 10% of the net profit of the Bank.
- Appropriate general reserve amounted to RMB7.248 billion.
- Appropriate cash dividend RMB0.58 per 10 shares before tax and in aggregation amount of RMB2.345 billion to all shareholders.

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

43 Appropriation of profits (continued)

On the Extraordinary General Meeting held on November 19, 2012, the shareholders approved the appropriation of general reserve amounted to RMB6.938 billion.

The appropriation amount of general reserve for the year of 2012 is RMB14.186 billion in total.

44 Capital management

The Group's capital management includes capital adequacy ratio management, capital financing management and economic capital management, of which the primary focus is on capital adequacy ratio management. The Group calculates the capital adequacy ratio in accordance with the guidelines issued by the CBRC.

Capital adequacy ratio management is the key in capital management. The capital adequacy ratio reflects the soundness of the Group's operations and risk management capabilities. The main objective in capital adequacy ratio management is to set an optimal capital adequacy ratio that meets the regulatory requirements by benchmarking against the capital adequacy ratio level of leading global banks with reference to its own business environment and conditions.

The Group considers its strategic development plans, business expansion plans and risk variables when conducting scenario analysis and stress testing and executing other measures to forecast, plan and manage its capital adequacy ratio.

Capital allocation

The Group determines the allocation of its capital to businesses or activities with the objective of maximizing the return on risk-adjusted capital. The Group's policies in respect of capital management and allocation are reviewed regularly by the board of directors.

The amount of capital allocated to each business or activity is primarily determined based on regulatory requirements, however, in certain cases, regulatory requirements may not accurately address the varying degree of risks associated with different activities. In such cases, capital may be adjusted to an appropriate level to reflect the risk profiles. The Planning and Finance Department is responsible for the entire capital allocation process.

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

44 Capital management (continued)

The Group's capital adequacy ratio and core capital adequacy ratio as at the end of the Relevant Periods, which were calculated in accordance with the Regulation Governing Capital Adequacy of Commercial Banks (商業銀行資本充足率管理辦法) issued by the CBRC, are as follows:

The Group

		December 31,		
	Note	2010	2011	2012
Core capital adequacy ratio		8.15%	7.89%	8.00%
Capital adequacy ratio		11.02%	10.57%	10.99%
Core capital				
– Share capital		40,435	40,435	40,435
– Capital reserve		19,901	20,328	20,258
– Surplus reserve and general reserve		14,066	18,103	34,623
– Retained earnings	44(a)	3,138	11,791	16,517
– Non-controlling interests		98	115	144
		77,638	90,772	111,977
Supplementary capital				
– General provision for doubtful debts		12,477	15,922	20,228
– Long term subordinated debts		16,000	16,000	22,700
		28,477	31,922	42,928
Total capital base before deductions		106,115	122,694	154,905
Deductions				
– Goodwill		1,281	1,281	1,281
– Unconsolidated equity investments		2	2	1
– Others		1,520	1,520	1,520
Total capital base after deductions		103,312	119,891	152,103
Risk weighted assets	44(b)	937,387	1,133,906	1,383,605

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

44 Capital management (continued)

The Group calculates the capital adequacy ratios in accordance with "Regulation Governing Capital of Commercial Banks (provisional)" and relevant requirements promulgated by the CBRC.

The Group

	Note	June 30, 2013
Total core tier-one capital		127,052
Share capital		40,435
Qualifying portion of capital reserve		20,378
Surplus reserve		6,560
General reserve		28,063
Retained earnings		31,434
Qualifying portions of non-controlling interests		182
Core tier-one capital deductions		(1,823)
Goodwill		(1,281)
Other intangible assets other than land use right		(542)
Net core tier-one capital		125,229
Other tier one capital		3
Net tier-one capital		125,232
Tier two capital		30,522
Qualifying portions of tier-two capital instruments issued and share premium		13,230
Surplus provision for loan impairment		17,270
Qualifying portions of non-controlling interests		22
Net capital base		155,754
Total risk weighted assets	44(c)	1,611,406
Core tier one capital adequacy ratio		7.77%
Tier one capital adequacy ratio		7.77%
Capital adequacy ratio		9.67%

(a) Dividends proposed to be declared by the Bank have been deducted in calculating the net capital and net core capital.

(b) The balances of risk-weighted assets include an amount equal to 12.5 times the Group's market risk capital.

(c) The balances of risk-weighted assets include an amount equal to 12.5 times the Group's market risk capital and the Group's operating risk capital.

(d) Pursuant to the Notification on Matters Related to the Implementation of the Rules Governing Capital Management of Commercial Banks (Provisional) in Transitional Period, the CBRC requires that the capital adequacy ratio, tier one capital adequacy ratio and core tier one capital adequacy ratio for commercial banks shall not fall below 8.5%, 6.5% and 5.5% respectively for the year ended December 31, 2013. The Group is in full compliance with all relevant regulatory requirements.

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

45 Notes to consolidated cash flow statements

(a) Net (decrease)/increase in cash and cash equivalents

	Years ended December 31,			Six months ended June 30,	
	2010	2011	2012	2012	2013
				(Unaudited)	
Cash and cash equivalents as at December 31/June 30	91,065	156,645	137,913	115,664	104,202
Less: Cash and cash equivalents as at January 1	115,888	91,065	156,645	156,645	137,913
Net (decrease)/increase in cash and cash equivalents	(24,823)	65,580	(18,732)	(40,981)	(33,711)

(b) Cash and cash equivalents

	December 31,			June 30,
	2010	2011	2012	2013
Cash on hand	3,888	5,092	6,873	8,359
Deposits with the central bank	32,271	25,981	24,130	22,500
Deposits with banks and other financial institutions	41,199	81,421	42,600	41,390
Placements with banks and other financial institutions	13,707	44,151	64,310	31,953
Total	91,065	156,645	137,913	104,202

46 Related party relationships and transactions

(a) China Investment Corporation

Approved by the State Council of the PRC, China Investment Corporation ("CIC") was established on September 29, 2007 with a registered capital of US$200 billion. Huijin is a wholly owned subsidiary of CIC and exercises its rights and obligations as an investor on behalf of CIC.

(b) Huijin and its affiliates

Huijin was incorporated as a wholly state-owned investment company on December 16, 2003. It was registered in Beijing with a registered capital of RMB828,209 million. Apart from equity investments as authorized by the State Council of the PRC, it does not engage in any other commercial operations.

The Group's transactions with Huijin and its affiliates mainly include deposit taking, purchase and sale of debt securities, money market transactions and inter-bank clearing. These transactions are priced based on market prices and conducted under normal commercial terms.

The Group has issued subordinated debts and financial bonds with a nominal value of RMB22,700 million and RMB30,000 million respectively. These are bearer bonds and tradable in the secondary market. Accordingly, the Group has no information in respect of the amount of the debts held by these banks and other financial institutions as at the end of the Relevant Periods.

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

46 Related party relationships and transactions (continued)

(b) Huijin and its affiliates (continued)

The Group's material transactions and balances with Huijin and its affiliates at the end of the Relevant Periods are summarized as follows:

	Years ended December 31,			Six months ended June 30,	
	2010	2011	2012	2012	2013
				(Unaudited)	
Interest income	406	1,965	2,278	1,307	837
Interest expense	(2,417)	(3,952)	(5,516)	(1,979)	(3,702)

	December 31,			June 30,
	2010	2011	2012	2013
Deposits with banks and other financial institutions	15,426	23,557	22,096	13,394
Placements with banks and other financial institutions	6,380	13,994	20,927	25,795
Financial assets held for trading	–	449	6,016	5,577
Financial assets held under resale agreements	1,600	1,702	9,640	3,867
Interests receivable	496	580	881	1,510
Loans and advances to customers	332	1,801	1,448	1,893
Available-for-sale financial assets	5,043	8,741	8,688	9,002
Held-to-maturity investments	31,421	24,198	20,430	17,899
Debt securities classified as receivables	–	–	29,978	76,084
Other assets	–	–	1,971	2,038
Deposits from banks and other financial institutions	64,026	56,714	431,095	136,562
Placements from banks and other financial institutions	1,133	7,498	6,404	15,886
Financial assets sold under repurchase agreements	1,490	19,432	33,060	10,425
Deposits from customers	11,645	11,499	15,051	17,518
Interests payable	621	1,275	1,646	1,119
Other liabilities	–	–	4,250	–
Guarantees received	2,264	200	–	–

(c) China Everbright (Group)

The transactions and balances with China Everbright (Group) and its affiliates are summarized in Note 46(d)(ii).

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

46 Related party relationships and transactions (continued)

(d) Transactions between the Group and other related parties

(i) Other related parties information

Other related parties having transactions with the Group:

Related party	Relationship with the Group
Affiliated companies	
– China Everbright Group Co., Ltd	Same chairman of the board of directors with China Everbright (Group)
– China Everbright Limited	Shareholder, affiliate of China Everbright Holdings
– Everbright Securities Co., Ltd. ("Everbright Securities")	Affiliate of China Everbright (Group)
– Everbright Pramerica Fund Management Co., Ltd.	Affiliate of China Everbright (Group)
– Everbright Futures Co., Ltd.	Affiliate of China Everbright (Group)
– Dacheng Fund Management Co., Ltd.	Affiliate of China Everbright (Group)
– Shanghai Everbright Convention and Exhibition Centre Limited	Affiliate of China Everbright (Group)
– China Everbright Investment Management Corporation	Affiliate of China Everbright (Group)
– Everbright International Hotel and Property Management Company Limited	Affiliate of China Everbright (Group)
– Everbright Real Estate Co., Ltd.	Affiliate of China Everbright (Group)
– Everbright Financial Holding Asset Management Co., Ltd.	Affiliate of China Everbright (Group)
– China Everbright Travel, Inc	Affiliate of China Everbright (Group)
– China Everbright International Trust and Investment Company Limited	Affiliate of China Everbright (Group)
– China Everbright Petroleum Exploitation & Investment Co., Ltd.	Affiliate of China Everbright (Group)
– Sun Life Everbright Asset Management Co., Ltd.	Affiliate of China Everbright (Group)
– Everbright Fortune Investment Co., Ltd.	Affiliate of China Everbright (Group)
– Everbright Capital Investment Management Co., Ltd.	Affiliate of China Everbright (Group)
– Everbright Securities Financial Holdings Limited	Affiliate of China Everbright (Group)
– Sun Life Everbright Life Insurance Co., Ltd.	Affiliate of China Everbright (Group)
Other related parties	
– China M&A Group	Common key management
– First-trust Fund Management Co., Ltd.	Common key management
– Lifan Industry (Group) Co., Ltd.	Common key management
– Shanghai Chengtou Holding Co., Ltd	Common key management
– Fujian Hongbo Printing Co., Ltd.	Common key management
– Lubin Shuwei Management consulting (Beijing) Co., Ltd.	Common key management
– China Economic-Value-Added for Practical use Association	Common key management
– China Everbright International Ltd.	Common key management
– China UnionPay Co., Ltd	Common key management
– China Power Finance Co., Ltd.	Common key management
– Orient Securities Company Limited	Common key management
– Happy Life Insurance Co., Ltd.	Common key management
– Tianjin Capital Environmental Protection Group Company Limited	Common key management
– Sinopharm Group Co., Ltd.	Common key management
– Shanghai Baosight Software Co., Ltd.	Common key management
– SAIC Motor Corporation, Ltd.	Common key management

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

46 Related party relationships and transactions (continued)

(d) Transactions between the Group and other related parties (continued)

(i) Other related parties information (continued)

Related party	Relationship with the Group
– Shanghai Electric Group Company Limited	Common key management
– Winteam Pharmaceutical Group Limited	Common key management
– Shanghai ICY New Energy Venture Capital Co., Ltd.	Common key management
– Chengdu Xinshen Venture Capital Co., Ltd.	Common key management
– Shanghai Jiulian Group Co., Ltd.	Common key management
– China Pacific Insurance (group) Co., Ltd.	Common key management
– China Pacific Property Insurance Co., Ltd.	Common key management
– China Pacific Life Insurance Co., Ltd.	Common key management
– TMB Bank Public Company Limited	Common key management
– Noah Holdings Limited	Common key management
– China Nonferrous Mining Corporation Limited	Common key management

(ii) Related party transactions

The Group's material transactions and balances with China Everbright (Group) and the above related parties at the end of the Relevant Periods are summarized as follows:

	China Everbright (Group) (Note 46(c))	China Everbright Limited	Affiliated Companies	Others	Total
Transactions with related parties for the year ended December 31, 2010:					
Interest income	–	8	–	29	37
Interest expense	–	(3)	(285)	(1)	(289)
Operating expenses	(1)	–	(77)	(1)	(79)
Balances with related parties as at December 31, 2010:					
Loans and advances to customers	–	150	–	–	150
Interests receivable	–	–	–	4	4
Available-for-sale financial assets	–	–	–	1,479	1,479
	–	150	–	1,483	1,633
Deposits from banks and other financial institutions	–	–	8,592	1	8,593
Deposits from customers	33	143	1,166	79	1,421
Interests payable	–	–	6	–	6
	33	143	9,764	80	10,020
Significant off-balance sheet items with related parties as at December 31, 2010:					
Guarantee granted (Note)	180	–	–	–	180

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

46 Related party relationships and transactions (continued)

(d) Transactions between the Group and other related parties (continued)

(ii) Related party transactions (continued)

	China Everbright (Group) (Note 46(c))	China Everbright Limited	Affiliated Companies	Others	Total
Transactions with related parties for the year ended December 31, 2011:					
Interest income	–	1	–	104	105
Interest expense	(9)	(3)	(281)	(6)	(299)
Operating expenses	(1)	–	(5)	(5)	(11)
Balances with related parties as at December 31, 2011:					
Financial assets held under resale agreements	–	–	198	–	198
Loans and advances to customers	–	15	–	10	25
Interest receivable	–	–	–	3	3
Available-for-sale financial assets	–	–	–	1,423	1,423
	–	15	198	1,436	1,649
Deposits from banks and other financial institutions	–	–	3,054	4	3,058
Financial liabilities held for trading	–	–	5	–	5
Deposits from customers	113	18	1,612	933	2,676
Interest payable	1	–	28	7	36
	114	18	4,699	944	5,775
Significant off-balance sheet items with related parties as at December 31, 2011:					
Guarantee granted (Note)	180	–	–	–	180

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

46 Related party relationships and transactions (continued)

(d) Transactions between the Group and other related parties (continued)

(ii) Related party transactions (continued)

	China Everbright (Group) (Note 46(c))	China Everbright Limited	Affiliated Companies	Others	Total
Transactions with related parties for the year ended December 31, 2012:					
Interest income	–	–	–	62	62
Interest expense	–	–	(198)	(46)	(244)
Operating expenses	–	–	(6)	(8)	(14)
Balances with related parties as at December 31, 2012:					
Financial assets held under resale agreements	–	–	485	–	485
Loans and advances to customers	–	–	–	98	98
Interest receivable	–	–	–	1	1
Available-for-sale financial assets	–	–	–	1,403	1,403
Other assets	–	–	6,632	–	6,632
	–	–	7,117	1,502	8,619
Deposits from banks and other financial institutions	–	–	7,707	65	7,772
Deposits from customers	10	1	1,266	874	2,151
Interest payable	–	–	22	9	31
Other liabilities	9	–	–	–	9
	19	1	8,995	948	9,963
Significant off-balance sheet items with related parties as at December 31, 2012:					
Guarantee granted (Note)	180	–	–	–	180

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

46 Related party relationships and transactions (continued)

(d) Transactions between the Group and other related parties (continued)

(ii) Related party transactions (continued)

	China Everbright (Group) (Note 46(c))	China Everbright Limited	Affiliated Companies	Others	Total
Transactions with related parties for the Six months ended June 30, 2013:					
Interest income	–	–	1	96	97
Interest expense	–	–	(103)	(399)	(502)
Balances with related parties as at June 30, 2013:					
Financial assets held under resale agreements	–	–	750	4,490	5,240
Loans and advances to customers	–	–	–	170	170
Held-to-maturity investments	–	–	–	900	900
Interests receivable	–	–	–	36	36
Other assets	–	–	7,018	–	7,018
	–	–	7,768	5,596	13,364
Deposits from banks and other financial institutions	–	–	21,557	60	21,617
Deposits from customers	18	1	1,972	19,615	21,606
Interest payable	–	–	32	296	328
	18	1	23,561	19,971	43,551
Significant off-balance sheet items with related parties as at June 30, 2013:					
Guarantee granted (Note)	180	–	–	–	180

Note: As at the end of the Relevant Periods, the Bank has guarantee obligations relating to the China Everbright (Group)'s outstanding interest obligation of RMB180 million due to one of the state-owned commercial banks.

(e) Transactions with other PRC state-owned entities

The Group operates in an economic regime currently predominated by entities directly or indirectly owned by the PRC government through its government authorities, agencies, affiliations and other organizations ("state-owned entities"). Transactions with other state-owned entities include but are not limited to: lending and deposit taking; taking and placing of inter-bank balances; entrusted lending and other custody services; insurance and securities agency, and other intermediary services; sale, purchase, underwriting and redemption of bonds issued by other state-owned entities; purchase, sale and leases of property and other assets; and rendering and receiving of utilities and other services.

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

46 Related party relationships and transactions (continued)

(e) Transactions with other PRC state-owned entities (continued)

These transactions are conducted in the ordinary course of the Group's banking business on terms similar to those that would have been entered into with non-state-owned entities. The Group's pricing strategy and approval processes for major products and services, such as loans, deposits and commission income, do not depend on whether the customers are state-owned entities or not. Having considered the substance of the relationships, the Group is of the opinion that none of these transactions are material related party transactions that require separate disclosure.

(f) Key management personnel

	Years ended December 31,			Six months ended June 30,	
	2010	**2011**	**2012**	**2012**	**2013**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
				(Unaudited)	
Remuneration	13,483	22,518	15,132	7,460	8,415
Retirement benefits	946	919	823	395	464
Basic social pension insurance	411	419	465	224	257

Note:

(i) The total compensation package for these key management personnel for the year ended December 31, 2012 has not been finalized in accordance with regulations of the PRC relevant authorities. The amount of the compensation not provided for is not expected to have significant impact on the Group's financial statements for the year ended December 31, 2012.

(g) Loans and advances to directors, supervisors and officers

Loans and advances to directors, supervisors and officers of the Group disclosed pursuant to section 161B of the Hong Kong Companies Ordinance are as follows:

	December 31,			June 30,
	2010	**2011**	**2012**	**2013**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Aggregate amount of relevant loans outstanding at the year/period end	6,136	6,886	7,537	9,524
Maximum aggregate amount of relevant loans outstanding during the Relevant Periods	8,944	10,212	14,122	14,892

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

47 Segment reporting

The Group manages its business by business lines and geographical areas. Consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group defines reporting segments based on the following operating segments:

Corporate banking

This segment represents the provision of a range of financial products and services to corporations, government agencies and financial institutions. These products and services include corporate loans and advances, trade financing and deposit taking activities, agency services, cash management services, financing consulting and advisory services, remittance and settlement services, custody services, and guarantee services.

Retail banking

This segment represents the provision of a range of financial products and services to retail customers. These products and services include personal loans and deposit taking activities, bank card business, personal wealth management services, remittance services, and securities agency services.

Treasury business

This segment covers the Group's treasury operations. The treasury business enters into inter-bank money market transactions, repurchases transactions and investments. It also trades in debt securities, derivatives and foreign currency trading for its own accounts. The treasury segment also covers customer-driven derivatives and foreign currency trading, as well as management of the Group's overall liquidity position, including the issuance of subordinated debts.

Others

These represent equity investments and related income.

Measurement of segment assets and liabilities and of segment income, expenses and results is based on the Group's accounting policies.

Internal charges and transfer prices are determined with reference to market rates and have been reflected in the performance of each segment. Interest income and expense earned from third parties are referred to as "external net interest income/expense". Net interest income and expense arising from internal charges and transfer pricing adjustments are referred to as "internal net interest income/expense".

Segment income, expenses, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment income, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process. Segment capital expenditure is the total cost incurred during the Relevant Periods to acquire fixed assets, intangible assets and other long-term assets.

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

47 Segment reporting (continued)

(a) Segment results, assets and liabilities

The Group

	Year ended December 31, 2010				
	Corporate banking	Retail banking	Treasury business	Others	Total
Operating income					
External net interest income	16,111	6,688	7,624	–	30,423
Internal net interest income/(expense)	6,559	(678)	(5,881)	–	–
Net interest income	22,670	6,010	1,743	–	30,423
Net fee and commission income	2,566	2,129	14	–	4,709
Net trading losses	–	–	(347)	–	(347)
Dividend income	–	–	–	2	2
Net gains arising from investment securities	–	–	326	–	326
Foreign exchange gains	134	34	192	–	360
Other operating income	183	27	–	45	255
Operating income	25,553	8,200	1,928	47	35,728
Operating expenses	(9,445)	(5,538)	(105)	(38)	(15,126)
Operating profit before impairment	16,108	2,662	1,823	9	20,602
Impairment losses on assets	(2,576)	(856)	(59)	–	(3,491)
Profit before tax	13,532	1,806	1,764	9	17,111
Other segment information					
– Depreciation and amortization	(534)	(341)	(2)	–	(877)
– Capital expenditure	1,482	946	7	–	2,435

	December 31, 2010				
	Corporate banking	Retail banking	Treasury business	Others	Total
Segment assets	958,447	257,878	264,939	99	1,481,363
Segment liabilities	1,153,340	212,213	36,907	–	1,402,460

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

47 Segment reporting (continued)

(a) Segment results, assets and liabilities (continued)

The Group

	Year ended December 31, 2011				
	Corporate banking	Retail banking	Treasury business	Others	Total
Operating income					
External net interest income	19,069	9,374	10,997	–	39,440
Internal net interest income/(expense)	9,095	(629)	(8,466)	–	–
Net interest income	28,164	8,745	2,531	–	39,440
Net fee and commission income	3,604	3,267	102	–	6,973
Net trading losses	–	–	(1,063)	–	(1,063)
Dividend income	–	–	–	2	2
Net losses arising from investment securities	–	–	(115)	–	(115)
Foreign exchange gains	195	30	535	–	760
Other operating income	97	37	–	67	201
Operating income	32,060	12,079	1,990	69	46,198
Operating expenses	(11,482)	(6,594)	(179)	(34)	(18,289)
Operating profit before impairment	20,578	5,485	1,811	35	27,909
Impairment losses on assets	(3,252)	(303)	(143)	–	(3,698)
Profit before tax	17,326	5,182	1,668	35	24,211
Other segment information					
– Depreciation and amortization	(673)	(441)	(3)	–	(1,117)
– Capital expenditure	1,250	828	5	–	2,083

	December 31, 2011				
	Corporate banking	Retail banking	Treasury business	Others	Total
Segment assets	1,107,552	283,472	339,085	99	1,730,208
Segment liabilities	1,320,753	257,991	58,274	–	1,637,018

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

47 Segment reporting (continued)

(a) Segment results, assets and liabilities (continued)

The Group

	Year ended December 31, 2012				
	Corporate banking	Retail banking	Treasury business	Others	Total
Operating income					
External net interest income	25,586	12,686	11,991	–	50,263
Internal net interest income/(expense)	10,536	(2,115)	(8,421)	–	–
Net interest income	36,122	10,571	3,570	–	50,263
Net fee and commission income	3,928	5,419	132	–	9,479
Net trading losses	–	(86)	(152)	–	(238)
Dividend income	–	–	–	3	3
Net gains arising from investment securities	58	–	17	–	75
Foreign exchange gains/(losses)	281	42	(115)	–	208
Other operating income	121	43	–	116	280
Operating income	40,510	15,989	3,452	119	60,070
Operating expenses	(13,925)	(8,268)	(449)	(43)	(22,685)
Operating profit before impairment	26,585	7,721	3,003	76	37,385
Impairment losses on assets	(4,431)	(1,334)	(30)	–	(5,795)
Profit before tax	22,154	6,387	2,973	76	31,590
Other segment information					
– Depreciation and amortization	(837)	(549)	(8)	–	(1,394)
– Capital expenditure	1,651	1,083	16	–	2,750

	December 31, 2012				
	Corporate banking	Retail banking	Treasury business	Others	Total
Segment assets	1,510,900	387,495	377,067	98	2,275,560
Segment liabilities	1,736,394	325,080	103,467	4	2,164,945

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

47 Segment reporting (continued)

(a) Segment results, assets and liabilities (continued)

The Group

	Six months ended June 30, 2012 (Unaudited)				
	Corporate banking	Retail banking	Treasury business	Others	Total
Operating income					
External net interest income	13,821	5,599	5,888	–	25,308
Internal net interest income/(expense)	4,059	(347)	(3,712)	–	–
Net interest income	17,880	5,252	2,176	–	25,308
Net fee and commission income	2,250	2,611	77	–	4,938
Net trading gains	–	53	447	–	500
Dividend income	–	–	–	3	3
Net gains arising from investment securities	–	–	29	–	29
Foreign exchange gains/(losses)	157	24	(531)	–	(350)
Other operating income	33	20	–	50	103
Operating income	20,320	7,960	2,198	53	30,531
Operating expenses	(6,759)	(3,873)	(160)	(10)	(10,802)
Operating profit before impairment	13,561	4,087	2,038	43	19,729
Impairment losses on assets	(1,796)	(635)	(8)	–	(2,439)
Profit before tax	11,765	3,452	2,030	43	17,290
Other segment information					
– Depreciation and amortisation	(411)	(254)	(4)	–	(669)
– Capital expenditure	271	168	3	–	442

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

47 Segment reporting (continued)

(a) Segment results, assets and liabilities (continued)

The Group

	Six months ended June 30, 2013				
	Corporate banking	Retail banking	Treasury business	Others	Total
Operating income					
External net interest income	12,367	7,677	6,010	–	26,054
Internal net interest income/(expense)	6,060	(2,453)	(3,607)	–	–
Net interest income	18,427	5,224	2,403	–	26,054
Net fee and commission income	2,660	4,613	76	–	7,349
Net trading (losses)/gains	–	(7)	55	–	48
Net gains arising from investment securities	26	–	95	–	121
Foreign exchange gains/(losses)	124	30	(14)	–	140
Other operating income	46	24	–	56	126
Operating income	21,283	9,884	2,615	56	33,838
Operating expenses	(7,361)	(4,494)	(291)	(14)	(12,160)
Operating profit before impairment	13,922	5,390	2,324	42	21,678
Impairment losses on assets	(1,324)	(960)	34	–	(2,250)
Profit before tax	12,598	4,430	2,358	42	19,428
Other segment information					
– Depreciation and amortisation	(474)	(311)	(9)	–	(794)
– Capital expenditure	474	311	9	–	794

	June 30, 2013				
	Corporate banking	Retail banking	Treasury business	Others	Total
Segment assets	1,635,251	459,475	372,566	99	2,467,391
Segment liabilities	1,830,467	392,579	120,894	45	2,343,985

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

47 Segment reporting (continued)

(a) Segment results, assets and liabilities (continued)

Reconciliation between segment assets, liabilities and total assets and total liabilities:

		December 31,			June 30,
	Note	2010	2011	2012	2013
Segment assets		1,481,363	1,730,208	2,275,560	2,467,391
Goodwill	27	1,281	1,281	1,281	1,281
Deferred tax assets	28	1,306	1,857	2,454	2,496
Total assets		1,483,950	1,733,346	2,279,295	2,471,168
Segment liabilities		1,402,460	1,637,018	2,164,945	2,343,985
Dividend payable	39	27	178	28	117
Total liabilities		1,402,487	1,637,196	2,164,973	2,344,102

(b) Geographical information

The Group operates principally in mainland China with branches located in 28 provinces, autonomous regions and municipalities directly under the central government, with subsidiaries located in Wuhan city of Hubei Province, Shaoshan city of Hunan Province and Huai'an city of Jiangsu Province.

Non-current assets include fixed assets, land use rights and intangible assets. In presenting of geographical information, non-current assets are allocated based on geographical location of the underlying assets. Operating income is allocated based on the locations of the branches which generate income. Geographical areas, as defined for management reporting purposes, are as follows:

– "Yangtze River Delta" refers to the following areas serviced by subsidiary and branches of the Bank: Huai'an Everbright; Shanghai, Nanjing, Hangzhou, Suzhou, Ningbo and Wuxi;

– "Pearl River Delta" refers to the following areas serviced by branches of the Bank: Guangzhou, Shenzhen, Fuzhou, Xiamen and Haikou;

– "Bohai Rim" refers to the following areas serviced by branches of the Bank: Beijing, Tianjin, Shijiazhuang, Jinan, Qingdao and Yantai;

– "Central" refers to the following areas serviced by subsidiaries and branches of the Bank: Everbright Financial Leasing and Shaoshan Everbright; Zhengzhou, Taiyuan, Changsha, Wuhan, Hefei and Nanchang;

– "Western" refers to the following areas serviced by branches of the Bank: Xi'an, Chengdu, Chongqing, Kunming, Nanning, Hohhot, Urumqi, Guiyang and Lanzhou;

– "Northeastern" refers to the following areas serviced by branches of the Bank: Heilongjiang, Changchun, Shenyang and Dalian;

– "Hong Kong" refers to the Hong Kong special administrative region serviced by branch of the Bank; and

– "Head Office" refers to the headquarter of the Group.

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

47 Segment reporting (continued)

(b) Geographical information (continued)

The Group

	Operating Income				
	Years ended December 31,			Six months ended June 30,	
	2010	2011	2012	2012	2013
				(Unaudited)	
Yangtze River Delta	8,496	10,017	11,982	6,032	6,347
Bohai Rim	8,090	9,784	11,721	5,794	6,513
Central	4,965	6,336	8,259	4,096	4,426
Pearl River Delta	4,697	6,086	7,603	3,867	4,094
Western	4,451	5,493	7,189	3,512	4,221
Head Office	2,708	5,477	9,602	5,372	6,343
Northeastern	2,321	3,005	3,714	1,858	1,879
Hong Kong	–	–	–	–	15
Total	35,728	46,198	60,070	30,531	33,838

	Non-current assets			
	December 31,			June 30,
	2010	2011	2012	2013
Head Office	3,556	4,129	4,531	4,589
Yangtze River Delta	3,228	3,242	3,143	3,062
Pearl River Delta	880	968	952	1,049
Bohai Rim	849	852	877	857
Northeastern	796	779	999	970
Central	697	856	1,064	1,080
Western	527	514	963	944
Hong Kong	–	–	–	11
Total	10,533	11,340	12,529	12,562

48 Risk management

The Group has exposure to the following risks from its use of financial instruments: credit risk, market risk, liquidity risk and operational risk.

This note presents information about the Group's exposure to each of the above risks and their sources, and the Group's objectives, policies and procedures for measuring and managing these risks.

The Group's risk management policies were established to identify and analyze the risks to which the Group is exposed, to set appropriate risk limits, and to design relevant internal control policies and systems for monitoring risks and adhering to risk limits. Risk management policies and relevant internal control systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Internal Audit Department of the Group undertakes both regular and ad hoc reviews of the compliance of internal control implementation with risk management policies.

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

48 Risk management (continued)

(a) Credit risk

Credit risk represents the potential loss that may arise from the failure of a debtor or counterparty to meet its contractual obligation or commitment to the Group. It arises primarily from credit and bond investment portfolios and guarantees granted.

Credit business

The board of directors is responsible for setting the Group's risk management strategy and the overall risk tolerance level. The board also monitors the Group's risk management process and regularly assesses the Group's risk position and risk management strategies. The board gives advice on internal controls relating to risk management. The responsible department for credit risk management include the Risk Management Department, Credit Approval Department, Special Assets Resolution Department and Legal and Compliance Department, and the Group dispatch Credit Officer to Retail Banking Department of Head office, the business line of medium-sized and small enterprises and the first-level branches. The Risk Management Department is responsible for implementing the Group's overall risk management system. Besides risk monitoring and control, the Risk Management Department is also responsible for formulating risk management policies. To ensure the independence of credit approval, the Credit Approval Department is independent from customer relationship and product management departments. Front-office departments such as the Corporate Banking Department and the Retail Banking Department carry out credit businesses according to the Group's risk management policies and procedures.

The Group continuously improves the internal control mechanism and strengthens the management of the credit business. The Group has established comprehensive assessment and inquiry mechanisms, assigning the credit management accountability to the relevant departments and individuals.

For corporate and institutional businesses, the Group has established industry-specific limits for credit approval. It has put in place continuous monitoring mechanism, with regular reporting of credit exposures to the board. The Group's credit risk management covers key operational phases, including pre-lending evaluations, credit approval, and post-lending monitoring. With respect to pre-lending evaluations, the Group assesses customer credit ratings and performs integrated analysis on the risk and return of the loan. In the credit approval phase, all credit applications are approved by designated credit officers. During the post-lending monitoring, the Group continually monitors outstanding loans and other credit related businesses. Any adverse events that may significantly affect a borrower's repayment ability are reported immediately, and actions are taken to mitigate the risks. The Group has further enhanced the parallel operating mechanism. Customer relationship managers and risk managers work independently to manage the key risk points throughout the process of credit business.

For personal credit operation business, credit assessment of applicants is used as the basis for loan approval. In the credit assessment, customer relationship managers are required to assess the income level, credit history, and repayment ability of the applicant. The customer relationship managers then forward the application and their recommendations to the loan-approval departments for further approval. The Group monitors borrowers' repayment ability, the status of collateral and any changes to their value during the post-lending phase. Once a loan becomes overdue, the Group starts the recovery process according to standardized loan recovery procedures.

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

48 Risk management (continued)

(a) Credit risk (continued)

The Group adopts a loan risk classification approach to manage its loan portfolio risk. Loans are generally classified as normal, special mention, substandard, doubtful and loss according to their levels of risk. Substandard, doubtful and loss loans are considered to be impaired loans and advances. They are classified as such when one or more events demonstrate that there is objective evidence of a loss event. The impairment loss is assessed collectively or individually as appropriate.

The core definitions of the five categories of loans and advances are set out below:

Normal:	Borrowers can honour the terms of their loans. There is no reason to doubt their ability to repay principal and interest in full on a timely basis.
Special mention:	Borrowers are currently able to service their loans and interest, although repayment may be adversely affected by specific factors.
Substandard:	Borrowers' ability to service their loans is in question and they cannot rely entirely on normal business revenues to repay principal and interest. Losses may ensue even when collateral or guarantees are invoked.
Doubtful:	Borrowers cannot repay principal and interest in full and significant losses will need to be recognized even when collateral or guarantees are invoked.
Loss:	Principal and interest of loans cannot be recovered or only a small portion of them can be recovered after taking all possible measures or resorting to all necessary legal procedures.

Treasury Business

The Group sets credit limits for treasury operations based on the credit risk inherent in the products, counterparties and geographical areas. Credit risk exposure is closely monitored on a systematic, real-time basis, and credit risk limits are reviewed and updated regularly.

(i) Maximum credit risk exposure

The maximum exposure to credit risk is represented by the net carrying amount of each type of financial assets as at the end of the Relevant Periods, including derivative financial instruments. The maximum exposure to credit risk in respect of these off-balance sheet items as at the end of each of the Relevant Periods is disclosed in Note 51(a).

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

48 Risk management (continued)

(a) Credit risk (continued)

(ii) Financial assets analyzed by credit quality are summarized as follows:

The Group

	December 31, 2010				
	Loans and advances	Deposits/ placements with banks and other financial institutions	Financial assets held under resale agreements	Investment (*)	Others (**)
Impaired					
Individually assessed					
Gross amount	4,729	16	–	2	474
Provision for impairment losses	(4,293)	(16)	–	(2)	(412)
Sub-total	436	–	–	–	62
Collectively assessed					
Gross amount	1,100	–	–	–	98
Provision for impairment losses	(752)	–	–	–	(47)
Sub-total	348	–	–	–	51
Overdue but not impaired					
Less than 3 months (inclusive)	4,284	–	–	–	–
Gross amount	4,284	–	–	–	–
Provision for impairment losses	(230)	–	–	–	–
Sub-total	4,054	–	–	–	–
Neither overdue nor impaired					
Gross amount	768,715	77,120	170,037	187,554	89,237
Provision for impairment losses	(12,998)	(12)	–	(123)	(225)
Sub-total	755,717	77,108	170,037	187,431	89,012
Total	760,555	77,108	170,037	187,431	89,125

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

48 Risk management (continued)

(a) Credit risk (continued)

(ii) Financial assets analyzed by credit quality are summarized as follows: (continued)

The Group

	December 31, 2011				
	Loans and advances	Deposits/ placements with banks and other financial institutions	Financial assets held under resale agreements	Investment (*)	Others (**)
Impaired					
Individually assessed					
Gross amount	4,747	16	–	2	471
Provision for impairment losses	(3,823)	(16)	–	(2)	(461)
Sub-total	924	–	–	–	10
Collectively assessed					
Gross amount	980	–	–	–	94
Provision for impairment losses	(711)	–	–	–	(40)
Sub-total	269	–	–	–	54
Overdue but not impaired					
Gross amount					
– Less than 3 months (inclusive)	4,717	–	–	–	–
Gross amount	4,717	–	–	–	–
Provision for impairment losses	(280)	–	–	–	–
Sub-total	4,437	–	–	–	–
Neither overdue nor impaired					
Gross amount	879,381	187,009	206,941	161,480	65,540
Provision for impairment losses	(16,229)	–	–	(266)	(325)
Sub-total	863,152	187,009	206,941	161,214	65,215
Total	868,782	187,009	206,941	161,214	65,279

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

48 Risk management (continued)

(a) Credit risk (continued)

(ii) Financial assets analyzed by credit quality are summarized as follows: (continued)

The Group

	December 31, 2012				
	Loans and advances	Deposits/ placements with banks and other financial institutions	Financial assets held under resale agreements	Investment (*)	Others (**)
Impaired					
Individually assessed					
Gross amount	6,013	16	–	2	1,166
Provision for impairment losses	(3,487)	(16)	–	(2)	(85)
Sub-total	2,526	–	–	–	1,081
Collectively assessed					
Gross amount	1,600	–	–	–	222
Provision for impairment losses	(1,132)	–	–	–	(29)
Sub-total	468	–	–	–	193
Overdue but not impaired					
Gross amount					
– Less than 3 months (inclusive)	9,424	–	–	–	–
Gross amount	9,424	–	–	–	–
Provision for impairment losses	(797)	–	–	–	–
Sub-total	8,627	–	–	–	–
Neither overdue nor impaired					
Gross amount	1,006,150	183,020	230,726	478,680	86,321
Provision for impairment losses	(20,440)	(22)	–	(296)	(775)
Sub-total	985,710	182,998	230,726	478,384	85,546
Total	997,331	182,998	230,726	478,384	86,820

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

48 Risk management (continued)

(a) Credit risk (continued)

(ii) Financial assets analyzed by credit quality are summarized as follows: (continued)

The Group

	June 30, 2013				
	Loans and advances	Deposits/ placements with banks and other financial institutions	Financial assets held under resale agreements	Investment (*)	Others (**)
Impaired					
Individually assessed					
Gross amount	6,678	16	–	2	995
Provision for impairment losses	(3,241)	(16)	–	(2)	(82)
Sub-total	3,437	–	–	–	913
Collectively assessed					
Gross amount	2,163	–	–	–	241
Provision for impairment losses	(1,333)	–	–	–	(36)
Sub-total	830	–	–	–	205
Overdue but not impaired					
Gross amount					
– Less than 3 months (inclusive)	12,956	–	–	–	–
Gross amount	12,956	–	–	–	–
Provision for impairment losses	(1,023)	–	–	–	–
Sub-total	11,933	–	–	–	–
Neither overdue nor impaired					
Gross amount	1,082,757	210,949	181,384	574,831	94,985
Provision for impairment losses	(20,292)	(19)	–	(262)	(737)
Sub-total	1,062,465	210,930	181,384	574,569	94,248
Total	1,078,665	210,930	181,384	574,569	95,366

* Investments comprise financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and debt securities classified as receivables.

** Others comprise positive fair value of derivatives, interests receivable, assets from wealth management business recorded in other assets, and other receivables.

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

48 Risk management (continued)

(a) Credit risk (continued)

(iii) Credit rating

The distribution according to the credit quality of amounts due from banks and non-bank financial institutions (including deposits with banks and other financial institutions, placements with banks and other financial institutions, and financial assets held under resale agreements for which counterparties are banks and non-bank financial institutions) is as follows:

The Group

	December 31,			June 30,
	2010	2011	2012	2013
Carrying amount				
Individually assessed and impaired				
Gross amount	16	16	16	16
Provision for impairment losses	(16)	(16)	(16)	(16)
Sub-total	–	–	–	–
Neither overdue nor impaired				
– grade A to AAA	68,638	216,507	177,557	193,716
– grade B to BBB	53,047	14,461	13,531	26,340
– unrated	125,460	162,982	222,636	172,258
Sub-total	247,145	393,950	413,724	392,314
Total	247,145	393,950	413,724	392,314

The Group adopts a credit rating approach in managing the credit risk of the debt securities portfolio. Debt securities are rated with reference to Bloomberg Composite, or the major rating agencies where the issuers of the securities are located. The carrying amounts of debt securities investments analyzed by the rating agency designations as at the end of the Relevant Periods are as follows:

The Group

	December 31,			June 30,
	2010	2011	2012	2013
Carrying amount				
Individually assessed and impaired				
Gross amount	1	1	1	1
Provision for impairment losses	(1)	(1)	(1)	(1)
Sub-total	–	–	–	–
Neither overdue nor impaired				
Bloomberg Composite				
– grade AAA	72	–	–	–
– grade AA- to AA+	18	18	18	44
– grade A- to A+	1,018	1,118	1,172	1,042
– grade lower than A-	128	123	121	505
Sub-total	1,236	1,259	1,311	1,591

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

48 Risk management (continued)

(a) Credit risk (continued)

(iii) Credit rating (continued)

	December 31,			June 30,
	2010	2011	2012	2013
Other agency ratings				
– grade AAA	92,409	64,275	71,962	59,535
– grade AA- to AA+	11,223	14,652	19,632	40,376
– grade A- to A+	79,895	78,472	120,604	119,430
– grade lower than A-	1,900	1,900	3,200	2,898
Sub-total	185,427	159,299	215,398	222,239
Total	186,663	160,558	216,709	223,830

(b) Market risk

Market risk is the risk of loss, in respect of the Group's activities, arising from adverse movements in market rates including interest rates, foreign exchange rates, commodity prices, stock prices and other prices.

The board of directors is ultimately responsible for monitoring the Group's market risk to ensure that the Group has effectively identified, measured and monitored all types of market risk. The Risk Management Committee monitors the market risk management process within the scope authorized by the board of directors, which include review and approval of market risk management strategies, policies and procedures. The Group is primarily exposed to market risk in its treasury business. The Treasury Department is responsible for the Group's investments and proprietary trading business. The Planning and Finance Department is responsible for monitoring and managing the interest rate risk and foreign exchange risk on the daily basis. The Market Risk Management Division in the Treasury Department is responsible for formulating the market risk management policies and procedures, as well as identifying, measuring and monitoring the Group's market risk.

The Group classified the transactions as the banking book transactions and trading book transactions. The identification, measurement, monitoring and controls over the relevant market risks are based on the nature and characteristics of these books. The trading book transactions consist of the Group's investments which are acquired or incurred primarily for the purpose of selling in the near term, or for the purpose of short-term profit taking. The banking book transactions represent non-trading businesses. Sensitivity analysis, scenario analysis and foreign currency gap analysis are the major tools employed by the Group to measure and monitor the market risk in its trading book transactions. Sensitivity gap analysis, stress testing and effective duration analysis are the major tools used by the Group to measure and monitor the market risk of its non-trading businesses.

Sensitivity analysis is a technique which assesses the sensitivity of the Group's overall risk profile and its risk profile with reference to the interest rate risks for different maturities.

Scenario analysis is a multi-factor analysis method which assesses the impact of multiple factors interacting simultaneously, taking into consideration of the probabilities of various scenarios.

Foreign currency gap analysis is a technique which estimates the impact of foreign exchange rate movements on the Group's current profit or loss. The foreign currency gap mainly arises from the currency mismatch in the Group's on/off-balance sheet items.

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

48 Risk management (continued)

(b) Market risk (continued)

Sensitivity gap analysis is a technique which estimates the impact of interest rate movements on the Group's current profit or loss. It is used to work out the gap between future cash inflows and outflows by categorizing each of the Group's interest-bearing assets and interest-taking liabilities into different periods based on repricing dates.

The results of stress testing are assessed against a set of forward-looking scenarios using stress moves in market variables. The results are used to estimate the impact on profit or loss.

Effective duration analysis is a technique which estimates the impact of interest rate movements by giving a weight to each period's exposure according to its sensitivity, calculating the weighted exposure, and summarising all periods' weighted exposures to estimate the non-linear impact of a change in interest rates on the Group's economic value.

Interest rate risk

The Group is primarily exposed to interest rate risk arising from repricing risk in its commercial banking business and the risk of treasury position.

Repricing risk

Repricing risk, which is also known as "maturity mismatch risk", is the most common form of interest rate risk. It is caused by the differences in timing between the maturities (related to fixed interest instruments) or repricing (related to floating interest instruments) of assets, liabilities and off-balance sheet items. The mismatch of repricing timing causes the Group's income or its inherent economic value to vary with the movement in interest rates.

The Planning and Finance Department is responsible for measuring, monitoring and managing interest rate risk. The Group regularly performs assessment on the interest rate repricing gap between the assets and liabilities that are sensitive to changes in interest rates and sensitivity analysis on the net interest income as a result of changes in interest rates. The primary objective of interest rate risk management is to minimise potential adverse effects on its net interest income or its inherent economic value caused by interest rate volatility.

Trading interest rate risk

Trading interest rate risk mainly arises from the treasury's investment portfolios. Interest rate risk is monitored using the effective duration analysis method. The Group employs other supplementary methods to measure its interest rate sensitivity, which is expressed as changes in the investment portfolios' fair value given a 100 basis points (1%) movement in the interest rates.

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

48 Risk management (continued)

(b) Market risk (continued)

Interest rate risk (continued)

(i) The following tables indicate the effective interest rates for the Relevant Periods and the assets and liabilities as at the end of the Relevant Periods by the expected next repricing dates or by maturity dates, depending on which is earlier:

The Group

		December 31, 2010					
	Effective interest rate (Note (i))	Total	Non-interest bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
Assets							
Cash and deposits with the central bank	1.44%	185,745	8,103	177,642	–	–	–
Deposits with banks and other financial institutions	2.28%	53,275	118	46,381	6,776	–	–
Placements with banks and other financial institutions	2.06%	23,833	–	17,368	6,465	–	–
Financial assets held under resale agreements	2.80%	170,037	–	149,567	20,439	31	–
Loans and advances to customers (Note (ii))	5.03%	760,555	–	532,313	198,725	24,497	5,020
Investments (Note (iii))	3.42%	187,431	334	8,989	78,517	58,003	41,588
Others	–	103,074	19,134	3,633	7,860	72,447	–
Total assets	3.87%	1,483,950	27,689	935,893	318,782	154,978	46,608
Liabilities							
Deposits from banks and other financial institutions	2.36%	197,214	–	158,430	38,784	–	–
Placements from banks and other financial institutions	1.56%	18,214	22	5,953	12,239	–	–
Financial assets sold under repurchase agreements	2.34%	12,679	4	12,675	–	–	–
Deposits from customers	1.54%	1,063,180	4,356	755,770	231,377	67,821	3,856
Debt securities issued	4.63%	16,000	–	–	2,500	13,500	–
Others	–	95,200	18,305	72,318	3,768	809	–
Total liabilities	1.79%	1,402,487	22,687	1,005,146	288,668	82,130	3,856
Asset-liability gap	2.08%	81,463	5,002	(69,253)	30,114	72,848	42,752

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

48 Risk management (continued)

(b) Market risk (continued)

Interest rate risk (continued)

(i) The following tables indicate the effective interest rates for the Relevant Periods and the assets and liabilities as at the end of the Relevant Periods by the expected next repricing dates or by maturity dates, depending on which is earlier: (continued)

The Group

		December 31, 2011					
	Effective interest rate (Note (i))	Total	Non-interest bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
Assets							
Cash and deposits with the central bank	1.49%	228,666	11,222	217,444	–	–	–
Deposits with banks and other financial institutions	4.92%	105,263	290	95,770	6,683	2,520	–
Placements with banks and other financial institutions	4.01%	81,746	–	55,520	26,226	–	–
Financial assets held under resale agreements	5.43%	206,941	–	156,951	49,960	30	–
Loans and advances to customers (Note (ii))	6.00%	868,782	–	619,341	229,241	15,292	4,908
Investments (Note (iii))	3.71%	161,214	276	10,352	41,235	72,028	37,323
Others	–	80,734	22,331	12,705	12,202	33,496	–
Total assets	4.92%	1,733,346	34,119	1,168,083	365,547	123,366	42,231
Liabilities							
Deposits from banks and other financial institutions	4.52%	270,627	–	240,349	30,278	–	–
Placements from banks and other financial institutions	3.03%	27,362	22	8,083	19,257	–	–
Financial assets sold under repurchase agreements	4.15%	40,609	4	40,605	–	–	–
Deposits from customers	2.10%	1,225,278	4,944	927,016	201,782	86,237	5,299
Debt securities issued	4.71%	16,000	–	–	2,500	13,500	–
Others	–	57,320	24,727	29,242	3,351	–	–
Total liabilities	2.62%	1,637,196	29,697	1,245,295	257,168	99,737	5,299
Asset-liability gap	2.30%	96,150	4,422	(77,212)	108,379	23,629	36,932

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

48 Risk management (continued)

(b) Market risk (continued)

Interest rate risk (continued)

(i) The following tables indicate the effective interest rates for the Relevant Periods and the assets and liabilities as at the end of the Relevant Periods by the expected next repricing dates or by maturity dates, depending on which is earlier: (continued)

The Group

	December 31, 2012						
	Effective interest rate (Note (i))	Total	Non-interest bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
Assets							
Cash and deposits with the central bank	1.49%	285,478	13,537	271,941	–	–	–
Deposits with banks and other financial institutions	3.55%	47,019	69	44,250	2,700	–	–
Placements with banks and other financial institutions	5.17%	135,979	–	64,897	58,333	12,749	–
Financial assets held under resale agreements	5.08%	230,726	–	192,952	37,745	29	–
Loans and advances to customers (Note (ii))	6.66%	997,331	–	651,238	322,451	21,082	2,560
Investments (Note (iii))	4.63%	478,384	191	25,699	137,528	155,797	159,169
Others	–	104,378	29,391	18,695	14,122	42,170	–
Total assets	5.29%	2,279,295	43,188	1,269,672	572,879	231,827	161,729
Liabilities							
Deposits from banks and other financial institutions	4.19%	527,561	–	512,481	15,080	–	–
Placements from banks and other financial institutions	3.00%	23,205	18	16,831	6,206	150	–
Financial assets sold under repurchase agreements	3.72%	74,285	4	73,795	486	–	–
Deposits from customers	2.47%	1,426,941	3,867	931,816	322,079	167,750	1,429
Debt securities issued	4.59%	52,700	–	–	18,000	28,000	6,700
Others	–	60,281	34,978	20,701	4,602	–	–
Total liabilities	2.95%	2,164,973	38,867	1,555,624	366,453	195,900	8,129
Asset-liability gap	2.34%	114,322	4,321	(285,952)	206,426	35,927	153,600

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

48 Risk management (continued)

(b) Market risk (continued)

Interest rate risk (continued)

(i) The following tables indicate the effective interest rates for the Relevant Periods and the assets and liabilities as at the end of the Relevant Periods by the expected next repricing dates or by maturity dates, depending on which is earlier: (continued)

The Group

	June 30, 2013						
	Effective interest rate (Note (i))	Total	Non-interest bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
Assets							
Cash and deposits with the central bank	1.47%	311,708	16,800	294,908	–	–	–
Deposits with banks and other financial institutions	2.49%	73,870	67	62,783	11,020	–	–
Placements with banks and other financial institutions	4.38%	137,060	–	74,176	53,792	9,092	–
Financial assets held under resale agreements	4.56%	181,384	–	148,723	32,661	–	–
Loans and advances to customers (Note (ii))	6.19%	1,078,665	–	364,515	688,705	21,998	3,447
Investments (Note (iii))	4.99%	574,569	207	86,236	113,247	290,353	84,526
Others	–	113,912	34,499	35,971	15,082	28,360	–
Total assets	4.99%	2,471,168	51,573	1,067,312	914,507	349,803	87,973
Liabilities							
Deposits from banks and other financial institutions	4.13%	564,122	–	559,100	5,022	–	–
Placements from banks and other financial institutions	2.40%	40,222	21	30,016	10,185	–	–
Financial assets sold under repurchase agreements	3.81%	72,217	4	72,040	173	–	–
Deposits from customers	2.41%	1,554,691	4,885	982,285	376,321	189,520	1,680
Debt securities issued	4.51%	44,700	–	–	18,000	20,000	6,700
Others	–	68,150	37,093	28,791	1,325	941	–
Total liabilities	2.95%	2,344,102	42,003	1,672,232	411,026	210,461	8,380
Asset-liability gap	2.04%	127,066	9,570	(604,920)	503,481	139,342	79,593

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

48 Risk management (continued)

(b) Market risk (continued)

Interest rate risk (continued)

(i) The following tables indicate the effective interest rates for the Relevant Periods and the assets and liabilities as at the end of the Relevant Periods by the expected next repricing dates or by maturity dates, depending on which is earlier: (continued)

Note:

(i) Effective interest rate represents the ratio of interest income/expense to average interest bearing assets/liabilities.

(ii) For loans and advances to customers, the category "Less than three months" includes overdue amounts (net of provision for impairment losses) of RMB16,172 million as at June 30, 2013 (December 31, 2012: RMB11,582 million; December 31, 2011: RMB5,440 million; December 31, 2010: RMB4,735 million). Overdue amounts represent loans for which the principal or interest is overdue one day or more.

(iii) Investments include financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and debt securities classified as receivables.

(ii) Interest rate sensitivity analysis

The Group uses sensitivity analysis to measure the impact of changes in interest rate on the Group's net profit or loss and equity. As at June 30, 2013, assuming other variables remain unchanged, an increase in estimated interest rate of one hundred basis points will cause the Group's net profit to decrease by RMB4,584 million (December 31, 2012: RMB3,333 million; December 31, 2011: RMB1,224 million; December 31, 2010: RMB1,166 million), and equity to decrease by RMB7,402 million (December 31, 2012: RMB5,978 million; December 31, 2011: RMB2,286 million; December 31, 2010: RMB2,240 million); a decrease in estimated interest rate of one hundred basis points will cause the Group's net profit to increase by RMB4,610 million (December 31, 2012: RMB3,351 million; December 31, 2011: RMB1,227 million; December 31, 2010: RMB1,150 million), and equity to increase by RMB7,618 million (December 31, 2012: RMB6,190 million; December 31, 2011: RMB2,344 million; December 31, 2010: RMB2,264 million).

The sensitivity analysis above is based on a static interest rate risk profile of the Group's assets and liabilities. This analysis measures only the impact of changes in interest rates within one year, showing how annualized net profit or loss and equity would have been affected by repricing of the Group's assets and liabilities within the one-year period. The sensitivity analysis is based on the following assumptions:

– Interest rate movements at the end of the Relevant Periods apply to all derivative and non-derivative financial instruments of the Group;
– At the end of the Relevant Periods, an interest rate movement of one hundred basis points is based on the assumption of interest rates movement over the next 12 months;
– There is a parallel shift in the yield curve with the changes in interest rates;
– There are no other changes to the assets and liabilities portfolio;
– Other variables (including exchange rates) remain unchanged; and
– The analysis does not take into account the effect of risk management measures taken by the management.

Due to the adoption of the aforementioned assumptions, the actual changes in the Group's net profit or loss and equity caused by an increase or decrease in interest rates might vary from the estimated results of this sensitivity analysis.

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

48 Risk management (continued)

(b) Market risk (continued)

Foreign currency risk

The Group's foreign currency risk mainly arises from the foreign currency portfolio within the treasury's proprietary investments, and other foreign currency exposures. The Group manages foreign currency risk by spot and forward foreign exchange transactions, swap transactions and matching its foreign currency denominated assets with corresponding liabilities in the same currencies.

The Group's currency exposures as at the end of the Relevant Periods are as follows:

The Group

	December 31, 2010			
	RMB	USD	Others	Total
		(RMB Equivalent)	(RMB Equivalent)	(RMB Equivalent)
Assets				
Cash and deposits with the central bank	183,958	1,383	404	185,745
Deposits with banks and other financial institutions	48,976	2,330	1,969	53,275
Placements with banks and other financial institutions	19,247	3,592	994	23,833
Financial assets held under resale agreements	170,006	–	31	170,037
Loans and advances to customers	738,486	21,781	288	760,555
Investments (Note (i))	185,490	1,809	132	187,431
Others	101,563	248	1,263	103,074
Total assets	1,447,726	31,143	5,081	1,483,950
Liabilities				
Deposits from banks and other financial institutions	191,653	5,269	292	197,214
Placements from banks and other financial institutions	10,996	7,045	173	18,214
Financial assets sold under repurchase agreements	12,679	–	–	12,679
Deposits from customers	1,038,147	18,973	6,060	1,063,180
Debt securities issued	16,000	–	–	16,000
Others	89,422	2,912	2,866	95,200
Total liabilities	1,358,897	34,199	9,391	1,402,487
Net position	88,829	(3,056)	(4,310)	81,463
Off-balance sheet credit commitments	423,756	24,220	3,016	450,992
Derivative financial instruments (Note (ii))	(8,955)	4,814	4,075	(66)

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

48 Risk management (continued)

(b) Market risk (continued)

Foreign currency risk (continued)

The Group's currency exposures as at the end of the Relevant Periods are as follows: (continued)

The Group

	December 31, 2011			
	RMB	USD	Others	Total
		(RMB Equivalent)	(RMB Equivalent)	(RMB Equivalent)
Assets				
Cash and deposits with the central bank	225,781	2,377	508	228,666
Deposits with banks and other financial institutions	97,925	4,391	2,947	105,263
Placements with banks and other financial institutions	74,414	3,210	4,122	81,746
Financial assets held under resale agreements	206,912	–	29	206,941
Loans and advances to customers	845,205	23,245	332	868,782
Investments (Note (i))	159,600	1,491	123	161,214
Others	77,229	2,261	1,244	80,734
Total assets	1,687,066	36,975	9,305	1,733,346
Liabilities				
Deposits from banks and other financial institutions	261,461	8,579	587	270,627
Placements from banks and other financial institutions	19,796	7,175	391	27,362
Financial assets sold under repurchase agreements	40,609	–	–	40,609
Deposits from customers	1,192,667	25,808	6,803	1,225,278
Debt securities issued	16,000	–	–	16,000
Others	53,062	2,243	2,015	57,320
Total liabilities	1,583,595	43,805	9,796	1,637,196
Net position	103,471	(6,830)	(491)	96,150
Off-balance sheet credit commitments	520,593	30,089	3,042	553,724
Derivative financial instruments (Note (ii))	(9,544)	8,548	636	(360)

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

48 Risk management (continued)

(b) Market risk (continued)

Foreign currency risk (continued)

The Group's currency exposures as at the end of the Relevant Periods are as follows: (continued)

The Group

	December 31, 2012			
	RMB	USD	Others	Total
		(RMB Equivalent)	(RMB Equivalent)	(RMB Equivalent)
Assets				
Cash and deposits with the central bank	282,402	2,596	480	285,478
Deposits with banks and other financial institutions	41,447	3,772	1,800	47,019
Placements with banks and other financial institutions	133,985	1,532	462	135,979
Financial assets held under resale agreements	230,697	–	29	230,726
Loans and advances to customers	961,798	34,875	658	997,331
Investments (Note (i))	476,906	1,354	124	478,384
Others	103,706	96	576	104,378
Total assets	2,230,941	44,225	4,129	2,279,295
Liabilities				
Deposits from banks and other financial institutions	526,245	1,296	20	527,561
Placements from banks and other financial institutions	12,819	9,688	698	23,205
Financial assets sold under repurchase agreements	74,285	–	–	74,285
Deposits from customers	1,375,598	41,891	9,452	1,426,941
Debt securities issued	52,700	–	–	52,700
Others	58,204	1,117	960	60,281
Total liabilities	2,099,851	53,992	11,130	2,164,973
Net position	131,090	(9,767)	(7,001)	114,322
Off-balance sheet credit commitments	640,053	32,075	3,993	676,121
Derivative financial instruments (Note (ii))	957	(1,311)	167	(187)

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

48 Risk management (continued)

(b) Market risk (continued)

Foreign currency risk (continued)

The Group's currency exposures as at the end of the Relevant Periods are as follows: (continued)

The Group

	June 30, 2013			
	RMB	USD	Others	Total
		(RMB Equivalent)	(RMB Equivalent)	(RMB Equivalent)
Assets				
Cash and deposits with the central bank	308,058	3,236	414	311,708
Deposits with banks and other financial institutions	68,909	2,634	2,327	73,870
Placements with banks and other financial institutions	124,684	11,478	898	137,060
Financial assets held under resale agreements	181,355	–	29	181,384
Loans and advances to customers	1,034,927	42,545	1,193	1,078,665
Investments (Note (i))	572,811	1,638	120	574,569
Others	107,113	–	6,799	113,912
Total assets	2,397,857	61,531	11,780	2,471,168
Liabilities				
Deposits from banks and other financial institutions	563,441	659	22	564,122
Placements from banks and other financial institutions	13,179	24,660	2,383	40,222
Financial assets sold under repurchase agreements	72,217	–	–	72,217
Deposits from customers	1,495,631	50,034	9,026	1,554,691
Debt securities issued	44,700	–	–	44,700
Others	59,663	8,196	291	68,150
Total liabilities	2,248,831	83,549	11,722	2,344,102
Net position	149,026	(22,018)	58	127,066
Off-balance sheet credit commitments	695,773	33,539	3,007	732,319
Derivative financial instruments (Note (ii))	(20,374)	12,901	6,924	(549)

Notes:

(i) Investments include financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments, and debt securities classified as receivables.

(ii) Derivative financial instruments reflect the net notional amounts of derivatives.

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

48 Risk management (continued)

(b) Market risk (continued)

Foreign currency risk (continued)

The Group uses sensitivity analysis to measure the potential effect of changes in the exchange rates on the Group's net profit or loss and equity. As at June 30, 2013, assuming other variables remain unchanged, an appreciation of one hundred basis points of the US dollar against the RMB would decrease both the Group's net profit and equity by RMB3 million (December 31, 2012: decrease by RMB22 million; December 31, 2011: increase by RMB2 million; December 31, 2010: increase by RMB2 million); a depreciation of one hundred basis points of the US dollar against the RMB would increase both the Group's net profit and equity by RMB3 million (December 31, 2012: increase by RMB22 million; December 31, 2011: decrease by RMB2 million; December 31, 2010: decrease by RMB2 million).

The sensitivity analysis mentioned above is based on a static foreign exchange exposure profile of assets and liabilities and certain simplified assumptions as set out below:

- The foreign exchange sensitivity is the gain and loss recognized as a result of one hundred basis points fluctuation in the foreign currency exchange rates against RMB;
- The fluctuation of exchange rates by one hundred basis points is based on the assumption of exchange rates movement over the next 12 months;
- The exchange rates against RMB for the US dollars and HK dollars change in the same direction simultaneously. Due to the immaterial proportion of the Group's total assets and liabilities denominated in currencies other than US dollars and HK dollars, other foreign currencies are converted into US dollars through sensitivity analysis;
- The foreign exchange exposures calculated include spot and forward foreign exchange exposures and swaps;
- Other variables (including interest rates) remain unchanged; and
- The analysis does not take into account the effect of risk management measures taken by the Group.

Due to the assumptions adopted, actual changes in the Group's net profit or loss and equity resulting from the increase or decrease in foreign exchange rates may vary from the results of this sensitivity analysis.

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

48 Risk management (continued)

(c) Liquidity risk

Liquidity risk is the risk that a commercial bank is unable to obtain funds on a timely basis or obtain funds at a reasonable cost to meet repayment obligations or sustain its asset business. This risk exists even if a bank's solvency remains strong. In accordance with liquidity policies, the Group monitors the future cash flows and maintains an appropriate level of highly liquid assets.

The Asset and Liability Management Committee ("ALMC") is responsible for managing the Group's overall liquidity risk. The ALMC, chaired by the President of the Bank, is responsible for the formulation of the liquidity policies in accordance with regulatory requirements and prudential principles. Such policies include:

– Maintaining liquidity at a stable and sufficient level; establishing integrated liquidity risk management system; ensuring the meeting on a timely basis of liquidity requirements and the payment of assets, liabilities, and off-balance sheet business, whether under a normal operating environment or a state of stress; balancing the effectiveness and security of funds in an efficient manner; and

– Making timely and reasonable adjustments to capital structure and scale in response to market changes and business developments; pursuing profit maximization and cost minimization to a modest extent while ensuring appropriate liquidity; achieving the integration of the security, liquidity, and effectiveness of the Bank's funds.

The Planning and Finance Department is responsible for executing liquidity risk management policies. It is also responsible for identifying, measuring, monitoring and managing medium- and long-term working capital on a regular basis, and for formulating liquidity management strategies. The Treasury Department is responsible for monitoring working capital on a daily basis and ensuring the liquidity of working capital meets management requirements based on the liquidity strategies outlined above. Significant disbursement or portfolio changes must be reported to the ALMC on a timely basis.

A substantial portion of the Group's assets are funded by deposits from customers. These deposits from customers, which have been growing in recent years, are widely diversified in terms of type and duration and represent a stable source of funds.

The Group principally uses liquidity gap analysis to measure liquidity risk. Scenario analysis and stress testing are also adopted to assess the impact of liquidity risk.

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

48 Risk management (continued)

(c) Liquidity risk (continued)

The following tables provide an analysis of assets and liabilities of the Group into relevant maturity groupings based on the remaining periods to repayment at the end of the Relevant Periods:

The Group

	December 31, 2010							
	Indefinite	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	Total
Assets								
Cash and deposits with the central bank	149,585	36,160	–	–	–	–	–	185,745
Deposit with banks and other financial institutions	–	14,429	30,146	7,000	1,700	–	–	53,275
Placement with banks and other financial institutions	–	–	13,951	3,417	6,246	219	–	23,833
Financial asset held under resale agreements	–	–	106,926	42,641	20,439	31	–	170,037
Loans and advances to customers	2,369	14,752	34,450	62,871	247,959	252,426	145,728	760,555
Investments (*)	99	–	1,639	4,114	69,038	68,625	43,916	187,431
Others.............................	12,644	2,113	353	2,271	8,448	72,873	4,372	103,074
Total assets......................	164,697	67,454	187,465	122,314	353,830	394,174	194,016	1,483,950
Liabilities								
Deposits from banks and other financial institutions	–	63,901	36,845	46,684	38,784	11,000	–	197,214
Placements from banks and other financial institutions	–	22	2,053	3,900	12,239	–	–	18,214
Financial assets sold under repurchase agreements	–	4	12,121	554	–	–	–	12,679
Deposit from customers ..	–	482,263	131,161	106,571	232,527	104,302	6,356	1,063,180
Debt securities issued......	–	–	–	–	–	16,000	–	16,000
Others.............................	–	3,257	49,896	28,734	8,565	3,154	1,594	95,200
Total liabilities	–	549,447	232,076	186,443	292,115	134,456	7,950	1,402,487
Long/(Short) position	164,697	(481,993)	(44,611)	(64,129)	61,715	259,718	186,066	81,463
Notional amount of derivative financial instruments................	–	–	32,441	22,333	46,868	74,234	5,245	181,121

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

48 Risk management (continued)

(c) Liquidity risk (continued)

The following tables provide an analysis of assets and liabilities of the Group into relevant maturity groupings based on the remaining periods to repayment at the end of the Relevant Periods: (continued)

The Group

	December 31, 2011							
	Indefinite	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	Total
Assets								
Cash and deposits with the central bank	197,592	31,074	–	–	–	–	–	228,666
Deposit with banks and other financial institutions	–	15,021	37,980	43,059	6,683	2,520	–	105,263
Placement with banks and other financial institutions	–	–	37,983	12,422	31,341	–	–	81,746
Financial asset held under resale agreements	–	–	98,593	58,358	49,960	30	–	206,941
Loans and advances to customers	2,856	26,737	51,033	83,705	326,782	225,117	152,552	868,782
Investments (*)	99	–	1	3,099	33,983	82,829	41,203	161,214
Others	15,455	1,142	918	6,023	17,447	38,804	945	80,734
Total assets	216,002	73,974	226,508	206,666	466,196	349,300	194,700	1,733,346
Liabilities								
Deposits from banks and other financial institutions	–	48,221	121,532	59,596	36,278	5,000	–	270,627
Placements from banks and other financial institutions	–	22	2,757	4,976	19,457	150	–	27,362
Financial assets sold under repurchase agreements	–	4	32,459	8,146	–	–	–	40,609
Deposit from customers	–	520,257	180,057	153,834	221,990	143,201	5,939	1,225,278
Debt securities issued	–	–	–	–	–	16,000	–	16,000
Others	–	3,791	24,648	16,382	7,825	3,071	1,603	57,320
Total liabilities	–	572,295	361,453	242,934	285,550	167,422	7,542	1,637,196
Long/(Short) position	216,002	(498,321)	(134,945)	(36,268)	180,646	181,878	187,158	96,150
Notional amount of derivative financial instruments	–	–	48,475	37,159	98,979	68,567	4,876	258,056

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

48 Risk management (continued)

(c) Liquidity risk (continued)

The following tables provide an analysis of assets and liabilities of the Group into relevant maturity groupings based on the remaining periods to repayment at the end of the Relevant Periods: (continued)

The Group

	December 31, 2012							
	Indefinite	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	Total
Assets								
Cash and deposits with the central bank	254,475	31,003	–	–	–	–	–	285,478
Deposit with banks and other financial institutions	–	13,689	24,265	6,365	2,700	–	–	47,019
Placement with banks and other financial institutions	–	–	32,214	32,683	58,333	12,749	–	135,979
Financial asset held under resale agreements	–	–	87,770	105,182	37,745	29	–	230,726
Loans and advances to customers	7,200	70,580	56,381	109,970	378,872	208,460	165,868	997,331
Investments (*)	99	–	2,985	13,494	131,573	165,966	164,267	478,384
Others	17,558	47	2,339	10,625	19,380	54,100	329	104,378
Total assets	279,332	115,319	205,954	278,319	628,603	441,304	330,464	2,279,295
Liabilities								
Deposits from banks and other financial institutions	–	76,226	199,606	190,018	58,411	3,300	–	527,561
Placements from banks and other financial institutions	–	18	11,881	4,950	6,206	150	–	23,205
Financial assets sold under repurchase agreements	–	4	45,623	28,172	486	–	–	74,285
Deposit from customers	–	601,497	168,422	165,564	300,926	189,103	1,429	1,426,941
Debt securities issued	–	–	–	–	13,000	33,000	6,700	52,700
Others	–	6,691	30,367	7,025	11,905	3,823	470	60,281
Total liabilities	–	684,436	455,899	395,729	390,934	229,376	8,599	2,164,973
Long/(Short) position	279,332	(569,117)	(249,945)	(117,410)	237,669	211,928	321,865	114,322
Notional amount of derivative financial instruments	–	–	55,562	49,820	105,060	58,800	3,440	272,682

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

48 Risk management (continued)

(c) Liquidity risk (continued)

The following tables provide an analysis of assets and liabilities of the Group into relevant maturity groupings based on the remaining periods to repayment at the end of the Relevant Periods: (continued)

The Group

	June 30, 2013							
	Indefinite	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	Total
Assets								
Cash and deposits with the central bank	280,850	30,858	–	–	–	–	–	311,708
Deposit with banks and other financial institutions	–	12,425	8,360	33,336	13,129	6,620	–	73,870
Placement with banks and other financial institutions	–	–	27,081	47,603	53,304	9,072	–	137,060
Financial asset held under resale agreements	–	–	101,955	46,768	32,661	–	–	181,384
Loans and advances to customers	9,672	92,185	58,713	119,109	400,799	216,232	181,955	1,078,665
Investments (*)	99	–	10,163	60,776	109,270	307,543	86,718	574,569
Others	18,546	17	7,911	22,298	23,332	40,596	1,212	113,912
Total assets	309,167	135,485	214,183	329,890	632,495	580,063	269,885	2,471,168
Liabilities								
Deposits from banks and other financial institutions	–	106,390	318,389	78,739	57,804	2,800	–	564,122
Placements from banks and other financial institutions	–	21	19,922	10,094	10,185	–	–	40,222
Financial assets sold under repurchase agreements	–	4	71,723	317	173	–	–	72,217
Deposit from customers	–	630,378	186,620	168,673	352,367	214,973	1,680	1,554,691
Debt securities issued	–	–	–	–	8,000	30,000	6,700	44,700
Others	8,759	1,083	19,292	25,046	8,849	4,938	183	68,150
Total liabilities	8,759	737,876	615,946	282,869	437,378	252,711	8,563	2,344,102
Long/(Short) position	300,408	(602,391)	(401,763)	47,021	195,117	327,352	261,322	127,066
Notional amount of derivative financial instruments	–	–	48,771	33,592	98,733	56,000	2,497	239,593

* Investments include financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments, and debt securities classified as receivables.

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

48 Risk management (continued)

(c) Liquidity risk (continued)

The following tables provide an analysis of the contractual undiscounted cash flow of the non-derivative financial liabilities, loan commitments and credit card commitments at the end of the Relevant Periods:

The Group

	December 31, 2010							
	Carrying amount	Contractual undiscounted cash flow	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
Non-derivative financial liabilities								
Deposits from banks and other financial institutions	197,214	199,859	63,928	37,101	47,413	39,860	11,557	–
Placements from banks and other financial institutions	18,214	18,441	28	2,059	3,918	12,436	–	–
Financial assets sold under repurchase agreements	12,679	12,696	4	12,135	557	–	–	–
Deposits from customers	1,063,180	1,086,253	482,316	132,445	108,030	241,096	115,755	6,611
Debt securities issued	16,000	18,326	–	–	–	738	17,588	–
Other financial liabilities	83,704	85,620	3,136	50,092	27,643	3,904	845	–
Total non-derivative financial liabilities	1,390,991	1,421,195	549,412	233,832	187,561	298,034	145,745	6,611
Loan commitments and credit card commitments		84,409	57,676	4,192	5,316	13,119	3,664	442

The Group

	December 31, 2011							
	Carrying amount	Contractual undiscounted cash flow	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
Non-derivative financial liabilities								
Deposits from banks and other financial institutions	270,627	274,836	48,272	122,638	60,929	37,924	5,073	–
Placements from banks and other financial institutions	27,362	27,906	22	2,795	5,047	19,879	163	–
Financial assets sold under repurchase agreements	40,609	40,825	4	32,488	8,333	–	–	–
Deposits from customers	1,225,278	1,255,828	520,324	180,227	154,775	226,121	166,701	7,680
Debt securities issued	16,000	17,634	–	–	113	648	16,873	–
Other financial liabilities	41,632	42,086	3,383	21,200	13,743	3,481	–	279
Total non-derivative financial liabilities	1,621,508	1,659,115	572,005	359,348	242,940	288,053	188,810	7,959
Loan commitments and credit card commitments		87,643	71,351	3,535	4,337	3,917	2,285	2,218

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

48 Risk management (continued)

(c) Liquidity risk (continued)

The following tables provide an analysis of the contractual undiscounted cash flow of the non-derivative financial liabilities, loan commitments and credit card commitments at the end of the Relevant Periods: (continued)

The Group

	December 31, 2012							
	Carrying amount	Contractual undiscounted cash flow	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
Non-derivative financial liabilities								
Deposits from banks and other financial institutions	527,561	533,496	76,264	201,044	192,731	59,776	3,681	–
Placements from banks and other financial institutions	23,205	23,601	18	11,945	5,033	6,439	166	–
Financial assets sold under repurchase agreements	74,285	78,524	4	46,261	31,710	549	–	–
Deposits from customers	1,426,941	1,462,168	601,567	168,722	166,622	306,322	217,356	1,579
Debt securities issued	52,700	63,523	–	–	–	15,404	39,660	8,459
Other financial liabilities	40,006	40,296	6,195	26,288	3,061	4,752	–	–
Total non-derivative financial liabilities	2,144,698	2,201,608	684,048	454,260	399,157	393,242	260,863	10,038
Loan commitments and credit card commitments		108,355	85,155	3,166	6,831	8,265	3,871	1,067

	June 30, 2013							
	Carrying amount	Contractual undiscounted cash flow	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
Non-derivative financial liabilities								
Deposits from banks and other financial institutions	564,122	570,355	106,479	320,384	79,826	60,531	3,135	–
Placements from banks and other financial institutions	40,222	40,739	56	20,019	10,479	10,185	–	–
Financial assets sold under repurchase agreements	72,217	72,390	4	71,894	318	174	–	–
Deposits from customers	1,554,691	1,589,920	630,446	186,923	169,639	357,817	243,019	2,076
Debt securities issued	44,700	53,321	–	–	–	9,952	35,262	8,107
Other financial liabilities	47,865	48,351	9,186	14,893	21,850	1,394	1,028	–
Total non-derivative financial liabilities	2,323,817	2,375,076	746,171	614,113	282,112	440,053	282,444	10,183
Loan and credit card commitments		110,539	84,075	4,847	5,163	5,824	7,966	2,664

This analysis of the non-derivative financial liabilities by contractual undiscounted cash flow might diverge from actual results.

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

48 Risk management (continued)

(d) Operational risk

Operational risk refers to the risk of losses associated with internal processes deficiencies, personnel mistakes and information system failures, or impact from other external events.

The Group establishes a framework of policies and procedures to identify, assess, control, manage and report operational risk. The framework covers all business functions ranging from corporate banking, retail banking, trading, corporate finance, settlement, intermediary business, asset management and all supporting functions, including human resource management, financial management, legal affairs, anti-money laundering and administration management. The key elements of the framework are listed as below:

– A multi-level operational risk management framework with segregation of duties between front and back offices under the leadership of senior management;
– A series of operational risk management policies covering all businesses on the basis of core operational risk management policy;
– A set of standard operational procedures covering all products and services, which is practical, traceable and can be re-performed, investigated and remedied;
– A series of operational risk management tools, including Risk Control Self-Assessment (RCSA), Key Risk Index (KRI), Loss Event Collection and IT system monitoring;
– An operational risk management culture, the core values of the culture is that effective risk management could create value. It is supported with a team of operational risk management professionals across all branches, businesses and functions;
– An emergency plan and a business continuity system designed to deal with emergent and adverse circumstances, including public relation issues, natural disasters, IT system errors, bank runs, robberies, etc.;
– An evaluation system on the operational risk management as well as an inquiry and disciplinary system on the non-compliance issues; and
– An independent risk assessment framework based on the internal audit and the compliance review.

49 Fair value

(a) Methods and assumptions for measurement of fair value

The Group adopts the following methods and assumptions when evaluating fair values:

(i) Debt securities and equity investments

The fair values of debt securities and equity investments that are traded in an active market are based on their quoted market prices in an active market at the end of the Relevant Periods. The fair values of unlisted equity investments are estimated using the applicable price/earning ratios of comparable listed companies, after adjustment for the specific circumstances of the issuers.

(ii) Receivables and other non-derivative financial assets

Fair values are estimated as the present value of the future cash flows, discounted at the market interest rates at the end of the Relevant Periods.

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

49 Fair value (continued)

(a) Methods and assumptions for measurement of fair value (continued)

(iii) Debt securities issued and other non-derivative financial liabilities

Fair values of debt securities issued are based on their quoted market prices at the end of the Relevant Periods, or the present value of estimated future cash flows. The fair values of other non-derivative financial liabilities are valued at the present value of estimated future cash flows. The discount rates are based on the market interest rates at the end of the Relevant Periods.

(iv) Derivative financial instruments

The fair values of foreign currency forward and swap contracts are determined by the difference between the present value of the forward price and the contractual price at the end of the Relevant Periods, or is based on quoted market prices. The fair values of interest rate swaps are estimated as the present value of estimated future cash flows. The yield curve is based on the optimized price between the broker's quoted price and Reuters' quoted price.

(b) Fair value measurement

(i) Financial assets

The Group's financial assets mainly consist of cash and deposits with the central bank, receivables with banks and other financial institutions, loans and advances to customers, and investments.

Deposits with the central bank and receivables with banks and other financial institutions are mostly priced at market interest rates and due within one year. Accordingly, the carrying amounts approximate the fair values.

Loans and advances to customers are mostly priced at floating rates close to the PBOC rates. Accordingly, the carrying amounts approximate the fair values.

Available-for-sale investments and held for trading investments are stated at fair value. The carrying amount and fair value of held-to-maturity investments are disclosed in Note 23.

(ii) Financial liabilities

The Group's financial liabilities mainly include payables to banks and other financial institutions, financial liabilities at fair value through profit or loss, deposits from customers and subordinated debts issued.

Financial liabilities at fair value through profit or loss are stated at fair value in the statements of financial position. The carrying amount and fair value of subordinated debts issued are disclosed in Note 38. The carrying amounts of other financial liabilities approximate their fair values.

(c) Fair value hierarchy

The following table presents the carrying value of financial instruments measured at fair value in the statements of financial position across the three levels of the fair value hierarchy. The level in the fair value hierarchy within which the fair value measurement is categorized is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. The levels are defined as follows:

Level One: quoted prices (unadjusted) in active markets for identical assets or liabilities;

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

49 Fair value (continued)

(c) Fair value hierarchy (continued)

Level Two: inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);

Level Three: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If there is a reliable market quote for financial instruments, the fair value of financial instruments is based on quoted market prices. If a reliable quoted market price is not available, the fair value of the financial instruments is estimated using valuation techniques. Valuation techniques applied include reference to the fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. The inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and foreign exchange rates. Where discounted cash flow analysis is used, estimated cash flows are based on management's best estimates and the discount rate used is reference to another instrument that is substantially the same.

The Group and the Bank

	December 31, 2010			
	Level 1	Level 2	Level 3	Total
Assets				
Financial assets at fair value through profit or loss				
Held for trading				
– debt instruments	–	21,728	–	21,728
Financial assets designated at fair value through profit or loss	–	–	669	669
Positive fair value of derivatives				
– foreign currency derivatives	–	744	–	744
– interest rate derivatives	–	1,095	1,182	2,277
– credit derivatives	–	–	4	4
Available-for-sale financial assets				
– debt instruments	73	77,007	62	77,142
Total	73	100,574	1,917	102,564
Liabilities				
Deposits from customers				
Structured deposits designated at fair value through profit or loss	–	–	33,470	33,470
Negative fair value of derivatives				
– foreign currency derivatives	–	744	–	744
– interest rate derivatives	–	503	1,710	2,213
– credit derivatives	–	–	3	3
Total	–	1,247	35,183	36,430

During the year ended December 31, 2010, there were no significant transfers between instruments in Level 1 and Level 2.

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

49 Fair value (continued)

(c) Fair value hierarchy (continued)

The Group and the Bank

	December 31, 2011			
	Level 1	Level 2	Level 3	Total
Assets				
Financial assets at fair value through profit or loss				
Held for trading				
– debt instruments	–	22,170	–	22,170
Financial assets designated at fair value through profit or loss	–	–	557	557
Positive fair value of derivatives				
– foreign currency derivatives	–	654	–	654
– interest rate derivatives	–	649	955	1,604
– credit derivatives	–	–	4	4
Available-for-sale financial assets				
– debt instruments	–	54,343	60	54,403
Total	–	77,816	1,576	79,392
Liabilities				
Deposits from customers				
Structured deposits designated at fair value through profit or loss	–	–	46,478	46,478
Negative fair value of derivatives				
– foreign currency derivatives	–	979	–	979
– interest rate derivatives	–	821	1,259	2,080
– credit derivatives	–	–	3	3
Total	–	1,800	47,740	49,540

During the year ended December 31, 2011, there were no significant transfers between instruments in Level 1 and Level 2.

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

49 Fair value (continued)

(c) Fair value hierarchy (continued)

The Group and the Bank

	December 31, 2012			
	Level 1	Level 2	Level 3	Total
Assets				
Financial assets at fair value through profit or loss				
Held for trading				
– debt instruments	–	29,084	–	29,084
Financial assets designated at fair value through profit or loss	–	–	369	369
Positive fair value of derivatives				
– foreign currency derivatives	–	733	–	733
– interest rate derivatives	–	470	474	944
Available-for-sale financial assets				
– debt instruments	–	91,801	–	91,801
Total	–	122,088	843	122,931
Liabilities				
Deposits from customers				
Structured deposits designated at fair value through profit or loss	–	–	42,617	42,617
Negative fair value of derivatives				
– foreign currency derivatives	–	796	–	796
– interest rate derivatives	–	496	569	1,065
Total	–	1,292	43,186	44,478

During the year ended December 31, 2012, there were no significant transfers between instruments in Level 1 and Level 2.

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

49 Fair value (continued)

(c) Fair value hierarchy (continued)

The Group and the Bank

	June 30, 2013			
	Level 1	Level 2	Level 3	Total
Assets				
Financial assets at fair value through profit or loss				
Held for trading				
– debt instruments	–	31,473	–	31,473
Financial assets designated at fair value through profit or loss	–	–	306	306
Positive fair value of derivatives				
– foreign currency derivatives	–	928	–	928
– interest rate derivatives	–	461	171	632
Available-for-sale financial assets				
– debt instruments	–	99,309	–	99,309
Total	–	132,171	477	132,648
Liabilities				
Deposits from customers				
Structured deposits designated at fair value through profit or loss	–	–	48,033	48,033
Negative fair value of derivatives				
– foreign currency derivatives	–	1,136	–	1,136
– interest rate derivatives	–	387	193	580
Total	–	1,523	48,226	49,749

During the six months ended June 30, 2013, there were no significant transfers between instruments in Level 1 and Level 2.

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

49 Fair value (continued)

(c) Fair value hierarchy (continued)

The movement during the year ended December 31, 2010 in the balance of Level 3 fair value measurements is as follows:

The Group and the Bank

	Financial assets Designated at fair Value through Profit or loss	Derivative Financial Assets	Available-for-sale Financial Assets	Total	Non-derivative Financial Liabilities	Derivative Financial Liabilities	Total
January 1, 2010	1,051	1,179	67	2,297	(8,059)	(1,612)	(9,671)
Total gains or losses:							
In profit or loss for the current year	(19)	25	(2)	4	(158)	(119)	(277)
In other comprehensive income	–	–	(3)	(3)	–	–	–
Purchases	3	–	–	3	(33,241)	–	(33,241)
Settlements	(366)	(18)	–	(384)	7,988	18	8,006
December 31, 2010	669	1,186	62	1,917	(33,470)	(1,713)	(35,183)
Total gains or losses for the year included in profit or loss for assets and liabilities held at December 31, 2010	(19)	24	(2)	3	(227)	(120)	(347)

The movement during the year ended December 31, 2011 in the balance of Level 3 fair value measurements is as follows:

The Group and the Bank

	Financial assets Designated at fair Value through Profit or loss	Derivative Financial Assets	Available-for-sale Financial Assets	Total	Non-derivative Financial Liabilities	Derivative Financial Liabilities	Total
January 1, 2011	669	1,186	62	1,917	(33,470)	(1,713)	(35,183)
Total gains or losses:							
In profit or loss for the current year	38	(227)	(3)	(192)	(195)	452	257
In other comprehensive income	–	–	1	1	–	–	–
Purchases	2	9	–	11	(45,640)	(4)	(45,644)
Settlements	(152)	(9)	–	(161)	32,827	3	32,830
December 31, 2011	557	959	60	1,576	(46,478)	(1,262)	(47,740)
Total gains or losses for the year included in profit or loss for assets and liabilities held at December 31, 2011	36	(226)	(3)	(193)	(451)	450	(1)

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

49 Fair value (continued)

(c) Fair value hierarchy (continued)

The movement during the year ended December 31, 2012 in the balance of Level 3 fair value measurements is as follows:

The Group and the Bank

	Financial assets Designated at fair Value through Profit or loss	Derivative Financial Assets	Available-for-sale Financial Assets	Total	Non-derivative Financial Liabilities	Derivative Financial Liabilities	Total
January 1, 2012	557	959	60	1,576	(46,478)	(1,262)	(47,740)
Total gains or losses:							
In profit or loss for the current year	(10)	(448)	3	(455)	(288)	602	314
Purchases	16	54	–	70	(41,727)	(7)	(41,734)
Settlements	(194)	(91)	(63)	(348)	45,876	98	45,974
December 31, 2012	369	474	–	843	(42,617)	(569)	(43,186)
Total gains or losses for the year included in profit or loss for assets and liabilities held at December 31, 2012	(6)	(394)	–	(400)	(729)	595	(134)

The movement during the six months ended June 30, 2013 in the balance of Level 3 fair value measurements is as follows:

The Group and the Bank

	Financial assets Designated at fair Value through Profit or loss	Derivative Financial Assets	Available-for-sale Financial Assets	Total	Non-derivative Financial Liabilities	Derivative Financial Liabilities	Total
January 1, 2013	369	474	–	843	(42,617)	(569)	(43,186)
Total gains or losses:							
In profit or loss for the current period	(12)	(251)	–	(263)	183	338	521
Purchases	9	1	–	10	(43,184)	3	(43,181)
Settlements	(60)	(53)	–	(113)	37,585	35	37,620
June 30, 2013	306	171	–	477	(48,033)	(193)	(48,226)
Total gains or losses for the period included in profit or loss for assets and liabilities held at June 30, 2013	(11)	(251)	–	(262)	(468)	341	(127)

During the Relevant Periods, there were no significant transfers into or out of Level 3.

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

50 Entrusted lending business

The Group provides entrusted lending business services to government agencies, corporations and individuals. All entrusted loans are funded by entrusted funds from these entities and individuals. The Group does not take any credit risk in relation to these transactions. The Group acts as an agent to hold and manage these assets and liabilities at the direction of the entrustor and receives fee income for the services provided. The entrusted assets are not the assets of the Group and are not recognized in the statements of financial position.

The Group and the Bank

	December 31,			June 30,
	2010	2011	2012	2013
Entrusted loans	39,239	37,112	41,822	53,596
Entrusted funds	39,239	37,112	41,822	53,596

51 Commitments and contingent liabilities

(a) Credit commitments

The Group's credit commitments take the form of approved loans with signed contracts, credit card limits, bank acceptances, letters of credit and financial guarantees.

The contractual amounts of loans and credit card commitments represent the amounts should the contracts be fully drawn upon. The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. Acceptances comprise of undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be settled simultaneously with the reimbursement from the customers.

The Group and the Bank

	December 31,			June 30,
	2010	2011	2012	2013
Loan commitments				
– Original contractual maturity within one year	19,115	13,709	8,249	12,797
– Original contractual maturity more than one year (inclusive)	33,913	30,508	38,267	40,014
Credit card commitments	31,381	43,426	61,839	57,728
Sub-total	84,409	87,643	108,355	110,539
Acceptances	262,318	318,730	407,585	449,404
Letters of guarantees	46,898	59,280	45,417	48,629
Letters of credit	56,206	86,910	114,003	123,386
Guarantees	1,161	1,161	761	361
Total	450,992	553,724	676,121	732,319

The Group may be exposed to credit risk in all the above credit businesses. Group Management periodically assesses credit risk and makes provision for any probable losses. As the facilities may expire without being drawn upon, the total of the contractual amounts shown above is not representative of expected future cash outflows.

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

51 Commitments and contingent liabilities (continued)

(b) Credit risk-weighted amount

The Group and the Bank

	December 31,		
	2010	2011	2012
Credit risk-weighted amount of contingent liabilities and commitments	189,344	245,994	298,095

The credit risk weighted amount represent to the amount calculated with reference to the guidelines issued by the CBRC. The risk weights are determined in accordance with the credit status of the counterparties, the maturity profile and other factors. The risk weights ranged from 0% to 150% for credit commitments.

	June 30, 2013
Credit risk-weighted amount of credit commitments	296,467

(c) Operating lease commitments

As at the end of the Relevant Periods, the Group's future minimum lease payments under non-cancellable operating leases for properties are as follows:

The Group

	December 31,			June 30,
	2010	2011	2012	2013
Within one year (inclusive)	664	1,039	1,297	1,356
After one year but within two years (inclusive)	617	974	1,109	1,684
After two years but within three years (inclusive)	539	878	1,056	1,206
After three years but within five years (inclusive)	968	1,542	1,777	2,141
After five years	1,716	1,788	2,009	2,662
Total	4,504	6,221	7,248	9,049

The Bank

	December 31,			June 30,
	2010	2011	2012	2013
Within one year (inclusive)	664	1,035	1,293	1,354
After one year but within two years (inclusive)	617	970	1,109	1,684
After two years but within three years (inclusive)	539	878	1,056	1,206
After three years but within five years (inclusive)	968	1,542	1,777	2,141
After five years	1,716	1,788	2,009	2,662
Total	4,504	6,213	7,244	9,047

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

51 Commitments and contingent liabilities (continued)

(d) Capital commitments

As at the end of the Relevant Periods, the Group and the Bank's authorized capital commitments are as follows:

	December 31,			June 30,
	2010	2011	2012	2013
Contracted for				
– Purchase of property and equipment	470	143	1,561	416
Approved but not contracted for				
– Purchase of property and equipment	139	779	667	807
Total	609	922	2,228	1,223

(e) Underwriting and redemption commitments

The Group and the Bank has unexpired commitments for underwriting bonds as follows:

	December 31,			June 30,
	2010	2011	2012	2013
Underwriting commitments	1,200	3,990	2,010	3,050

As an underwriting agent of the PRC government bonds, the Group has the responsibility to buy back those bonds it previously sold should the holders decide to make an early redemption of the bonds held. The redemption price for a bond at any time before its maturity date is based on the coupon value plus any interest unpaid and accrued up to the redemption date. Accrued interests payable to the bond holders is calculated in accordance with the relevant MOF and PBOC rules. The redemption price may be different from the fair value of similar financial instruments traded at the redemption date.

The Group and the Bank's redemption commitments are as follows:

	December 31,			June 30,
	2010	2011	2012	2013
Redemption commitments	13,380	11,196	8,349	8,672

(f) Forward assets purchase and sale commitments

The Group and the Bank has unexpired forward purchase and sale commitments as follows:

	December 31,			June 30,
	2010	2011	2012	2013
Forward assets purchase and sale commitments	–	–	3,750	2,730

V NOTES TO THE FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

51 Commitments and contingent liabilities (continued)

(g) Outstanding litigations and disputes

As at June 30, 2013, the Group was the defendant in certain pending litigation and disputes with gross claims of RMB373 million (December 31, 2012: RMB363 million; December 31, 2011: RMB329 million; December 31, 2010: RMB432 million). Provisions (Note 39(b)) have been made for the estimated losses of such litigation based upon the opinions of the Group's internal and external legal counsels. The Group considers that the provisions made are reasonable and adequate.

52 Subsequent events

(a) Issuance of tier two capital debt

In accordance with the Reply of CBRC on August 27, 2013 on issuance of tier two capital debt by China Everbright Bank Company Limited (Yin Jian Fu [2013] No. 447), the Group was approved to issue tier two capital debt with the amount of no more than RMB16.2 billion. The issuance is yet to be approved by the PBOC.

(b) Redemption plan of subordinated debt

The Group announced on November 15, 2013 that it would exercise its redemption option on December 17, 2013 to fully redeem the RMB5 billion ten-year fixed rate subordinated debt issued on December 15, 2008.

53 Immediate and ultimate parent

The immediate and ultimate parents of the Group are Huijin and CIC.

Yours faithfully,

KPMG
Certified Public Accountants
Hong Kong

The information set out below is the unaudited interim financial information of the Group for the nine months ended September 30, 2013 and does not form part of the Accountant's Report prepared by the reporting accountants, KPMG, Certified Public Accountants, Hong Kong, as set out in Appendix I, and is included herein for information purpose only.

8th Floor
Prince's Building
10 Chater Road
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Hong Kong

December 10, 2013

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION
To the Board of Directors of China Everbright Bank Company Limited

INTRODUCTION

We have reviewed the accompanying interim financial information set out on pages II-2 to II-46, which comprises the condensed consolidated statement of financial position of China Everbright Bank Company Limited (the "Bank") and its subsidiaries (collectively the "Group") as at September 30, 2013 and the related condensed consolidated statements of comprehensive income, changes in equity and cash flows for the nine-month period then ended, and explanatory notes (the "Condensed Consolidated Financial Information"). The directors are responsible for the preparation and presentation of interim financial information in accordance with International Accounting Standard 34, "Interim Financial Reporting" ("IAS 34"), issued by the International Accounting Standards Board.

Our responsibility is to form a conclusion, based on our review, on the interim financial information and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity", issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with IAS 34.

KPMG
Certified Public Accountants
Hong Kong

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2013

(Expressed in millions of Renminbi, unless otherwise stated)

	Note	Nine months ended September 30, 2013	2012
Interest income		89,015	76,629
Interest expense		(50,477)	(38,698)
Net interest income	3	38,538	37,931
Fee and commission income		11,638	7,027
Fee and commission expense		(532)	(350)
Net fee and commission income	4	11,106	6,677
Net trading losses	5	(1,358)	(371)
Dividend income		3	3
Net gains arising from investment securities	6	94	40
Foreign exchange gains		292	33
Other operating income		201	145
Operating income		48,876	44,458
Operating expenses	7	(18,026)	(15,769)
Operating profit before impairment		30,850	28,689
Impairment losses on assets	8	(3,287)	(3,366)
Profit before tax		27,563	25,323
Income tax	9	(5,863)	(6,267)
Net profit		21,700	19,056
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss			
– Net change in fair value of available-for-sale financial assets		(1,876)	47
– Income tax relating to other comprehensive income		469	(12)
– Net change in fair value of available-for-sale financial assets reclassified to profit or loss		46	143
Other comprehensive income, net of tax		(1,361)	178
Total comprehensive income		20,339	19,234
Net profit attributable to:			
Equity shareholders of the Bank		21,664	19,033
Non-controlling interests		36	23
		21,700	19,056
Total comprehensive income attributable to:			
Equity shareholders of the Bank		20,303	19,211
Non-controlling interests		36	23
		20,339	19,234
Basic and diluted earnings per share (in RMB)	10	0.54	0.47

The notes on pages II-7 to II-46 form part of the Condensed Consolidated Financial Information.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT SEPTEMBER 30, 2013

(Expressed in millions of Renminbi, unless otherwise stated)

	Note	September 30, 2013	December 31, 2012
Assets			
Cash and deposits with the central bank	11	325,432	285,478
Deposits with banks and other financial institutions	12	55,231	47,019
Placements with banks and other financial institutions	13	119,604	135,979
Financial assets at fair value through profit or loss	14	29,907	29,453
Positive fair value of derivatives	15	1,410	1,677
Financial assets held under resale agreements	16	223,643	230,726
Interests receivable	17	13,572	10,140
Loans and advances to customers	18	1,115,545	997,331
Available-for-sale financial assets	19	96,063	91,900
Held-to-maturity investments	20	101,470	95,824
Debt securities classified as receivables	21	291,385	261,207
Fixed assets	22	12,086	11,869
Goodwill	23	1,281	1,281
Deferred tax assets	24	2,915	2,454
Other assets	25	84,800	76,957
Total assets		2,474,344	2,279,295
Liabilities and equity			
Liabilities			
Deposits from banks and other financial institutions	27	512,266	527,561
Placements from banks and other financial institutions	28	52,154	23,205
Negative fair value of derivatives	15	1,918	1,861
Financial assets sold under repurchase agreements	29	54,042	74,285
Deposits from customers	30	1,622,107	1,426,941
Accrued staff costs	31	7,056	7,405
Taxes payable	32	2,209	3,174
Interests payable	33	20,534	18,414
Debt securities issued	34	45,181	52,700
Other liabilities	35	24,531	29,427
Total liabilities		2,341,998	2,164,973
Equity			
Share capital	36	40,435	40,435
Capital reserve	37	18,897	20,258
Surplus reserve	38	6,560	6,560
General reserve	38	28,063	28,063
Retained earnings	39	38,181	18,862
Total equity attributable to equity shareholders of the Bank		132,136	114,178
Non-controlling interests		210	144
Total equity		132,346	114,322
Total liabilities and equity		2,474,344	2,279,295

The notes on pages II-7 to II-46 form part of the Condensed Consolidated Financial Information.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2013

(Expressed in millions of Renminbi, unless otherwise stated)

		Attributable to equity shareholders of the Bank							
	Note	Share Capital	Capital reserve	Surplus reserve	General reserve	Retained earnings	Sub-total	Non-controlling interests	Total
Balance at January 1, 2013		40,435	20,258	6,560	28,063	18,862	114,178	144	114,322
Changes in equity for the period:									
Total comprehensive income		–	(1,361)	–	–	21,664	20,303	36	20,339
Changes in share capital:									
– Non-controlling interests of new subsidiaries		–	–	–	–	–	–	30	30
Appropriation of profit:									
– Appropriation to shareholders	39	–	–	–	–	(2,345)	(2,345)	–	(2,345)
Balance at September 30, 2013		40,435	18,897	6,560	28,063	38,181	132,136	210	132,346
Balance at January 1, 2012		40,435	20,328	4,226	13,877	17,169	96,035	115	96,150
Changes in equity for the period:									
Total comprehensive income		–	178	–	–	19,033	19,211	23	19,234
Appropriation of profit:									
– Appropriation to shareholders	39	–	–	–	–	(5,378)	(5,378)	–	(5,378)
Balance at September 30, 2012		40,435	20,506	4,226	13,877	30,824	109,868	138	110,006
Balance at January 1, 2012		40,435	20,328	4,226	13,877	17,169	96,035	115	96,150
Changes in equity for the year:									
Total comprehensive income		–	(70)	–	–	23,591	23,521	29	23,550
Appropriation of profit									
– Appropriation to surplus reserve	39	–	–	2,334	–	(2,334)	–	–	–
– Appropriation to general reserve	39	–	–	–	14,186	(14,186)	–	–	–
– Appropriation to shareholders	39	–	–	–	–	(5,378)	(5,378)	–	(5,378)
Balance at December 31, 2012		40,435	20,258	6,560	28,063	18,862	114,178	144	114,322

The notes on pages II-7 to II-46 form part of the Condensed Consolidated Financial Information.

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2013
(Expressed in millions of Renminbi, unless otherwise stated)

	Nine months ended September 30,	
	2013	**2012**
Cash flows from operating activities		
Net profit	21,700	19,056
Adjustments for:		
Impairment losses on assets	3,287	3,366
Depreciation and amortization	1,202	1,019
Unwinding of discount	(266)	(94)
Dividend income	(3)	(3)
Unrealized foreign exchange losses	34	3
Net gains on disposal of investment securities	(94)	(40)
Net losses on disposal of trading securities	228	335
Revaluation losses on financial instruments at fair value through profit or loss	1,130	36
Interest expense on debt securities issued	1,637	1,342
Net losses on disposal of fixed assets	3	1
Income tax	5,863	6,267
	34,721	31,288
Changes in operating assets		
Net increase in deposits with the central bank, banks and other financial institutions	(50,835)	(25,465)
Net increase in placements with banks and other financial institutions	(22,537)	(43,256)
Net increase in loans and advances to customers	(121,735)	(107,753)
Net decrease/(increase) in financial assets held under resale agreements	6,352	(79,332)
Net increase in other operating assets	(9,007)	(102,886)
	(197,762)	(358,692)
Changes in operating liabilities		
Net (decrease)/increase in deposits from banks and other financial institutions	(15,295)	220,379
Net increase in placements from banks and other financial institutions	28,949	4,963
Net (decrease)/increase in financial assets sold under repurchase agreements	(20,439)	10,267
Net increase in deposits from customers	195,166	189,260
Income tax paid	(7,005)	(7,132)
Net (decrease)/increase in other operating liabilities	(3,060)	9,561
	178,316	427,298
Net cash flows from operating activities	15,275	99,894
Cash flows from investing activities		
Proceeds from disposal and redemption of investments	205,678	294,443
Dividend received	3	3
Proceeds from disposal of fixed assets and other assets	113	10
Payments on acquisition of investments	(248,950)	(447,146)
Payments on acquisition of fixed assets, intangible assets and other assets	(1,469)	(903)
Net cash flows used in investing activities	(44,625)	(153,593)

The notes on pages II-7 to II-46 form part of the Condensed Consolidated Financial Information.

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT (continued)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2013
(Expressed in millions of Renminbi, unless otherwise stated)

	Note	Nine months ended September 30, 2013	2012
Cash flows from financing activities			
Capital contribution by non-controlling interests		30	–
Net proceeds from new debt securities issued		481	36,700
Repayment of debt securities issued		(8,000)	–
Interest paid on debt securities issued		(2,211)	(562)
Dividends paid		(2,348)	(5,528)
Net cash flows (used in)/from financing activities		(12,048)	30,610
Effect of foreign exchange rate changes on cash and cash equivalents		(189)	(16)
Net decrease in cash and cash equivalents	40(a)	(41,587)	(23,105)
Cash and cash equivalents as at January 1		137,913	156,645
Cash and cash equivalents as at September 30	40(b)	96,326	133,540
Interest received		86,286	73,533
Interest paid (excluding interest expense on debt securities issued)		(45,950)	(35,113)

The notes on pages II-7 to II-46 form part of the Condensed Consolidated Financial Information.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in millions of Renminbi, unless otherwise stated)

1 Background information

China Everbright Bank Company Limited (the "Bank") commenced operation in Beijing, the People's Republic of China (the "PRC") on August 18, 1992.

The principal activities of the Bank and its subsidiaries (collectively the "Group") are the provision of corporate and retail deposits, loans and advances, settlement, treasury business and other financial services as approved by the China Banking Regulatory Commission (the "CBRC"). The Bank mainly operated in mainland China, which, for the purpose of this report, excludes the Hong Kong Special Administration Region of the PRC ("Hong Kong"), the Macau Special Administration Region of the PRC and Taiwan.

The Bank has branches in 28 provinces, autonomous regions and municipalities in mainland China and Hong Kong as at September 30, 2013.

2 Basis of preparation

(1) Compliance with International Financial Reporting Standards ("IFRSs")

These condensed consolidated interim financial information have been prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting".

These condensed consolidated interim financial information do not include all the information required for a full set of financial statements prepared in accordance with IFRSs. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual consolidated financial statements as at and for the year ended December 31, 2012.

(2) Use of estimates and assumptions

The preparation of the condensed consolidated interim financial information requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results in the future may differ from those reported as a result of the use of estimates and assumptions about future conditions.

(3) Consolidation

The condensed consolidated interim financial information comprise the Bank and its subsidiaries.

The results and affairs of subsidiaries are included in the condensed consolidated interim financial information from the date that control commences until the date that control ceases. Necessary adjustments on the accounting period and accounting policies of subsidiaries are made to comply with those of the Bank. Intragroup balances and transactions, and any profits or losses arising from intragroup transactions are eliminated in full in preparing the condensed consolidated financial information.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

2 Basis of preparation (continued)

(4) Significant accounting policies

The accounting policies adopted in the preparation of the condensed consolidated interim financial information are consistent with those followed in the preparation of the Group's annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs, including International Accounting Standards ("IASs")) for the year ended December 31, 2012, except for the adoption of the following revised IFRSs as of January 1, 2013. The principal effects of adopting these revised IFRSs are as follows:

IAS 1 – Presentation of financial statements – Presentation of items of other comprehensive income (Amendment)

The amendment to IAS 1 enhances disclosures for other comprehensive income. These disclosures require entities to present the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met separately from those that would never be reclassified to profit or loss. The Group's presentation of other comprehensive income in this condensed consolidated interim financial information has been modified accordingly.

IFRS 10 – Consolidated financial statements

IFRS 10 replaces the requirements in IAS 27, Consolidated and separate financial statements relating to the preparation of consolidated financial statements and SIC 12 Consolidation – Special purpose entities. It introduces a single control model to determine whether an investee should be consolidated, by focusing on whether the entity has power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect the amount of those returns.

IFRS 12 – Disclosure of interests in other entities

IFRS 12 brings together into a single standard all the disclosure requirements relevant to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The disclosures required by IFRS 12 are generally more extensive than those previously required by the respective standards. Since those disclosure requirements only apply to a full set of financial statements, the Group has not made additional disclosures in this condensed consolidated interim financial information as a result of adopting IFRS 12.

IFRS 13 – Fair value measurement

IFRS 13 replaces existing guidance in individual IFRSs with a single source of fair value measurement guidance. IFRS 13 also contains extensive disclosure requirements about fair value measurements for both financial instruments and nonfinancial instruments. The adoption of IFRS 13 does not have any material impact on the fair value measurements of the Group's assets and liabilities.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

3 Net interest income

	Note	Nine months ended September 30, 2013	2012
Interest income arising from			
Deposits with the central bank		3,367	2,850
Deposits with banks and other financial institutions		975	1,682
Placements with banks and other financial institutions		4,460	4,321
Loans and advances to customers	3(a)		
– Corporate loans and advances		35,011	34,836
– Personal loans and advances		16,010	12,187
– Discounted bills		658	1,102
Financial assets held under resale agreements		7,342	10,681
Investments		20,834	8,371
Re-discounted bills		358	599
Sub-total		89,015	76,629
Interest expenses arising from			
Deposits from banks and other financial institutions		19,415	11,648
Placements from banks and other financial institutions		918	1,193
Deposits from customers			
– Corporate customers		21,374	18,962
– Individual customers		5,504	4,158
Financial assets sold under repurchase agreements		1,629	1,395
Debt securities issued	3(b)	1,637	1,342
Sub-total		50,477	38,698
Net interest income		38,538	37,931

Notes:

(a) The interest income arising from impaired financial assets for the nine months ended September 30, 2013 amounted to RMB266 million (Nine months ended September 30, 2012: RMB94 million).

(b) Interest expense on financial liabilities with maturity over five years mainly included the interest expense on debt securities issued.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

4 Net fee and commission income

	Nine months ended September 30,	
	2013	2012
Fee and commission income		
Bank card service fees	5,108	2,116
Wealth management service fees	1,729	999
Underwriting and advisory fees	1,516	1,166
Settlement and clearing fees	1,281	1,103
Acceptance and guarantee fees	672	464
Custody and other fiduciary business fees	608	430
Agency services fees	448	499
Others	276	250
Sub-total	11,638	7,027
Fee and commission expense		
Bank card transaction fees	415	262
Settlement and clearing fees	52	37
Others	65	51
Sub-total	532	350
Net fee and commission income	11,106	6,677

5 Net trading losses

	Nine months ended September 30,	
	2013	2012
Trading financial instruments		
– Debt securities	(504)	(463)
– Derivatives	(324)	751
Financial instruments designated at fair value through profit or loss	(530)	(659)
Total	(1,358)	(371)

6 Net gains arising from investment securities

	Nine months ended September 30,	
	2013	2012
Net gains on disposal of available-for-sale financial assets	125	214
Net revaluation losses reclassified from other comprehensive income on disposal	(61)	(191)
Net gains on disposal of debt securities classified as receivables	32	15
Net (losses)/gains on disposal of held-to-maturity financial assets	(2)	2
Total	94	40

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

7 Operating expenses

	Nine months ended September 30,	
	2013	**2012**
Staff costs		
– Salaries and bonuses	6,153	5,966
– Staff welfares	151	137
– Pension and annuity	645	522
– Housing allowances	342	272
– Supplementary retirement benefits	5	6
– Others	643	563
Sub-total	7,939	7,466
Premises and equipment expenses		
– Depreciation of fixed assets	857	736
– Amortization of intangible assets	125	100
– Amortization of long-term assets	220	183
– Rental and property management expenses	1,257	1,022
Sub-total	2,459	2,041
Business tax and surcharges	4,167	3,278
Other general and administrative expenses	3,461	2,984
Total	18,026	15,769

8 Impairment losses on assets

	Nine months ended September 30,	
	2013	**2012**
Loans and advances to customers	3,202	3,282
Held-to-maturity investments	(30)	44
Available-for-sale financial assets	(1)	–
Others	116	40
Total	3,287	3,366

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

9 Income tax

(a) Income tax:

	Note	Nine months ended September 30, 2013	2012
Current tax		6,156	6,285
Deferred tax	24(b)	(7)	(48)
Adjustments for prior years		(286)	30
Total		5,863	6,267

(b) Reconciliations between income tax and accounting profit are as follows:

	Nine months ended September 30, 2013	2012
Profit before tax	27,563	25,323
Statutory tax rate	25%	25%
Income tax calculated at statutory tax rate	6,891	6,331
Non-deductible expenses		
– Staff costs	22	27
– Impairment losses	(303)	229
– Others	111	97
Sub-total	(170)	353
Non-taxable income		
– Interest income from the PRC government bonds	(572)	(447)
Sub-total	(572)	(447)
Adjustments for prior years	(286)	30
Total Income tax	5,863	6,267

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

10 Basic and diluted earnings per share

		Nine months ended September 30,	
	Note	2013	2012
Weighted average number of ordinary shares (in millions)	10(a)	40,435	40,435
Net profit attributable to equity shareholders of the Bank		21,664	19,033
Basic and diluted earnings per share attributable to equity shareholders of the Bank (in RMB)		0.54	0.47

There is no difference between basic and diluted earnings per share as there was no potentially dilutive shares outstanding during the period.

(a) Weighted average number of ordinary shares (in millions)

	Nine months ended September 30,	
	2013	2012
Number of ordinary shares as at January 1	40,435	40,435
New added weighted average number of ordinary shares	–	–
Weighted average number of ordinary shares	40,435	40,435

11 Cash and deposits with the central bank

	Note	September 30, 2013	December 31, 2012
Cash on hand		6,915	6,873
Deposits with the central bank			
– Statutory deposit reserves	11(a)	278,061	250,350
– Surplus deposit reserves	11(b)	35,537	24,130
– Fiscal deposits		4,919	4,125
Sub-total		318,517	278,605
Total		325,432	285,478

(a) The Group places statutory deposit reserves with the People's Bank of China (the "PBOC") in accordance with relevant regulations. As at the end of the reporting periods, the statutory deposit reserve ratios applicable to the Bank were as follows:

	September 30, 2013	December 31, 2012
Reserve ratio for RMB deposits	18.0%	18.0%
Reserve ratio for foreign currency deposits	5.0%	5.0%

The statutory deposit reserves are not available for the Group's daily business.

(b) The surplus deposit reserves are maintained with the PBOC for the purpose of clearing.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

12 Deposits with banks and other financial institutions

Analyzed by type and location of counterparty

	September 30, 2013	December 31, 2012
Deposits in mainland China		
– Banks	52,924	43,428
– Other financial institutions	119	116
Sub-total	53,043	43,544
Deposits outside mainland China		
– Banks	2,219	3,505
Sub-total	2,219	3,505
Total	55,262	47,049
Less: Provision for impairment losses	(31)	(30)
Net balances	55,231	47,019

13 Placements with banks and other financial institutions

Analyzed by type and location of counterparty

	September 30, 2013	December 31, 2012
Placements in mainland China		
– Banks	95,017	109,527
– Other financial institutions	21,508	26,460
Sub-total	116,525	135,987
Placements outside mainland China		
– Banks	3,081	–
Sub-total	3,081	–
Total	119,606	135,987
Less: Provision for impairment losses	(2)	(8)
Net balances	119,604	135,979

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

14 Financial assets at fair value through profit or loss

	Note	September 30, 2013	December 31, 2012
Debt securities held for trading	14(a)	29,630	29,084
Financial assets designated at fair value through profit or loss	14(b)	277	369
Total		29,907	29,453

(a) Debt securities held for trading

	Note	September 30, 2013	December 31, 2012
Issued by the following governments or institutions			
In mainland China			
– Government		350	138
– The PBOC		–	100
– Banks and other financial institutions		6,501	6,589
– Other institutions	(i)	22,779	22,257
Total	(ii)	29,630	29,084
Unlisted		29,630	29,084
Total		29,630	29,084

Notes:

(i) Debt securities issued by other institutions in mainland China mainly represented debt securities issued by state-owned enterprises and joint stock enterprises.

(ii) No investments were subject to material restrictions on realization.

(b) Financial assets designated at fair value through profit or loss represented fixed interest rate personal mortgage loans. The Group used interest rate swap to manage the associated interest rate risk. As at September 30, 2013, the contractual amount of these mortgage loans was RMB278 million (December 31, 2012: RMB362 million). The changes in fair value during the period and the accumulated changes attributable to credit risk were immaterial.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

15 Derivatives

Derivative financial instruments include forward and swap contracts undertaken by the Group in foreign currency and interest rate markets. The Group acts as an intermediary between a wide range of customers for structuring deals to provide risk management solutions to meet customer needs. These positions are actively managed through entering into back-to-back deals with external parties to ensure the Group's net exposures are within acceptable risk level. The Group also uses derivative financial instruments in the management of its own asset and liability portfolios and structural positions.

The following tables provide an analysis of the notional amounts of derivative financial instruments of the Group and the corresponding fair values at the end of the reporting periods. The notional amounts of the derivatives indicate the volume of transactions outstanding at the end of the reporting periods, they do not represent amounts at risk.

(a) Analyzed by nature of contract

	September 30, 2013		
	Notional amount	Fair value	
		Assets	Liabilities
Interest rate derivatives			
– Interest rate swap	74,036	577	(560)
Currency derivatives			
– Foreign exchange forward	18,142	163	(200)
– Foreign exchange swap	133,345	670	(1,158)
Total	225,523	1,410	(1,918)

	December 31, 2012		
	Notional amount	Fair value	
		Assets	Liabilities
Interest rate derivatives			
– Interest rate swap	128,086	944	(1,065)
Currency derivatives			
– Foreign exchange forward	17,067	122	(173)
– Foreign exchange swap	127,329	611	(623)
Credit derivatives			
– Credit default swap	200	–	–
Total	272,682	1,677	(1,861)

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)
(Expressed in millions of Renminbi, unless otherwise stated)

15 Derivatives (continued)

(b) Analyzed by credit risk-weighted amounts

	September 30, 2013
Counterparty default risk-weighted assets	
– Interest rate derivatives	178
– Currency derivatives	1,698
Credit value adjustment	2,050
Total	3,926

(i) The credit risk weighted amounts represent the counterparty credit risk associated with derivative transactions, which are calculated with reference to the guidelines issued by the CBRC. These amounts include counterparty credit default risk-weighted assets and credit valuation adjustment.

(ii) As at December 31, 2012, the Group calculated the credit risk weighted assets for derivatives in accordance with "Regulations Governing Capital Adequacy of Commercial Banks" and other relevant requirements promulgated by the CBRC, which were abolished on January 1, 2013. The relevant figures are as follows:

	December 31, 2012
Interest rate derivatives	695
Currency derivatives	642
Credit derivatives	10
Total	1,347

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

16 Financial assets held under resale agreements

(a) Analyzed by type and location of counterparty

	September 30, 2013	December 31, 2012
In mainland China		
– Banks	205,706	212,755
– Other financial institutions	17,908	17,942
– Other enterprises	29	29
Total	223,643	230,726
Net balances	223,643	230,726

(b) Analyzed by type of security held

	September 30, 2013	December 31, 2012
Debts Securities		
– Government bonds	3,313	2,818
– Other debt securities	30,760	43,678
– Others	15,895	29
Sub-total	49,968	46,525
Bank acceptances	164,193	184,001
Others	9,482	200
Total	223,643	230,726
Net balances	223,643	230,726

17 Interests receivable

	September 30, 2013	December 31, 2012
Interests receivable from loans and advances to customers	3,614	3,148
Interests receivable from investments	8,593	5,521
Interests receivable from deposits and placements with banks and other financial institutions	1,179	1,325
Other interests receivable	215	191
Total	13,601	10,185
Less: Provision for impairment losses	(29)	(45)
Net balances	13,572	10,140

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)
(Expressed in millions of Renminbi, unless otherwise stated)

18 Loans and advances to customers

(a) Analyzed by nature

	September 30, 2013	December 31, 2012
Corporate loans and advances	750,729	699,090
Personal loans and advances		
– Residential and commercial mortgage loans	175,274	154,550
– Credit cards	94,552	69,611
– Micro-enterprise equipment loans	33,473	41,756
– Others	73,139	45,537
Sub-total	376,438	311,454
Discounted bills	12,231	12,643
Gross loans and advances to customers	1,139,398	1,023,187
Less: Provision for impairment losses		
– Individually assessed	(3,126)	(3,487)
– Collectively assessed	(20,727)	(22,369)
Total provision for impairment losses	(23,853)	(25,856)
Net loans and advances to customers	1,115,545	997,331

As at the end of reporting periods, part of the above loans and advances to customers was pledged for repurchase agreements, see Note 26(a).

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

18 Loans and advances to customers (continued)

(b) Loans and advances and provision for impairment losses

	September 30, 2013				
	(Note (i)) Loans and advances for which provision are collectively assessed	(Note (ii)) Impaired loans and advances			
		for which provision are collectively assessed	for which provision are individually assessed	Total	Gross impaired loans and advances as a percentage of gross loans and advances
Gross loans and advances to customers	1,130,034	2,327	7,037	1,139,398	0.82%
Less: Provision for impairment losses	(19,181)	(1,546)	(3,126)	(23,853)	
Net loans and advances to customers	1,110,853	781	3,911	1,115,545	

	December 31, 2012				
	(Note (i)) Loans and advances for which provision are collectively assessed	(Note (ii)) Impaired loans and advances			
		for which provision are collectively assessed	for which provision are individually assessed	Total	Gross impaired loans and advances as a percentage of gross loans and advances
Gross loans and advances to customers	1,015,574	1,600	6,013	1,023,187	0.74%
Less: Provision for impairment losses	(21,237)	(1,132)	(3,487)	(25,856)	
Net loans and advances to customers	994,337	468	2,526	997,331	

Notes:

(i) Loans and advances collectively assessed for impairment bear relatively insignificant impairment losses as a proportion of the total portfolio. These loans and advances include those which are graded normal or special-mention.

(ii) Impaired loans and advances include those for which objective evidence of impairment has been identified and assessed using the following methods:

– Individually (including corporate loans and advances which are graded substandard, doubtful or loss); or

– Collectively, representing portfolios of homogeneous loans (including personal loans and advances which are graded substandard, doubtful or loss).

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

18 Loans and advances to customers (continued)

(c) Movements of provision for impairment losses

	Nine months ended September 30, 2013			
	Provision for loans and advances which are collectively assessed	Provision for impaired loans and advances		
		which are collectively assessed	which are individually assessed	Total
As at January 1	(21,237)	(1,132)	(3,487)	(25,856)
Charge for the period	–	(1,190)	(4,566)	(5,756)
Release for the period	2,056	–	498	2,554
Recoveries	–	(110)	(34)	(144)
Unwinding of discount	–	–	266	266
Disposals	–	–	3,523	3,523
Write-offs	–	886	674	1,560
As at September 30	(19,181)	(1,546)	(3,126)	(23,853)

	2012			
	Provision for loans and advances which are collectively assessed	Provision for impaired loans and advances		
		which are collectively assessed	which are individually assessed	Total
As at January 1	(16,509)	(711)	(3,823)	(21,043)
Charge for the year	(4,728)	(722)	(872)	(6,322)
Release for the year	–	–	632	632
Recoveries	–	(92)	(96)	(188)
Unwinding of discount	–	–	156	156
Write-offs	–	393	516	909
As at December 31	(21,237)	(1,132)	(3,487)	(25,856)

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

19 Available-for-sale financial assets

	Note	September 30, 2013	December 31, 2012
Available-for-sale debt investments	19(a)	95,964	91,801
Available-for-sale equity investments	19(b)	99	99
Total		96,063	91,900
Listed		1,183	724
– of which in Hong Kong		596	187
Unlisted		94,880	91,176
Total		96,063	91,900

(a) Available-for-sale debt investments

All available-for-sale debt investments were stated at fair value and issued by the following governments and institutions:

	Note	September 30, 2013	December 31, 2012
In mainland China			
– Government		38,835	42,370
– Banks and other financial institutions		5,604	9,947
– Other institutions	(i)	50,369	38,761
Sub-total		94,808	91,078
Outside mainland China			
– Banks and other financial institutions		934	610
– Other institutions		222	113
Sub-total		1,156	723
Total	(ii)	95,964	91,801

Notes:

(i) Debt securities issued by other institutions mainly represent debt securities issued by state-owned enterprises and joint stock enterprises.

(ii) As at the end of the reporting periods, certain available-for-sale financial assets was pledged for repurchase agreements and time deposits (see Note 26(a)).

(b) Available-for-sale equity investments

	September 30, 2013	December 31, 2012
Cost of investments	100	100
Less: Provision for impairment losses	(1)	(1)
Net balances	99	99

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

20 Held-to-maturity investments

Analyzed by type and location of issuer

	Note	September 30, 2013	December 31, 2012
In mainland China			
– Government		49,636	45,771
– Banks and other financial institutions		27,813	25,593
– Other institutions	20(a)	23,910	24,495
Sub-total		101,359	95,859
Outside mainland China			
– Banks and other financial institutions		376	253
Total	20(b)	101,735	96,112
Less: Provision for impairment losses		(265)	(288)
Net balances		101,470	95,824
Listed		369	461
– of which in Hong Kong		311	402
Unlisted		101,101	95,363
Net balances		101,470	95,824
Fair value		99,823	96,064

Notes:

(a) Debt securities issued by other institutions mainly represented debt securities issued by state-owned enterprises and joint stock enterprises.

(b) As at the end of the reporting periods, part of the held-to-maturity investments was pledged as security for certain transactions (see Note 26(a)).

(c) The Group disposed of the held-to-maturity debt investments with a notional amount of RMB1,543 million prior to their maturity dates during the nine months ended September 30, 2013 (2012: RMB130 million), which accounted for 1.61% (2012: 0.15%) of the portfolio before the disposal.

21 Debt securities classified as receivables

	Note	September 30, 2013	December 31, 2012
Wealth management products issued by other financial institutions	21(a)	48,599	97,513
Beneficial interest transfer plans	21(b)/(c)	242,786	163,694
Total		291,385	261,207
Carrying amount		291,385	261,207

Notes:

(a) Wealth management products issued by other financial institutions are fixed-term products.

(b) Beneficial interest transfer plans are mainly beneficial interests issued by trust companies, securities companies, insurance companies and asset management companies.

(c) As at September 30, 2013, part of the investments in beneficial interest transfer plans held by the Bank was under forward sale contracts with other financial institutions in mainland China, the notional amount of which was RMB151,497 million (December 31, 2012: RMB120,188 million). The fair values of the investments mentioned above approximates to their carrying amount.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

22 Fixed assets

	Premises	Investment properties	Construction in progress	Electronic equipment	Others	Total
Cost						
As at January 1, 2013	9,219	445	1,129	3,552	2,245	16,590
Additions	35	–	471	354	224	1,084
Transfers (out)/in of construction in progress	–	–	(11)	4	7	–
Transfers in/(out) of Investment property	18	(18)	–	–	–	–
Disposals	–	–	–	(107)	(14)	(121)
As at September 30, 2013	9,272	427	1,589	3,803	2,462	17,553
Accumulated depreciation						
As at January 1, 2013	(1,657)	(121)	–	(2,067)	(717)	(4,562)
Charge for the period	(219)	(9)	–	(381)	(248)	(857)
Transfers out/(in) of Investment property	3	(3)	–	–	–	–
Disposals	–	–	–	101	10	111
As at September 30, 2013	(1,873)	(133)	–	(2,347)	(955)	(5,308)
Provision for impairment						
As at January 1, 2013	(128)	(31)	–	–	–	(159)
As at September 30, 2013	(128)	(31)	–	–	–	(159)
Net book value						
As at September 30, 2013	7,271	263	1,589	1,456	1,507	12,086
Cost						
As at January 1, 2012	8,418	435	951	3,144	1,763	14,711
Additions	281	–	784	559	451	2,075
Transfers in/(out) of construction in progress	514	16	(606)	7	69	–
Transfers in/(out) of investment properties	6	(6)	–	–	–	–
Disposals	–	–	–	(158)	(38)	(196)
As at December 31, 2012	9,219	445	1,129	3,552	2,245	16,590
Accumulated depreciation						
As at January 1, 2012	(1,281)	(116)	–	(1,820)	(525)	(3,742)
Charge for the year	(368)	(13)	–	(392)	(224)	(997)
Transfers (in)/out of investment properties	(8)	8	–	–	–	–
Disposals	–	–	–	145	32	177
As at December 31, 2012	(1,657)	(121)	–	(2,067)	(717)	(4,562)
Provision for impairment						
As at January 1, 2012	(135)	(24)	–	–	–	(159)
Transfers out/(in)	7	(7)	–	–	–	–
As at December 31, 2012	(128)	(31)	–	–	–	(159)
Net book value						
As at December 31, 2012	7,434	293	1,129	1,485	1,528	11,869

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

22 Fixed assets (continued)

The net book values of premises at the end of the reporting periods are analyzed by the remaining terms of the leases as follows:

	September 30, 2013	December 31, 2012
Held in mainland China		
– Long term leases (over 50 years)	160	171
– Medium term leases (10 – 50 years)	7,092	7,243
– Short term leases (less than 10 years)	19	20
Total	7,271	7,434

The net book values of investment properties at the end of the reporting periods are analyzed by the remaining terms of the leases as follows:

	September 30, 2013	December 31, 2012
Held in mainland China		
– Long term leases (over 50 years)	3	3
– Medium term leases (10 – 50 years)	260	290
Total	263	293

23 Goodwill

	September 30, 2013	December 31, 2012
Cost	6,019	6,019
Less: Provision for impairment losses	(4,738)	(4,738)
Net book value	1,281	1,281

As approved by the PBOC, the Bank and China Development Bank ("CDB") jointly signed an "Agreement between China Development Bank and China Everbright Bank for the transfer of assets, liabilities and banking premises of China Investment Bank" (the "Agreement") on March 18, 1999. According to the Agreement, CDB transferred the assets, liabilities, equity and 137 outlets of 29 branches of the former China Investment Bank ("CIB") to the Bank. The Agreement became effective on March 18, 1999. The Bank assessed the fair value of the transferred assets and liabilities, and recognized the excess of the purchase cost over the sum of the fair value of the net assets transferred and deferred tax assets as goodwill.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

24 Deferred tax assets and liabilities

(a) Analyzed by nature

	September 30, 2013	December 31, 2012
Deferred tax assets	2,915	2,454
Deferred tax liabilities	–	–
Net balances	2,915	2,454

(b) Movements of deferred tax

	Provision for impairment losses	Staff cost payable	Net losses/ (gains) from fair value changes of financial instruments	Net balance of deferred tax assets
	Note (i)		Note (ii)	
January 1, 2013	1,001	1,232	221	2,454
Recognized in profit or loss	20	(128)	115	7
Recognized in other comprehensive income	–	–	454	454
September 30, 2013	1,021	1,104	790	2,915

	Provision for impairment losses	Staff cost payable	Net losses/ (gains) from fair value changes of financial instruments	Net balance of deferred tax assets
	Note (i)		Note (ii)	
January 1, 2012	661	948	248	1,857
Recognized in profit or loss	340	284	(50)	574
Recognized in other comprehensive income	–	–	23	23
December 31, 2012	1,001	1,232	221	2,454

Notes:

(i) The Group made provision for impairment losses on loans and advances to customers and other assets. The provision for impairment losses was determined based on the expected recoverable amount of the relevant assets at the end of the reporting periods. However, the amounts deductible for income tax purposes are calculated at 1% of the gross carrying amount of qualifying assets at the end of the reporting period, together with write-offs which fulfill specific criteria as set out in the PRC tax rules and are approved by the relevant tax authorities.

(ii) Net gains or losses from fair value changes of financial instruments are subject to income tax when realized.

(iii) Unrecognized deferred tax assets

As at September 30, 2013, the Group has not recognized deferred tax assets of RMB1,865 million (December 31, 2012: RMB2,276 million) in respect of RMB7,460 million provision for impairment losses (December 31, 2012: RMB9,103 million). This was mainly because it was uncertain whether the losses from write-offs of the impaired assets could be approved by the relevant tax authorities in the foreseeable future.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

25 Other assets

	Note	September 30, 2013	December 31, 2012
Assets held for wealth management products	25(a)	60,610	60,874
Financial lease receivables		15,744	11,644
Other receivables		4,967	1,454
Precious metal		1,266	52
Long-term deferred expense		1,020	1,094
Intangible assets		543	532
Fixed assets purchase prepayment		326	1,031
Repossessed assets		199	148
Land use rights		125	128
Total		84,800	76,957

(a) Assets held for wealth management products

The assets held for wealth management products represent the entrusted investments purchased by the Group, acting as an agent for the wealth management investors. The credit risk, interest risk, liquidity risk and investment risk of the underlying entrusted investments are assumed by the investors who purchased the wealth management products. However, the Group has risk exposures in respect of the above wealth management products for which the amounts and maturities do not exactly match the underlying entrusted funds. Accordingly, the Group accounts for such assets under management in other assets and the corresponding entrusted funds in other liabilities (see Note 35).

26 Pledged assets

(a) Assets pledged as collaterals

Financial assets pledged by the Group as collaterals for liabilities or contingent liabilities include discounted bills and debt securities. They are mainly pledged for repurchase agreements, time deposits and swap transactions. The carrying amount of the financial assets pledged as security as at September 30, 2013 amounted to RMB77,895 million (December 31, 2012: RMB97,798 million).

(b) Collaterals received

The Group conducts resale agreements under usual and customary terms of placements, and holds collateral for these transactions. As at the end of the reporting periods, the Group did not hold any resale agreement that collaterals were permitted to sell or repledge in the absence of the counterparty's default on the agreements.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

27 Deposits from banks and other financial institutions

Analyzed by type and location of counterparty

	September 30, 2013	December 31, 2012
Deposits in mainland China		
– Banks	363,046	399,049
– Other financial institutions	137,937	121,102
Sub-total	500,983	520,151
Deposits outside mainland China		
– Banks	11,283	7,410
Total	512,266	527,561

28 Placements from banks and other financial institutions

Analyzed by type and location of counterparty

	September 30, 2013	December 31, 2012
Placements in mainland China		
– Banks	42,782	20,040
– Other financial institutions	168	–
Sub-total	42,950	20,040
Placements outside mainland China		
– Banks	9,204	3,165
Sub-total	9,204	3,165
Total	52,154	23,205

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

29 Financial assets sold under repurchase agreements

(a) Analyzed by type and location of counterparty

	September 30, 2013	December 31, 2012
In mainland China		
– Banks	53,708	74,221
– Other financial institutions	333	3
– Other entities	1	61
Total	54,042	74,285

(b) Analyzed by collaterals

	September 30, 2013	December 31, 2012
Bank acceptances	11,053	36,621
Debt securities	42,989	37,664
Total	54,042	74,285

30 Deposits from customers

	September 30, 2013	December 31, 2012
At amortized cost		
Demand deposits		
– Corporate customers	377,831	397,626
– Individual customers	191,487	157,302
Sub-total	569,318	554,928
Time deposits		
– Corporate customers	570,735	476,737
– Individual customers	132,361	127,378
Sub-total	703,096	604,115
Pledged deposits		
– Acceptances	203,227	184,085
– Letters of credit	23,018	20,134
– Letters of guarantees	10,490	8,902
– Others	9,750	8,841
Sub-total	246,485	221,962
Inward and outward remittances	2,829	3,319
Total deposits from customers at amortized cost	1,521,728	1,384,324
At fair value		
Structured deposits		
– Corporate customers	24,797	14,103
– Individual customers	75,582	28,514
Total deposits from customers at fair value	100,379	42,617
Total	1,622,107	1,426,941

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

31 Accrued staff costs

	Note	September 30, 2013	December 31, 2012
Salary and welfare payable		6,691	7,087
Pension payable	31(a)	84	37
Supplementary retirement benefits payable	31(b)	281	281
Total		7,056	7,405

(a) Pension scheme

Pursuant to the relevant laws and regulations in the PRC, the Group has joined a defined contribution scheme for the employees arranged by local government labor and social security organizations. The Group makes contributions to the retirement scheme at the applicable rates based on the amounts stipulated by the relevant government organizations.

The Group also provides an annuity plan to the eligible employees. The Group makes annuity contributions in proportion to its employees' gross wages in prior year, which are expensed to profit or loss when the contributions are made.

(b) Supplementary retirement benefits ("SRB")

The Group pays SRB for eligible employees. The amount represents the present value of the total estimated amount of future benefits that the Group is committed to pay for eligible employees at the end of the reporting periods. (The Group's obligations in respect of the SRB as at December 31, 2012 were reviewed using projected unit credit method by qualified staff (a member of society of Actuaries in America) of an external independent actuary: Towers Watson Management Consulting (Shenzhen) Co., Ltd.)

(i) The balances of SRB of the Group are as follows:

	September 30, 2013	December 31, 2012
Present value of SRB obligation	281	281

(ii) Movements of SRB of the Group are as follows:

	September 30, 2013	December 31, 2012
As at January 1	281	318
Expenses recognized in profit or loss		
– Current service cost	4	21
– Interest cost	–	12
– Actuarial loss	–	14
Payments made	(4)	(84)
As at September 30/December 31	281	281

Interest cost was recognized in staff costs, see Note 7.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

31 Accrued staff costs (continued)

(b) Supplementary retirement benefits ("SRB") (continued)

(iii) Principal actuarial assumptions of the Group

	September 30, 2013	December 31, 2012
Discount rate	4.30%	4.30%
Medical expense increase rate	6.00%	6.00%
Average expected future lifetime	20.89	20.89

Except as mentioned in Note (a) and Note (b) above, the Group has no significant responsibilities to pay any other retirement benefits to retired employees.

32 Taxes payable

	September 30, 2013	December 31, 2012
Business tax and surcharges payable	1,673	1,493
Income tax payable	433	1,568
Others	103	113
Total	2,209	3,174

33 Interests payable

	September 30, 2013	December 31, 2012
Deposits from customers	17,203	13,906
Debt securities issued	989	1,563
Others	2,342	2,945
Total	20,534	18,414

34 Debt securities issued

	Note	September 30, 2013	December 31, 2012
Subordinated debts issued	34(a)	14,700	22,700
Financial bonds	34(b)	30,000	30,000
Certificates of deposit issued		481	–
Total		45,181	52,700

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

34 Debt securities issued (continued)

(a) Subordinated debts issued

	Note	September 30, 2013	December 31, 2012
Subordinated fixed rate debts maturing in April 2018	(i)	–	3,500
Subordinated floating rate debts maturing in April 2018	(ii)	–	2,500
Subordinated fixed rate debts maturing in June 2018	(iii)	–	2,000
Subordinated fixed rate debts maturing in December 2018	(iv)	5,000	5,000
Subordinated fixed rate debts maturing in March 2019	(v)	3,000	3,000
Subordinated fixed rate debts maturing in June 2027	(vi)	6,700	6,700
Total	(vii)	14,700	22,700

Notes:

(i) Fixed rate subordinated debts of RMB3.5 billion with a term of ten years was issued on April 25, 2008. The coupon rate for the first five years is 5.85%. The Group redeemed the debts on April 28, 2013.

(ii) Floating rate subordinated debts of RMB2.5 billion with a term of ten years was issued on April 25, 2008. The subordinated debts bear interest at a floating rate based on the PBOC's one-year time deposits rate plus a margin of 1.66%. The Group redeemed the debts on April 28, 2013.

(iii) Fixed rate subordinated debts of RMB2 billion with a term of ten years was issued on June 27, 2008. The coupon rate for the first five years is 5.92%. The Group redeemed the debts on June 30, 2013.

(iv) Fixed rate subordinated debts of RMB5 billion with a term of ten years was issued on December 15, 2008. The coupon rate for the first five years is 4.05%. The Group has an option to redeem the debts on December 17, 2013 at the nominal amount. If the debts are not redeemed by the Group, the coupon rate will increase to 7.05% for the next five years.

(v) Fixed rate subordinated debts of RMB3 billion with a term of ten years was issued on March 13, 2009. The coupon rate for the first five years is 3.75%. The Group has an option to redeem the debts on March 17, 2014 at the nominal amount. If the debts are not redeemed by the Group, the coupon rate will increase to 6.75% for the next five years.

(vi) Fixed rate subordinated debts of RMB6.7 billion with a term of fifteen years was issued on June 7, 2012. The coupon rate is 5.25%. The Group has an option to redeem the debts on June 8, 2022 at the nominal amount.

(vii) As at September 30, 2013, the fair value of the total subordinated debts issued amounts to RMB14,400 million (December 31, 2012: RMB22,486 million).

(b) Financial bonds

	Note	September 30, 2013	December 31, 2012
Financial fixed rate bonds maturing in March 2017	(i)	20,000	20,000
Financial floating rate bonds maturing in March 2017	(ii)	10,000	10,000
Total	(iii)	30,000	30,000

Notes:

(i) Fixed rate financial bonds of RMB20 billion with a term of five years was issued on March 28, 2012. The coupon rate is 4.20%.

(ii) Floating rate financial bonds of RMB10 billion with a term of five years was issued on March 28, 2012. The bonds bear interest at a floating rate based on the PBOC's one-year time deposits rate plus a margin of 0.95%.

(iii) As at September 30,2013, the fair value of the total financial bonds issued amounts to RMB29,159 million (December 31, 2012: RMB29,337 million).

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

35 Other liabilities

	Note	September 30, 2013	December 31, 2012
Wealth management fund	35(a)	14,762	23,442
Finance lease payable		2,306	1,784
Payment and collection clearance accounts		2,408	854
Deferred income		1,354	1,424
Dormant accounts		361	338
Dividend payable		25	28
Provisions	35(b)	257	17
Others		3,058	1,540
Total		24,531	29,427

(a) Wealth management fund

Details of assets relating to wealth management products are set out in Note 25(a).

(b) Provisions

As at September 30, 2013, the accrual of litigation losses estimated by the Group based on the status of litigation cases and the probability of losses was RMB17 million (December 31, 2012: RMB17 million).

36 Share capital

The Bank's shareholding structure as at the end of the reporting periods is as follows:

		September 30, 2013		December 31, 2012	
	Note	Amount	Percentage	Amount	Percentage
Central Huijin Investment Ltd. ("Huijin") and its affiliates	36(a)	20,866	51.61%	21,025	52.00%
China Everbright (Group) Corporation ("China Everbright (Group)")		2,094	5.18%	2,094	5.18%
China Everbright Limited		1,758	4.35%	1,758	4.35%
National Council for Social Security Fund of the PRC		544	1.34%	544	1.34%
Other shareholders	36(b)	15,173	37.52%	15,014	37.13%
Total		40,435	100.00%	40,435	100.00%

(a) As at September 30, 2013, Huijin holds 48.62% of equity interests in the Bank directly, and it also holds 2.99% of equity interests in the Bank indirectly through its subsidiary, China Reinsurance (Group) Corporation.

(b) As at the end of the reporting periods, each of the other shareholders holds less than 5% of the total shares issued.

37 Capital reserve

	September 30, 2013	December 31, 2012
Fair value changes on available-for-sale financial assets	(1,656)	(295)
Share premium	20,553	20,553
Total	18,897	20,258

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)
(Expressed in millions of Renminbi, unless otherwise stated)

38 Surplus reserve and general reserve

(a) Surplus reserve

The surplus reserve at the end of the reporting periods represented statutory surplus reserve fund. The Bank is required to appropriate 10% of its net profit, after making good prior year's accumulated loss, to statutory surplus reserve fund until the reserve fund balance reaches 50% of its registered capital.

(b) General reserve

Prior to July 1, 2012, the Bank pursuant to relevant regulations issued by the MOF is required to set aside a general reserve through appropriations of profit after tax according to a certain provision ratio of the ending balance of gross risk-bearing assets to cover potential losses against their assets. In principle, the general reserve balance should not be lower than 1% of the ending balance of gross risk-bearing assets.

With effect from July 1, 2012, pursuant to the "Administrative Measures on Accrual of Provisions by Financial Institutions" issued by the MOF in March 2012, the Bank is required, in principle, to set aside a general reserve not lower than 1.5% of the ending balance of its gross risk-bearing assets.

39 Appropriation of profits

(a) In accordance with the resolution of the Bank's 2012 Annual General Meeting on May 17, 2013, the shareholders approved the following profit appropriations for the year ended December 31, 2012:

- Appropriate statutory surplus reserve amounted to RMB2.334 billion, based on 10% of the net profit of the Bank.
- Appropriate general reserve amounted to RMB7.248 billion.
- Appropriate cash dividend RMB0.58 per 10 shares before tax and in aggregation amount of RMB2.345 billion to all shareholders.

On the Extraordinary General Meeting held on November 19, 2012, the shareholders approved the appropriation of general reserve amounted to RMB6.938 billion.

The appropriation amount of general reserve for the year of 2012 was RMB14.186 billion in total.

(b) In accordance with the resolution of the Bank's 2011 Annual General Meeting on May 15, 2012, the shareholders approved the following profit appropriations for the year ended December 31, 2011:

- Appropriate statutory surplus reserve amounted to RMB1.792 billion, based on 10% of the net profit of the Bank.
- Appropriate general reserve amounted to RMB2.245 billion.
- Appropriate cash dividend RMB1.330 per 10 shares before tax and in aggregation amount of RMB5.378 billion to all shareholders.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

40 Notes to condensed consolidated cash flow statements

(a) Net decrease in cash and cash equivalents

	Nine months ended September 30,	
	2013	2012
Cash and cash equivalents as at September 30	96,326	133,540
Less: Cash and cash equivalents as at January 1	137,913	156,645
Net decrease in cash and cash equivalents	(41,587)	(23,105)

(b) Cash and cash equivalents

	September 30, 2013	September 30, 2012
Cash on hand	6,915	6,108
Deposits with the central bank	35,538	41,425
Deposits with banks and other financial institutions	28,482	38,947
Placements with banks and other financial institutions	25,391	47,060
Total	96,326	133,540

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

41 Related party relationships and transactions

(a) Huijin and its affiliates

The Group's material transactions and balances with Huijin and its affiliates at the end of the reporting periods are summarized as follows:

	Nine months ended September 30,	
	2013	2012
Interest income	1,297	1,730
Interest expense	(5,410)	(3,118)

	September 30, 2013	December 31, 2012
Deposits with banks and other financial institutions	9,588	22,096
Placements with banks and other financial institutions	19,699	20,927
Financial assets held for trading	5,966	6,016
Financial assets held under resale agreements	17,908	9,640
Interests receivable	2,583	881
Loans and advances to customers	1,859	1,448
Available-for-sale financial assets	4,513	8,688
Held-to-maturity investments	22,189	20,430
Debt securities classified as receivables	59,677	29,978
Other assets	3,309	1,971
Deposits from banks and other financial institutions	155,868	431,095
Placements from banks and other financial institutions	16,534	6,404
Financial assets sold under repurchase agreements	23,527	33,060
Deposits from customers	16,958	15,051
Interests payable	1,077	1,646
Other liabilities	–	4,250

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

41 Related party relationships and transactions (continued)

(b) Transactions between the Group and other related parties

The Group's material transactions and balances with China Everbright (Group) and its affiliates at the end of the reporting period are summarized as follows:

	China Everbright (Group)	China Everbright Limited	Affiliated Companies	Others	Total
Transactions with related parties for the nine months ended September 30, 2013:					
Interest income	–	–	1	135	136
Interest expense	(1)	(2)	(164)	(630)	(797)
Balances with related parties as at September 30, 2013:					
Financial assets held under resale agreements	–	–	–	330	330
Loans and advances to customers	–	–	–	167	167
Held-to-maturity investments	–	–	–	900	900
Interests receivable	–	–	10	444	454
Others assets	–	–	9,237	–	9,237
	–	–	9,247	1,841	11,088
Deposits from banks and other financial institutions	–	–	4,579	151	4,730
Deposits from customers	15	1	2,086	18,969	21,071
Interests payable	–	–	10	434	444
Financial assets sold under repurchase agreements	–	–	–	330	330
	15	1	6,675	19,884	26,575
Significant off-balance sheet items with related parties as at September 30, 2013:					
Guarantee granted (Note)	180	–	–	–	180

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

41 Related party relationships and transactions (continued)

(b) Transactions between the Group and other related parties (continued)

	China Everbright (Group)	China Everbright Limited	Affiliated Companies	Others	Total
Transactions with related parties for the nine months ended September 30, 2012					
Interest income	–	–	–	22	22
Interest expense	(8)	(3)	(135)	(22)	(168)
Balances with related parties as at December 31, 2012:					
Financial assets held under resale agreements	–	–	485	–	485
Loans and advances to customers	–	–	–	98	98
Interests receivable	–	–	–	1	1
Available-for-sale financial assets	–	–	–	1,403	1,403
Other assets	–	–	6,632	–	6,632
	–	–	7,117	1,502	8,619
Deposits from banks and other financial institutions	–	–	7,707	65	7,772
Deposits from customers	10	1	1,266	874	2,151
Interests payable	–	–	22	9	31
Other liabilities	9	–	–	–	9
	19	1	8,995	948	9,963
Significant off-balance sheet items with related parties as at December 31, 2012:					
Guarantee granted (Note)	180	–	–	–	180

Note:

As at the end of the reporting periods, the Bank has guarantee obligations relating to the China Everbright (Group)'s outstanding interest obligation of RMB180 million due to one of the state-owned commercial banks.

(c) Key management personnel

	Nine months ended September 30,	
	2013	2012
	RMB'000	RMB'000
Remuneration	13,473	9,699
Retirement benefits	721	603
Basic social pension insurance	398	342

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)
(Expressed in millions of Renminbi, unless otherwise stated)

42 Segment reporting

The Group manages its business by business lines and geographical areas. Consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group defines reporting segments based on the following operating segments:

Corporate banking

This segment represents the provision of a range of financial products and services to corporations, government agencies and financial institutions. These products and services include corporate loans and advances, trade financing and deposit taking activities, agency services, cash management services, financial consulting and advisory services, remittance and settlement services, custody services, and guarantee services.

Retail banking

This segment represents the provision of a range of financial products and services to retail customers. These products and services include personal loans and deposit taking activities, bank card business, personal wealth management services, remittance services, and securities agency services.

Treasury business

This segment covers the Group's treasury operations. The treasury business enters into inter-bank money market transactions, repurchases transactions and investments. It also trades in debt securities, derivatives and foreign currency trading for its own accounts. The treasury segment also covers customer-driven derivatives and foreign currency trading, as well as management of the Group's overall liquidity position, including the issuance of subordinated debts.

Others

These represent equity investments and related income.

Measurement of segment assets and liabilities and of segment income, expenses and results is based on the Group's accounting policies.

Internal charges and transfer prices are determined with reference to market rates and have been reflected in the performance of each segment. Interest income and expense earned from third parties are referred to as "external net interest income/expense". Net interest income and expense arising from internal charges and transfer pricing adjustments are referred to as "internal net interest income/expense".

Segment income, expenses, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment income, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process. Segment capital expenditure is the total cost incurred to acquire fixed assets, intangible assets and other long-term assets.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

42 Segment reporting (continued)

(a) Segment results, assets and liabilities

	Nine months ended September 30, 2013				
	Corporate banking	Retail banking	Treasury business	Others	Total
Operating income					
External net interest income	17,057	12,343	9,138	–	38,538
Internal net interest income/(expense)	9,282	(3,483)	(5,799)	–	–
Net interest income	26,339	8,860	3,339	–	38,538
Net fee and commission income	3,844	7,166	96	–	11,106
Net trading losses	(130)	(466)	(762)	–	(1,358)
Dividend income	–	–	–	3	3
Net gains arising from investment securities	32	–	62	–	94
Foreign exchange gains	83	19	190	–	292
Other operating income	59	34	–	108	201
Operating income	30,227	15,613	2,925	111	48,876
Operating expenses	(10,857)	(6,708)	(442)	(19)	(18,026)
Operating profit before impairment	19,370	8,905	2,483	92	30,850
Impairment losses on assets	(1,872)	(1,446)	31	–	(3,287)
Profit before tax	17,498	7,459	2,514	92	27,563
Other segment information					
– Depreciation and amortization	(716)	(475)	(11)	–	(1,202)
– Capital expenditure	825	547	12	–	1,384

	September 30, 2013				
	Corporate banking	Retail banking	Treasury business	Others	Total
Segment assets	1,608,043	476,050	385,955	100	2,470,148
Segment liabilities	1,814,672	412,584	114,671	46	2,341,973

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

42 Segment reporting (continued)

(a) Segment results, assets and liabilities (continued)

	Nine months ended September 30, 2012				
	Corporate banking	Retail banking	Treasury business	Others	Total
Operating income					
External net interest income	19,919	9,038	8,974	–	37,931
Internal net interest income/(expense)	7,582	(1,379)	(6,203)	–	–
Net interest income	27,501	7,659	2,771	–	37,931
Net fee and commission income	3,032	3,533	112	–	6,677
Net trading losses	–	(82)	(289)	–	(371)
Dividend income	–	–	–	3	3
Net gains arising from investment securities	15	–	25	–	40
Foreign exchange gains/(losses)	213	32	(212)	–	33
Other operating income	37	29	–	79	145
Operating income	30,798	11,171	2,407	82	44,458
Operating expenses	(9,676)	(5,747)	(326)	(20)	(15,769)
Operating profit before impairment	21,122	5,424	2,081	62	28,689
Impairment losses on assets	(2,161)	(1,161)	(44)	–	(3,366)
Profit before tax	18,961	4,263	2,037	62	25,323
Other segment information					
– Depreciation and amortization	(615)	(398)	(6)	–	(1,019)
– Capital expenditure	751	484	7	–	1,242

	December 31, 2012				
	Corporate banking	Retail banking	Treasury business	Others	Total
Segment assets	1,510,900	387,495	377,067	98	2,275,560
Segment liabilities	1,736,394	325,080	103,467	4	2,164,945

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

42 Segment reporting (continued)

(a) Segment results, assets and liabilities (continued)

Reconciliation between segment assets, liabilities and total assets and total liabilities:

	Note	September 30, 2013	December 31, 2012
Segment assets		2,470,148	2,275,560
Goodwill	23	1,281	1,281
Deferred tax assets	24	2,915	2,454
Total assets		2,474,344	2,279,295
Segment liabilities		2,341,973	2,164,945
Dividend payable	35	25	28
Total liabilities		2,341,998	2,164,973

(b) Geographical information

The Group operates principally in China with branches located in 28 provinces, autonomous regions, municipalities and Hong Kong special administrative region directly under the central government, with subsidiaries located in Wuhan city of Hubei Province, Shaoshan city of Hunan Province and Huai'an city of Jiangsu Province.

Non-current assets include fixed assets, land use rights and intangible assets. In presenting of geographical information, non-current assets are allocated based on geographical location of the underlying assets. Operating income is allocated based on the locations of the branches which generate income. Geographical areas, as defined for management reporting purposes, are as follows:

- "Yangtze River Delta" refers to the following areas serviced by subsidiary and branches of the Bank: Huai'an Everbright Village Bank Co., Ltd., Shanghai, Nanjing, Hangzhou, Suzhou, Ningbo and Wuxi;
- "Pearl River Delta" refers to the following areas serviced by branches of the Bank: Guangzhou, Shenzhen, Fuzhou, Xiamen and Haikou;
- "Bohai Rim" refers to the following areas serviced by branches of the Bank: Beijing, Tianjin, Shijiazhuang, Jinan, Qingdao and Yantai;
- "Central" refers to the following areas serviced by subsidiaries and branches of the Bank: Everbright Financial Leasing Co., Ltd., Shaoshan Everbright Village Bank Co., Ltd., Zhengzhou, Taiyuan, Changsha, Wuhan, Hefei and Nanchang;
- "Western" refers to the following areas serviced by branches of the Bank: Xi'an, Chengdu, Chongqing, Kunming, Nanning, Hohhot, Urumqi, Guiyang and Lanzhou;
- "Northeastern" refers to the following areas serviced by branches of the Bank: Heilongjiang, Changchun, Shenyang and Dalian;
- "Hong Kong" refers to the Hong Kong special administrative region serviced by branch of the Bank; and
- "Head Office" refers to the headquarter of the Group.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

42 Segment reporting (continued)

(b) Geographical information (continued)

	Operating income								
	Yangtze River Delta	Bohai Rim	Head office	Central	Pearl River Delta	Western	North eastern	Hong Kong	Total
Nine months ended September 30, 2013	8,933	9,337	9,715	6,418	5,768	6,102	2,583	20	48,876
Nine months ended September 30, 2012	9,159	9,237	5,502	6,302	5,929	5,464	2,865	–	44,458

	Non-current assets								
	Yangtze River Delta	Bohai Rim	Head office	Central	Pearl River Delta	Western	North eastern	Hong Kong	Total
September 30, 2013	3,030	849	4,635	1,119	1,194	948	964	15	12,754
December 31, 2012	3,143	877	4,531	1,064	952	963	999	–	12,529

43 Entrusted lending business

The Group provides entrusted lending business services to government agencies, corporations and individuals. All entrusted loans are funded by entrusted funds from these entities and individuals. The Group does not take any credit risk in relation to these transactions. The Group acts as an agent to hold and manage these assets and liabilities at the direction of the entrustors and receives fee income for the services provided. The entrusted assets are not the assets of the Group and are not recognized in the statements of financial position.

	September 30, 2013	December 31, 2012
Entrusted loans	53,596	41,822
Entrusted funds	53,596	41,822

44 Commitments and contingent liabilities

(a) Credit commitments

The Group's credit commitments take the form of approved loans with signed contracts, credit card limits, bank acceptances, letters of credit and financial guarantees.

The contractual amounts of loans and credit card commitments represent the amounts should the contracts be fully drawn upon. The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. Acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be settled simultaneously with the reimbursement from the customers.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

44 Commitments and contingent liabilities (continued)

(a) Credit commitments (continued)

	September 30, 2013	December 31, 2012
Loan commitments		
– Original contractual maturity within one year	10,227	8,249
– Original contractual maturity more than one year (inclusive)	42,755	38,267
Credit card commitments	58,774	61,839
Sub-total	111,756	108,355
Acceptances	455,403	407,585
Letters of guarantees	49,621	45,417
Letters of credit	126,735	114,003
Guarantees	361	761
Total	743,876	676,121

The Group may be exposed to credit risk in all the above credit businesses. Management periodically assesses credit risk and makes provision for any probable losses. As the facilities may expire without being drawn upon, the total of the contractual amounts shown above is not representative of expected future cash outflows.

(b) Credit risk-weighted amount

	September 30, 2013
Credit risk-weighted amount of credit commitments	306,609

(i) The credit risk weighted amount represent to the amount calculated with reference to the guidelines issued by the CBRC. The risk weights are determined in accordance with the credit status of the counterparties, the maturity profile and other factors. The risk weights ranged from 0% to 150% for credit commitments.

(ii) On December 31, 2012 the credit risk weighted amount was RMB298,095 million which was calculated in accordance with "Regulations Governing Capital Adequacy of Commercial Banks" (the regulations) and other relevant regulations promulgated by the CBRC. The regulations were abolished on January 1, 2013.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

44 Commitments and contingent liabilities (continued)

(c) Operating lease commitments

As at the end of the reporting periods, the Group's future minimum lease payments under non-cancellable operating leases for properties are as follows:

	September 30, 2013	December 31, 2012
Within one year (inclusive)	1,343	1,297
After one year but within two years (inclusive)	1,772	1,109
After two years but within three years (inclusive)	1,274	1,056
After three years but within five years (inclusive)	2,274	1,777
After five years	2,829	2,009
Total	9,492	7,248

(d) Capital commitments

As at the end of the reporting periods, the Group's authorized capital commitments are as follows:

	September 30, 2013	December 31, 2012
Contracted for		
– Purchase of property and equipment	1,074	1,561
Approved but not contracted for		
– Purchase of property and equipment	612	667
Total	1,686	2,228

(e) Underwriting and redemption commitments

The Group has unexpired commitments for underwriting bonds as follows:

	September 30, 2013	December 31, 2012
Underwriting commitments	5,325	2,010

As an underwriting agent of the PRC government bonds, the Group has the responsibility to buy back those bonds it previously sold should the holders decide to make an early redemption. The redemption price for a bond at any time before its maturity date is based on the coupon value plus any interest unpaid and accrued up to the redemption date. Accrued interests payable to the bond holders is calculated in accordance with the relevant MOF and PBOC rules. The redemption price may be different from the fair value of similar financial instruments traded at the redemption date.

The Group's redemption commitments are as follows:

	September 30, 2013	December 31, 2012
Redemption commitments	8,198	8,349

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)

(Expressed in millions of Renminbi, unless otherwise stated)

44 Commitments and contingent liabilities (continued)

(f) Forward assets purchase and sale commitments

The Group has unexpired forward purchase and sale commitments as follows:

	September 30, 2013	December 31, 2012
Forward assets purchase and sale commitments	1,650	3,750

(g) Outstanding litigations and disputes

As at September 30, 2013, the Group was the defendant in certain pending litigation and disputes with gross claims of RMB339 million (December 31, 2012: RMB363 million). Provisions (Note 35(b)) have been made for the estimated losses of such litigation based upon the opinions of the Group's internal and external legal counsels. The Group considers that the provisions made are reasonable and adequate.

45 Subsequent events

(a) Issuance of tier two capital debt

In accordance with the Reply of CBRC on August 27, 2013 on issuance of tier two capital debt by China Everbright Bank Company Limited (Yin Jian Fu [2013] No. 447), the Group was approved to issue tier two capital debt with the amount of no more than RMB16.2 billion. The issuance is yet to be approved by the PBOC.

(b) Redemption plan of subordinated debts

The Group announced on November 15, 2013 that it would exercise its redemption option on December 17, 2013 to fully redeem the RMB5 billion ten-year fixed rate subordinated debt issued on December 15, 2008.

46 Immediate and ultimate parent

The immediate and ultimate parents of the Group are Central Huijin Investment Ltd. and China Investment Corporation respectively.

The information set out below does not form part of the Accountants' Report prepared by the independent reporting accountants, KPMG, Certified Public Accountants, Hong Kong, as set out in Appendix I, and is included herein for information purpose only.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION
(Expressed in millions of Renminbi unless otherwise stated)

1 Liquidity ratios

	As at December 31, 2010	Average for the year ended December 31, 2010
RMB current assets to RMB current liabilities	45.63%	37.07%
Foreign currency current assets to foreign currency current liabilities	95.81%	54.63%

	As at December 31, 2011	Average for the year ended December 31, 2011
RMB current assets to RMB current liabilities	37.67%	36.32%
Foreign currency current assets to foreign currency current liabilities	70.94%	36.53%

	As at December 31, 2012	Average for the year ended December 31, 2012
RMB current assets to RMB current liabilities	51.25%	42.62%
Foreign currency current assets to foreign currency current liabilities	45.88%	41.54%

	As at June 30, 2013	Average for the period ended June 30, 2013
RMB current assets to RMB current liabilities	27.63%	30.42%
Foreign currency current assets to foreign currency current liabilities	43.94%	46.28%

The above liquidity ratios were calculated in accordance with the formulas promulgated by the China Banking Regulatory Commission (the "CBRC").

2 Currency concentrations

	December 31, 2010			
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	Total
Spot assets	31,720	978	4,139	36,837
Spot liabilities	(34,775)	(3,760)	(5,668)	(44,203)
Forward purchases	49,792	3,236	1,778	54,806
Forward sales	(44,978)	(118)	(821)	(45,917)
Net long/(short) position	1,759	336	(572)	1,523
Net structural position	11	–	–	11

	December 31, 2011			
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	Total
Spot assets	36,980	4,071	5,234	46,285
Spot liabilities	(43,806)	(3,935)	(5,860)	(53,601)
Forward purchases	66,298	321	3,025	69,644
Forward sales	(57,750)	(189)	(2,521)	(60,460)
Net long/(short) position	1,722	268	(122)	1,868
Net structural position	11	–	–	11

	December 31, 2012			
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	Total
Spot assets	44,365	1,131	2,998	48,494
Spot liabilities	(53,992)	(3,298)	(7,832)	(65,122)
Forward purchases	72,962	2,938	9,184	85,084
Forward sales	(74,273)	(2,938)	(9,017)	(86,228)
Net short position	(10,938)	(2,167)	(4,667)	(17,772)
Net structural position	11	–	–	11

	June 30, 2013			
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	Total
Spot assets	61,531	4,868	6,912	73,311
Spot liabilities	(83,549)	(4,300)	(7,422)	(95,271)
Forward purchases	83,739	2,880	6,257	92,876
Forward sales	(69,694)	(2,510)	(2,323)	(74,527)
Net (short)/long position	(7,973)	938	3,424	(3,611)
Net structural position	11	–	–	11

The net structural position of the Group includes the structural positions, denominated in foreign currency, of the Bank's Hong Kong Branch. Structural assets mainly include fixed assets.

3 Cross-border claims

The group is principally engaged in business operations within mainland China. All claims to third parties outside mainland China are considered cross-border claims.

For the purpose of this unaudited supplementary financial information, mainland China excludes Hong Kong Special Administrative Region of the PRC ("Hong Kong"), Macau Special Administrative Region of the PRC ("Macau") and Taiwan.

Cross-border claims include loans and advances to customers, deposits and placements with banks and other financial institutions, and holdings of trade bills, and investment securities.

Cross-border claims have been disclosed by different country or geographical areas. A country or geographical area is reported where it constitutes 10% or more of the aggregate amount of cross border claims, after taking into account any risk transfers. Risk transfers are only made if the claims are guaranteed by a party in a region or a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another country.

"Others" includes transactions with sovereign counterparties.

	December 31, 2010			
	Banks and other financial institutions	Public sector entities	Others	Total
Asia Pacific excluding mainland China	1,416	–	755	2,171
– of which attributed to Hong Kong	560	–	235	795
Europe	1,747	–	651	2,398
North and South America	1,127	–	146	1,273
	4,290	–	1,552	5,842

	December 31, 2011			
	Banks and other financial institutions	Public sector entities	Others	Total
Asia Pacific excluding mainland China	1,068	–	1,419	2,487
– of which attributed to Hong Kong	566	–	910	1,476
Europe	801	–	810	1,611
North and South America	3,460	–	104	3,564
	5,329	–	2,333	7,662

	December 31, 2012			
	Banks and other financial institutions	Public sector entities	Others	Total
Asia Pacific excluding mainland China	683	–	1,419	2,102
– of which attributed to Hong Kong	399	–	910	1,309
Europe	1,133	–	809	1,942
North and South America	2,633	–	104	2,737
	4,449	–	2,332	6,781

	June 30, 2013			
	Banks and other financial institutions	Public sector entities	Others	Total
Asia Pacific excluding mainland China	2,186	–	1,364	3,550
– of which attributed to Hong Kong	1,004	–	906	1,910
Europe	2,317	–	1,403	3,720
North and South America	1,136	–	161	1,297
	5,639	–	2,928	8,567

4 Overdue loans and advances by geographical segments

	December 31,			June 30,
	2010	2011	2012	2013
Pearl River Delta	1,421	1,352	1,439	3,367
Yangtze River Delta	1,297	1,049	2,702	995
Central	969	836	667	653
Bohai Rim	757	676	606	1,028
Western	598	309	444	463
Northeastern	277	230	171	80
Head Office	268	390	939	1,364
Total	5,587	4,842	6,968	7,950

5 Gross amount of overdue loans and advances

	December 31,			June 30,
	2010	2011	2012	2013
Gross loans and advances which have been overdue with respect to either principal or interest for periods of				
– between 3 and 6 months (inclusive)	187	269	1,190	2,339
– between 6 months and 1 year (inclusive)	317	447	2,365	2,394
– over 1 year	5,083	4,126	3,413	3,217
Total	5,587	4,842	6,968	7,950
As a percentage of total gross loans and advances				
– between 3 and 6 months (inclusive)	0.02%	0.03%	0.12%	0.21%
– between 6 months and 1 year (inclusive)	0.04%	0.05%	0.23%	0.22%
– over 1 year	0.66%	0.46%	0.33%	0.29%
Total	0.72%	0.54%	0.68%	0.72%

The above analysis includes loans and advances overdue for more than 90 days. Loans and advances with a specific repayment date are classified as overdue when the principal or interest is overdue.

6 Non-bank mainland China exposure

The Bank is a commercial bank incorporated in mainland China with its banking business conducted in mainland China. As at December 31, 2010, 2011 and 2012, and June 30, 2013 substantial amounts of the Bank's exposures arose from businesses with mainland China entities or individuals.

The information set forth in this appendix does not form part of the Accountants' Report prepared by the Group's independent reporting accountants, KPMG, Certified Public Accountants, Hong Kong, as set forth in Appendix I to this prospectus, and is included herein for illustrative purpose only.

The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the Accountants' Report set forth in Appendix I to this prospectus.

(A) UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following statement of unaudited pro forma adjusted consolidated net tangible assets of the Group is prepared based on the consolidated net tangible assets of the Group as of September 30, 2013, as shown in the Unaudited Interim Financial Information, the text of which is set out in Appendix II to this prospectus, adjusted as described below.

The statement of unaudited pro forma adjusted consolidated net tangible assets has been prepared to show the effect on the consolidated net tangible assets of the Group as of September 30, 2013 as if the Global Offering had occurred on September 30, 2013.

The statement of unaudited pro forma adjusted consolidated net tangible assets of the Group has been prepared for illustrative purposes only and, as a result, may not give a true picture of the financial position of the Group following the completion of the Global Offering.

	Consolidated net tangible assets as at September 30, 2013(1)	Estimated net proceeds from the Global Offering(2)	Unaudited pro forma adjusted consolidated net tangible assets(3)	Unaudited pro forma adjusted consolidated net tangible asset value per share(4)	
	RMB Million	RMB Million	RMB Million	RMB	HK$(5)
Based on the offer price of HK$3.83 per Offer Share	130,312	15,058	145,370	3.19	4.03
Based on the offer price of HK$4.27 per Offer Share	130,312	16,800	147,112	3.23	4.08

Notes:

(1) The consolidated net tangible assets as of September 30, 2013 is compiled based on the unaudited consolidated financial information included in the Unaudited Interim Financial Information set out in Appendix II to the prospectus, which is based on the unaudited consolidated net assets attributable to our equity shareholders as of September 30, 2013 of RMB132,136 million with an adjustment for intangible assets and goodwill of RMB543 million and RMB1,281 million, respectively, as of September 30, 2013.

(2) The estimated net proceeds from the Global Offering are based on the offer price of HK$3.83 per H share to HK$4.27 per H Share and the assumption that there are 5,080,000,000 newly issued H Shares in the Global Offering, after deduction of the underwriting fees and other related expenses payable by us, assuming that neither the Offer-Size Adjustment Option nor the Over-allotment Option is exercised and without taking into account any discretionary incentive fees.

(3) The unaudited pro forma adjusted consolidated net tangible assets do not take into account the financial results for the period from and including October 1, 2013 to the date immediately preceding the Listing Date.

(4) The unaudited pro forma adjusted consolidated net tangible assets per Share is arrived at after the adjustments referred to in note 1 above and on the basis that 45,514,790,000 Shares are issued and outstanding following the completion of the Global Offering and that the Offer Size Adjustment Option and Over-allotment Option are not exercised.

(5) The conversion of Renminbi into Hong Kong dollars has been made at the rate of RMB0.79103 to HK$1.00, the exchange rate set by the PBOC prevailing on November 29, 2013. No representation is made that the Hong Kong dollar amounts have been, could have been or could be converted to Renminbi, or vice versa, at that rate, or at any other rate or at all.

(B) INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from the independent reporting accountants, KPMG, Certified Public Accountants, Hong Kong, prepared for the purpose of incorporation in this prospectus, in respect of the Group's unaudited pro forma financial information relating to the adjusted consolidated net tangible assets.

KPMG

8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

December 10, 2013

TO THE DIRECTORS OF CHINA EVERBRIGHT BANK COMPANY LIMITED

We have completed our assurance engagement to report on the compilation of pro forma financial information of China Everbright Bank Company Limited (the "Bank") and its subsidiaries (collectively the "Group") by the directors of the Bank (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted net tangible assets as at 30 September 2013 and related notes as set out in Part A of Appendix IV to the prospectus dated December 10, 2013 (the "Prospectus") issued by the Bank. The applicable criteria on the basis of which the Directors have compiled the pro forma financial information are described in Part A of Appendix IV to the Prospectus.

The pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed offering of the ordinary shares of the Bank (the "Global Offering") on the Group's financial position as at 30 September 2013 as if the Global Offering had taken place at 30 September 2013. As part of this process, information about the Group's financial position as at 30 September 2013 has been extracted by the Directors from the Group's historical financial statements included in the Unaudited Interim Financial Information as set out in Appendix II to the Prospectus.

Directors' Responsibilities for the Pro Forma Financial Information

The Directors are responsible for compiling the pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements ("HKSAE") 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the pro forma financial information in accordance with paragraph 4.29 of the Listing Rules, and with reference to AG 7 issued by the HKICPA.

For purpose of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information.

The purpose of pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of events or transactions as at 30 September 2013 would have been as presented.

A reasonable assurance engagement to report on whether the pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our procedures on the pro forma financial information have not been carried out in accordance with attestation standards or other standards and practices generally accepted in the United States of America, auditing standards of the Public Company Accounting Oversight Board (United States) or any overseas standards and accordingly should not be relied upon as if they had been carried out in accordance with those standards and practices.

We make no comments regarding the reasonableness of the amount of net proceeds from the issuance of the Bank's shares, the application of those net proceeds, or whether such use will actually take place as described in the section headed "Future Plans and Use of Proceeds" in the Prospectus.

Opinion

In our opinion:

a) the pro forma financial information has been properly compiled on the basis stated;

b) such basis is consistent with the accounting policies of the Group, and

c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,

KPMG
Certified Public Accountants
Hong Kong

This Appendix contains a summary on PRC taxation, foreign exchange and regulation, including a description of material differences in the provisions of company law between China and Hong Kong, but it neither covers all issues in PRC and Hong Kong and other laws or regulations that may impact the Bank and its Shareholders, nor considers your circumstances. For any details about PRC taxation and laws or any other jurisdiction, please seek independent professional opinions.

PRC LEGAL SYSTEM

The PRC legal system is based on the PRC Constitution (中華人民共和國憲法) and is made up of written laws, regulations, rules, local regulations, laws of Special Administrative Regions and laws resulting from international treaties entered into by the PRC government. Court case verdicts do not constitute legally binding precedents. However, they are used for the purposes of judicial reference and guidance.

The National People's Congress of the PRC ("NPC") and the Standing Committee of the NPC are empowered by the PRC Constitution to exercise the legislative power of the State. The NPC has the power to amend the PRC Constitution and enact and amend basic laws governing State agencies and civil and criminal matters. The Standing Committee of the NPC is empowered to enact and amend laws other than those required to be enacted by the NPC, and during the adjournment of the NPC, to partly supplement and amend laws enacted by the NPC, provided that such supplementation and amendment should not contradict the basic principles of such laws. The State Council is the highest-level authority within the State administration and has the power to enact administrative rules in accordance with the PRC Constitution and laws. The ministries and commissions directly under the State Council are also vested with the power to issue orders, directives and rules within the jurisdiction of their respective departments. All administrative rules, regulations, directives and orders promulgated by the State Council and its ministries and commissions must be consistent with the PRC Constitution and the national laws enacted by the NPC and the Standing Committee of the NPC. In the event of conflict, the Standing Committee of the NPC has the power to annul administrative regulations, rules, directives and orders.

At the regional level, the provincial and municipal congresses and their respective standing committees may enact local regulations and the people's governments may promulgate administrative rules and directives applicable to their own administrative areas, provided that such regulations, administrative rules and directives shall not contradict the PRC Constitution, laws and administrative regulations.

The State Council, provincial and municipal governments may also enact or issue rules, provisions or directives in new areas of the law for experimental purposes. After gaining sufficient experience with experimental measures, the State Council may submit legislative proposals to be considered by the NPC or the Standing Committee of the NPC for enactment at the national level.

The PRC Constitution vests the power to interpret laws in the Standing Committee of the NPC. According to the Decision of the Standing Committee of the NPC Regarding the Strengthening of Interpretation of Laws passed on June 10, 1981, the Supreme People's Court, in addition to its power to give general interpretation on the application of laws in judicial proceedings, also has the power to interpret specific cases. The State Council and its ministries and commissions are also vested with the power to interpret regulations and rules that they have promulgated. At the regional level, the power to interpret regional regulations is vested in the regional legislative and administrative bodies which promulgated such laws.

PRC JUDICIAL SYSTEM

Under the PRC Constitution and the Law of Organization of the People's Courts of the PRC (中華人民共和國人民法院組織法), the judicial system is made up of the Supreme People's Court, the local people's courts at all levels, military courts and other special people's courts. The local people's courts are comprised of the basic people's courts, the intermediate people's courts and the higher people's courts. The basic people's courts may set up civil, criminal, economic divisions and other such divisions. The intermediate people's courts are organized into divisions similar to those of the basic people's courts, and are further organized into other special divisions, such as the intellectual property division. The higher people's courts supervise the basic and intermediate people's courts. The people's procuratorates also have the right to exercise legal supervision over the civil proceedings of people's courts of the same level and lower levels. The Supreme People's Court is the highest judicial body in the PRC, supervising the judicial activities carried out by all of the people's courts.

The people's courts employ a two-tier trial system. A party may appeal against a judgment or decision of a local people's court to the people's court at the next higher level. Second judgments or decisions given at the next higher level are final. First judgments or decisions of the Supreme People's Court are also final. If, however, the chief justice of a people's court finds an error in an effective judgment or decision which has been given in the court, the case shall be handed to the judicial committee of the court to make further decision; if the Supreme People's Court or a people's court at a higher level finds an error in an effective judgment or decision which has been given in any people's court at a lower level, it shall have the power to hear the case by itself or appoint a people's court at a lower level to rehear the case; if the effective judgments or decisions of the people's courts at any level are found by the Supreme People's Procuratorate, or of the people's court at a lower level are found by the people's procuratorate at a higher level, to be erroneous, such procuratorate may file counterappeal according to the trial supervision procedures.

The Civil Procedure Law of the PRC (中華人民共和國民事訴訟法), which was adopted in 1991 and amended in 2007 and 2012, sets forth the criteria for instituting a civil action, the jurisdiction of the people's courts, the procedures to be followed for conducting a civil action and the procedures for enforcement of a civil judgment or decision. All parties to a civil action conducted within the PRC must comply with the Civil Procedure Law. A civil case against a citizen is under the jurisdiction of a local court of the municipality or province in which the defendant resides. The parties to a contract may, by written agreement, select a jurisdiction where civil actions may be brought, provided that the jurisdiction is either the plaintiff's or the defendant's place of residence, the place of execution or implementation of the contract or the place of location of the objects under the contract. However, such selection cannot violate the stipulations of grade jurisdiction and exclusive jurisdiction in any case.

A foreign national or enterprise generally has the same litigation rights and obligations as a citizen or legal person of the PRC. If a foreign country's judicial system limits the litigation rights of PRC citizens and enterprises, the PRC courts may apply the same level limitations to the citizens and enterprises of that foreign country within the PRC. If any party to a civil action refuses to comply with a judgment or decision made by a people's court or an award granted by an arbitration authority in the PRC, the other party may apply to the people's court to request enforcement of the judgment, decision or award. The rights to apply for such enforcement shall lapse after two years. If a party fails to fulfil its obligations under a judgment, decision or award made by the court within the stipulated time, the court will, upon application by the other party, mandatorily enforce such judgment, decision or award.

A party seeking to enforce a judgment or decision of a people's court against a party who is not located within the PRC and does not own any property in the PRC, may apply to a foreign court with proper jurisdiction for recognition and enforcement of the judgment or decision. A foreign judgment or decision may also be recognized and enforced by the people's court according to PRC enforcement procedures if the PRC has entered into, or acceded to, an international treaty with the relevant foreign country, which provides for such recognition and enforcement, or if the judgment or decision satisfies the court's review according to the principle of reciprocity, unless the people's court finds that the recognition or enforcement of such judgment or decision will result in a violation of the basic legal principles of the PRC, its sovereignty or security, or for reasons of social and public interest.

PRC company law

As a joint stock limited liability company incorporated in the PRC, and seeking a listing on the Hong Kong Stock Exchange, we are primarily subject to the following PRC laws and regulations:

- the PRC Company Law (中華人民共和國公司法), which was promulgated by the Standing Committee of the NPC on December 29, 1993, took effect on July 1, 1994 and was amended as of December 25, 1999, August 28, 2004 and October 27, 2005;
- the Special Regulations on Overseas Offering and Listing of Shares by Joint Stock Limited Companies, which were promulgated by the State Council on August 4, 1994 (the "Special Regulations") (國務院關於股份有限公司境外募集股份及上市的特別規定); and
- the Mandatory Provisions for the Articles of Association of Companies Listed Overseas (到境外上市公司章程必備條款) (the "Mandatory Provisions"), which were jointly promulgated by the Securities Committee of the State Council and the State Restructuring Commission (now the NDRC) on August 27, 1994, and which prescribe the provisions which we, as a joint stock limited liability company seeking an overseas listing, must incorporate into our Articles of Association.

Incorporation

A company limited by shares shall be incorporated by a minimum of two promoters while its maximum thereof is 200, and at least half or more of the promoters must have residences within the PRC. We are incorporated under the PRC Company Law as a joint stock limited liability company. This means that we are a legal entity and that our registered capital is divided into Shares of equal nominal value. The liability of our Shareholders is limited to the amount of Shares subscribed by them and we are liable for our debts for an amount equal to our assets. Our registered capital equals the paid-in capital we registered with SAIC.

The promoters shall convene an inaugural meeting within 30 days from the date the amount equal to issued shares have been fully paid up, and shall give notice to all subscribers or make an announcement of the date of the inaugural meeting 15 days before the meeting. The inaugural meeting may be convened only if the subscribers representing more than half of the total shares issued by the company are present. At the inaugural meeting, matters including the adoption of draft articles of association proposed by the promoter(s) and the election of the board of directors and the board of supervisors of the company will be dealt with. All resolutions of the inaugural meeting require the approval of subscribers with more than half of the voting rights present at the meeting.

Within 30 days after the conclusion of the inaugural meeting, the board of directors shall apply to the registration authority for registration of the establishment of the company. A company is formally established, and has the status of a legal person, after the business license has been issued by the relevant administration for industry and commerce. Companies established by the public subscription method shall file an approval on the offer of shares issued by the securities administration department of the State Council with the company registration authority for record.

A company's promoters shall be liable for: (i) the payment of debts and liabilities incurred in the incorporation process jointly and severally if the company cannot be incorporated; (ii) the repayment of subscription monies to the subscribers, together with interest, at bank rates for a deposit of the same term jointly and severally if the company cannot be incorporated; and (iii) damages suffered by the company as a result of the default of the promoters in the course of incorporation of the company.

Allotment and Issue of Shares

All of our Share issues are based on the principles of equality and fairness. The same class of shares must carry equal rights. For each Share issue, the terms of issue for individual Shares, including the subscription price, must be identical to other Shares of the same class. We may issue Shares at nominal value or at a premium, but we may not issue Shares below the nominal value.

We must obtain the approval of the CSRC to offer our Shares outside of PRC. Under the Special Regulations, upon approval of the CSRC, we may agree, in the underwriting agreement with respect to an issue of overseas listed foreign invested shares, to retain not more than 15% of the aggregate number of overseas listed foreign invested shares proposed to be issued after accounting for the number of underwritten shares.

Contribution Forms and Shares

The promoters may make capital contributions in cash or by way of tangible properties, intellectual property rights, land use rights or other transferable non-cash property that can be evaluated by money, except for the assets prohibited to be contributed as capital by the laws or administrative regulations. The amount of investment made in cash by all the shareholders may not be less than 30% of the registered capital of the company. Shares that we issue to foreign investors and Shares that are listed overseas must be in registered form, denominated in Renminbi and subscribed for in a foreign currency. Shares that are purchased by foreign investors and investors from the territories of Hong Kong, Macau and Taiwan and listed in Hong Kong are known as "overseas listed foreign invested shares." Within the PRC, all Shares that we issue to a promoter or legal person must be in registered form. Shares that we issue to the public in China, however, may be in either registered or bearer form.

We are required to maintain a register of Shareholders for all Shares issued in registered form. Information such as our Shareholders' particulars, number of Shares held by each Shareholder and the dates on which the Shareholders became holders of the relevant Shares are required to be entered into the register.

We are also required to record the amount of bearer shares issued, the number designated to each bearer share and the date of issue of each bearer share.

Increase of Share Capital

We may increase our Share capital by issuing new Shares according to our general shareholders meeting's approval in terms of the following items:

- the classes and amount of new Shares to be issued;
- the offering price;
- the date of commencement and close of the issuance of new Shares; and
- the class and amount of new Shares to be issued to existing Shareholders.

If we issue Shares by way of public offering, we must obtain the approval of the relevant securities administration authority, must print the prospectus and financial statement, and must make subscription books. After we complete a subscription of new Shares, we must register the increase in registered capital with the SAIC and issue a public notice.

Reduction of Share Capital

Subject to minimum registered capital requirements, we may reduce our registered capital in accordance with the following procedures:

- we must prepare a current balance sheet and a list of properties;
- our Shareholders must approve the reduction of registered capital in a general meeting;
- once the resolution approving the reduction has been passed, we must inform our creditors of the reduction in capital within ten days and publish the announcements of the reduction in newspapers at least for three times within thirty days;
- our creditors may, within the statutory prescribed time limit, require us to pay our debts or provide guarantees covering such debts;
- we must register the reduction in registered capital with the SAIC; and
- we must obtain necessary approvals from all relevant supervisory authorities.

Repurchase of Shares

We may only repurchase our Shares (i) to reduce our registered capital; (ii) to merge with another company that holds our Shares; (iii) to grant our Shares to employees as a reward; (iv) Shareholders require us to do so, if vote against a resolution approving our merger or division; or (v) in other circumstances as permitted by laws, regulations, rules or normative documents. The Mandatory Provisions stipulate that we must act in accordance with our Articles of Association and that we must obtain necessary approvals from any relevant supervisory authorities. We may repurchase our Shares by making a general offer to our Shareholders, by purchasing our Shares on a stock exchange or by purchasing our Shares through an off-market contract.

If the repurchase of our Shares is carried out as a result of (i) above, we are required to cancel the portion of our Shares that have been repurchased within ten days; if the repurchase is caused by reason of (ii) or (iv) above, we are required to transfer or cancel the portion of our Shares within six months. When we repurchase our Shares for the reason of (iii) above, the Shares bought back by us shall not exceed 5% of our total issued Shares and shall be transferred to employees within one year. The funds for repurchase shall be paid from our after-tax profits.

Transfer of Shares

Our Shares may be transferred in accordance with any applicable laws and regulations, such as the PRC Company Law (中華人民共和國公司法), the PRC Securities Law (中華人民共和國證券法) and the Special Regulations.

Our Directors, Supervisors and senior officers must declare to us the Shares held by them and the changes thereof. During the term of office, the Shares transferred by any of them each year shall not exceed 25% of total Shares of the Bank they respectively hold. Any Shares that are held by the aforesaid persons shall not be transferred within one year from the day when the Shares are listed and traded on a stock exchange. Within half year after any of the aforesaid persons is removed from his or her post, he or she shall not transfer the Shares of the Bank that he or she holds.

Transfers of Shares may not be entered in the register of Shareholders within 30 days before the date of a Shareholders' meeting or within five days before the record date set for the purpose of distribution of dividends.

Our Shares may be transferred in accordance with any applicable laws and regulations, such as the PRC Company Law (中華人民共和國公司法), the PRC Securities Law (中華人民共和國證券法) and the Special Regulations.

Finance and Accounting

We are required to establish our financial and accounting system in accordance with relevant laws and administrative regulations as well as provisions of PRC GAAP formulated by the MOF.

We are also required to prepare annual financial reports at the end of each financial year, which shall be reviewed and verified according to laws. These financial statements include our statements of financial position, statements of comprehensive income, cash flow statements and statement of changes in owner's equity together with explanatory notes. We are required to make our financial reports available for inspection by our Shareholders 20 days prior to our annual general meeting. Every Shareholder has the right to be provided with the financial reports mentioned herein. We must also publish our financial statements by way of public announcement.

We are required by PRC laws to make the following transfers from our after-tax profit after we make up any loss from the previous year but before we distribute any profits to our Shareholders:

- 10% of our after-tax profit must be transferred to our statutory common reserve fund; and no transfer is required if our accumulated statutory common reserve fund reaches or exceeds 50% of our registered capital;
- general reserves shall be transferred; and
- subject to our Shareholders' approval in a general meeting and after transfer of the requisite amount to the statutory common reserve fund and general reserves, a discretionary amount from our after-tax profit may be transferred to the discretionary common reserve.

Any after-tax profit after making-up losses and transfers to the statutory common reserve, general reserves and discretionary common reserves may be distributed to our Shareholders in proportion to their respective shareholdings.

If the amount in our statutory common reserve fund is insufficient to make up for losses from previous years, our profits in the current year must be applied to make up for such losses before we make allocations to the statutory common reserve fund.

Our common reserve consists of the statutory surplus reserve, discretionary surplus reserve and the capital reserve. Our capital reserve includes the premium over the nominal value of our Shares issued and other amounts required by MOF to be treated as the capital reserve.

Our common reserve must be applied for the following purposes:

- to make up for any losses;
- to expand our business operations; and
- to pay up our registered share capital by new Share issues to Shareholders in proportion to their existing shareholdings, or by increasing the nominal value of the Shares currently held by the Shareholders, provided that the statutory common reserve is converted into registered capital, the statutory common reserve retained may not be less than 25% of our registered capital immediately preceding such conversion. Our capital common reserve may not be used to make up for any losses.

Appointment and Retirement of Auditors

The Special Regulations require us to employ an independent PRC firm of accountants consistent with state provisions to audit our annual reports and verify other financial reports.

The auditors are to be appointed for a term commencing from the close of an annual general meeting to the close of the next annual general meeting.

If we remove or fail to renew the appointment of our existing auditors, we are required by the Special Regulations to give prior notice to the auditors and the auditors are entitled to make representations before our Shareholders in a general meeting. If our auditors resign, they are obligated to make a statement to the Shareholders stating whether or not we have undertaken any inappropriate practices. The appointment, removal or nonrenewal of appointment of auditors is decided by our Shareholders' meeting and must be recorded with the CSRC.

Distribution of Profits

The Special Regulations provide that dividends and other distributions payable to holders of our H Shares must be declared and calculated in Renminbi and paid in a foreign currency. Under the Mandatory Provisions, we shall appoint a receiving agent for holders of our H Shares. The receiving agent shall receive the dividends and other distributions on behalf of these Shareholders.

Amendments to Articles of Association

Our Articles of Association may only be amended by an affirmative vote of more than two-thirds of the voting right represented by the Shareholders presented at a general meeting. An amendment to our Articles of Association will only take effect after we have obtained any necessary approvals from relevant regulatory and administrative agencies. If an amendment to our Articles of Association affects the information recorded in our business license, we must apply to the related government department to change the relevant details in the license.

Merger and Division

Any mergers and divisions must be approved by our Shareholders. We may also need to seek government approval for a merger or division. In China, a merger may be effected either by way of absorption followed by the dissolution of the company being absorbed or by the establishment of a new entity followed by the dissolution of the original entities.

If our Shareholders approve a proposed merger, parties concerned are required to sign a merger agreement and to prepare a balance sheet and an inventory of properties. We must notify our creditors of the merger within 10 days and publicly announce the merger in the newspapers at least three times within 30 days after the resolution approving the merger has been passed. Our creditors are allowed, within 30 days after receiving the notice, or within 45 days after the date of first announcement in case no notice has been received, to request us to repay any outstanding indebtedness or provide guarantees covering such indebtedness. If we are unable to repay our debts or provide such guarantees, we may be prohibited from proceeding with the merger.

In the case of a division, our assets shall be divided correspondingly. Parties concerned shall sign a division agreement and prepare statements of financial position and a list of properties. We must notify our creditors of the division within 10 days and publicly announce the division in the newspapers at least three times within 30 days after the resolution approving the division has been passed. Our debts before division shall be assumed by the companies after the division jointly and severally, except as otherwise agreed between our creditors and us on debt payment in writing before the division. Our inability to do so may prevent the consummation of the division.

Dissolution and Liquidation

Under the PRC Company Law and Mandatory Provisions as well as our Articles of Association, we will be dissolved and liquidated if any of the following events occur:

(i) resolution of the general meeting of shareholders;

(ii) a merger or division that requires our dissolution;

(iii) the declaration of our insolvency as a result of our inability to pay our debts when they become due;

(iv) our business license is revoked or we are ordered to close down or cancelled; or

(v) the Bank suffers significant hardship in its operation or management such that the interests of the shareholders would be subject to significant loss if the Bank continued to exist, which situation cannot be remedied by any other means, and the Shareholders holding more than ten percent of the voting rights of the Bank petition the people's court to dissolve the Bank.

If we are dissolved in the circumstances referred to in (i) and (v) above, within 15 days upon approval of the CBRC, a liquidation committee shall be established, whose members shall be appointed in a general meeting of Shareholders. In the circumstance referred to in (ii) above, an application shall be filed with the CBRC, which shall be accompanied with a statement of causes for dissolution and the debt payment plans including payment of deposits and interests. After approval by the CBRC, we may dissolve. In the circumstance referred to in (iii) above, a liquidation committee shall be established by the people's court pursuant to the relevant laws, and the committee may comprise members from the CBRC, Shareholders, related agencies and professionals. In the circumstances referred to in (iv) above, a liquidation committee shall be established by the CBRC, and the committee may comprise members from the Shareholders, related agencies and professionals. If the liquidation committee is not established within the specified time, our creditors may apply to the people's court to appoint the members of the liquidation committee. The people's court will then organize a liquidation committee to conduct the liquidation.

A liquidation committee is required to notify our creditors of our dissolution within 10 days from the date of its establishment and issue a public announcement of our dissolution on a newspaper at least three times within 60 days after its establishment. A creditor is required to lodge its claim with the liquidation committee within the statutory time limit.

The liquidation committee shall exercise the following powers during the liquidation period:

- sort out the Bank's properties and to prepare a balance sheet and a list of the properties separately;
- notify or make an announcement to creditors;
- dispose of and liquidate any unfinished businesses of the Bank;
- pay all outstanding taxes and taxes incurred during liquidation;
- settle the Bank's financial claims and liabilities;
- deal with the surplus properties of the Bank after its debts have been paid off; and
- represent the Bank in civil lawsuits.

In the event of dissolution, our assets will be applied to pay all expenses incurred in connection with the liquidation, employees' wages, social insurance and statutory compensation, principals and interests of retail deposits, tax overdue and our general indebtedness. Any surplus assets will be distributed to our Shareholders in proportion to their respective shareholdings. If our assets are insufficient to repay or discharge our indebtedness, the liquidation committee will apply to the people's court for a declaration of insolvency and will transfer the liquidation proceedings to the people's court. If we are involved in liquidation proceedings, we will not be allowed to engage in any business operations irrelevant to liquidation.

Upon completion of the liquidation process, the liquidation committee is required to prepare a liquidation report and the statements of comprehensive income and financial books within the liquidation period for confirmation by our Shareholders' general meeting or the competent authority after being audited by Chinese certified pubic accountants. The liquidation committee shall, within 30 days after confirmation by the competent authority, submit the foregoing materials to the company registration administration for the cancellation of our registration and to make a public announcement of our dissolution following such cancellation.

Members of the liquidation committee are required to discharge their duties honestly and in compliance with the laws. A member of the liquidation committee is liable to us and our creditors in respect of any loss arising from his/her willful or material default.

Overseas Listing

We must obtain the approval of the CSRC to list our Shares overseas. An overseas listing of our Shares must comply with the Special Regulations.

Our plan to issue H Shares and A Shares which has been approved by the CSRC may be implemented by the board of directors of the Bank by way of separate issues, within 15 months from the date when the approval is obtained from the CSRC, according to the Special Regulations.

Loss of Share Certificates

If a share certificate in registered form of our A Shares is stolen, missing or lost, the respective Shareholder may apply, in accordance with the relevant provisions set out in the PRC Civil Procedure Law, to a people's court for a declaration that such certificate will no longer be valid. After obtaining the declaration, the Shareholder may apply to us for a replacement certificate.

A separate procedure regarding the reissue of H Share certificates which are stolen, missing or lost is provided for in the Mandatory Provisions, which has been incorporated into our Articles of Association, a summary of which is set out in Appendix VI to this prospectus.

Suspension and Termination of Listing

We may have our listing on the Shanghai Stock Exchange suspended by the Shanghai Stock Exchange if any of the following events occur:

- our total share capital or the shareholding distribution no longer complies with the relevant listing requirements;
- we have failed to disclose our financial position in accordance with the relevant laws and regulations or our financial report contains false information which is likely to mislead investors;
- we have committed a material breach of the law;
- we have incurred losses for three consecutive years; or
- any other circumstances as required by the listing rules of the Shanghai Stock Exchange.

We may have our listing on the Shanghai Stock Exchange terminated by the Shanghai Stock Exchange if any of the following events occur:

- where the Company fails to meet the listing requirements as a result of any change in its total issued share capital or shareholding distribution, and where the Company fails to meet the listing requirements within the period as prescribed by the stock exchange;
- where the Company fails to make public its financial position according to the relevant provisions or has any false record in its financial and accounting reports, and refuses to make any correction;
- where the Company has incurred losses for the last three consecutive years and fails to make profits in the subsequent year;
- where the Company is dissolved or is declared bankrupt; or
- under any other circumstances as stipulated in the stock exchange's listing rules.

PRC securities law and regulations

The PRC Securities Law (中華人民共和國證券法) took effect on July 1, 1999 and was amended as of August 28, 2004 and October 27, 2005, respectively. The PRC Securities Law comprehensively regulates the PRC securities market, and contains provisions governing, among other matters, the issue and trading of securities, takeovers by listed companies, securities exchanges, securities companies and the duties and responsibilities of the CSRC. The PRC Securities Law (中華人民共和國證券法) provides that we must obtain the approval of the CSRC to issue or list our Shares overseas.

The CSRC is the supervisory and regulatory institution for securities in China. It is responsible for the formulation of policies relating to securities, the drafting of securities laws and regulations, the supervision of the securities markets, market intermediaries and participants, the supervision and regulation of the domestic and overseas public offerings of securities by PRC companies, as well as the supervision and regulation of securities transactions.

Currently, the issue and trading of overseas issued foreign invested shares (including H shares) are mainly governed by a series of regulations and rules promulgated by the State Council and the CSRC. An overseas listing of our shares must comply with the Special Regulations.

PRC Taxation

Enterprise Income Tax

Corporate income tax in the PRC is governed by the PRC Enterprise Income Tax Law and regulations for implementation thereof. Enterprises and other organizations generating income within the PRC are subject to enterprise income tax at the rate of 25%.

In accordance with the PRC Enterprise Income Tax Law and regulations for implementation thereof, non-PRC resident enterprises (i.e. enterprises established under foreign laws with their actual management organs outside the PRC while having organs or premises established in the PRC or, if not, generating income within the PRC) are subject to enterprise income tax at a rate of 10% for their income generated within the PRC.

Business Tax

Business tax in the PRC is governed by the PRC Provisional Regulations on Business Tax and rules for implementation thereof. Enterprises and individuals that provide taxable labor services, transfer intangible assets or sell real estate within the PRC are subject to business tax at a rate of 3% or 5% of the amount of the taxable labor services or other transaction, except for the entertainment sector, the turnover of which is subject to the business tax at a rate of 5% to 20%.

Value-added Tax

Value-added tax, or VAT, in the PRC is governed by the PRC Provisional Regulations on Value-added Tax and the rules for implementation thereof. VAT is payable in the PRC on the sale of goods and the provision of processing and repair services as well as importation of products. VAT is generally levied at the rate of 17%; however, a rate of 13% is applicable to the sale or import of certain categories of essential goods. Exported goods are exempt from VAT.

Taxation of Dividends

According to the PRC Individual Income Tax Law and the PRC Provisional Regulations Concerning Questions of Taxation of Enterprises Experimenting with the Share System, dividends paid by PRC companies are generally subject to PRC withholding tax levied at a flat rate of 20%.

According to the Circular on Questions Concerning the Collection of Individual Income Tax following the Repeal of Guo Shui Fa [1993]045 dated June 28, 2011 issued by SAT, dividends paid by PRC companies to a non-PRC resident individual holder of H shares are subject to PRC individual income tax at the rates determined in accordance with applicable tax treaties or arrangements between the PRC and the specific jurisdiction in which the shareholder resides. Such tax rates range from 5% to 20% as the case may be. Any shareholder residing in a jurisdiction where the applicable tax rate for such dividends, as stipulated in the relevant tax treaties or arrangements, is lower than 10% shall be entitled to a refund of the excess tax withheld by the Company at the tax rate exceeding such applicable tax rate; however, such refund shall be subject to the approval of the competent tax authority. For a shareholder residing in a jurisdiction where the applicable tax rate for such dividends, as stipulated in the relevant tax treaties or arrangements, is more than 10% but less than 20%, H share issuers will withhold the individual income tax at the actual tax rate, as stipulated in the relevant tax treaties or arrangements, without seeking prior consent from competent tax authorities. For a shareholder residing in a jurisdiction where the applicable tax rate for such dividends, as stipulated in the relevant tax treaties or arrangements, is 20% or where there is no relevant tax treaty or arrangement with the PRC, H share companies shall withhold the individual income tax at the rate of 20%. Such arrangements have also been addressed in a letter dated June 28, 2011 issued by the SAT to the Hong Kong Inland Revenue Department. The letter explicitly provides that Hong Kong resident individuals shall be subject to a tax rate of 10% on the dividend income they receive from H share issuers. In view of this, we will withhold 10% of any dividend to be distributed to non-PRC resident individual holders of H Shares as individual income tax unless otherwise specified by the relevant requirements and procedures of PRC tax authorities.

According to the PRC Enterprise Income Tax Law and the rules for implementation thereof, non-resident enterprises that do not have a permanent establishment within the PRC or have such permanent establishment within the PRC but the income they earned is not actually relevant to the aforesaid establishment are subject to enterprise income tax at a rate of 10% on any income generated within the PRC. Furthermore, pursuant to the Notice of Withholding and Payment of Enterprise Income Tax for PRC Resident Enterprises Paying Dividends to Overseas Non-Resident Enterprise Shareholders of H shares issued by SAT on November 6, 2008, PRC resident enterprises are required to withhold enterprise income tax at a flat rate of 10% on distributions of dividends to overseas non-resident enterprise shareholders of H shares for the year 2008 and thereafter.

Despite the abovementioned arrangements, there are significant uncertainties as to the interpretation and application of applicable PRC tax laws and rules due to several factors, including the relatively short history of such laws and rules, and whether the relevant preferential tax treatment will be revoked in the future such that all non-PRC resident individual holders of H shares will be subject to PRC individual income tax at a flat rate of 20%.

Investors residing in countries which have entered into treaties for the avoidance of double taxation with the PRC are entitled to a reduction of such withholding tax in accordance with the terms of the relevant treaty. Under the Notice referred to above, upon receipt of dividends, a non-resident enterprise shareholder may apply to the PRC taxation authorities for a refund of the difference between the amount of tax withheld and the amount payable under the relevant treaty.

Taxation of Capital Gains

The PRC Individual Income Tax Law and the rules for implementation thereof stipulate that gains realized by individuals on the sale of equity shares are subject to income tax at a rate of 20%, and authorize the MOF to draft and, after approval of the State Council, to implement detailed tax rules on the mechanism for collecting such tax. However, we understand that, to date, no such implementing measures have been promulgated by the MOF, and no individual income tax on gains realized on the sale of shares has been levied in practice. However, if any implementing measure is made by competent authorities in the future, foreign individuals who hold our H Shares may be subject to individual income tax on gains from assignment of such shares at the rate of 20%, unless there is an applicable taxation treaty on reduction of such tax.

Under the PRC Enterprise Income Tax Law and its implementing rules, a non-resident enterprise is generally subject to enterprise income tax at the rate of 10% with respect to the income generated within the PRC, including gains derived from the disposition of equity interests in a PRC enterprise unless such tax is reduced or eliminated by an applicable double taxation treaty. According to the Interim Measures for Source-based Withholding of Enterprise Income Tax for Non-resident Enterprises (非居民企業所得稅源泉扣繳管理暫行辦法) issued by the SAT, non-resident enterprises are required to pay enterprise income tax on income derived from the transfer of property within the PRC. For transfers of equity outside of the PRC between non-resident enterprises, PRC enterprises whose equity interests are transferred are required to assist tax authorities in collecting the associated taxes from such non-resident enterprises.

PRC Foreign Exchange Regulation

Renminbi, or RMB, the lawful currency of the PRC, is currently subject to foreign exchange controls and is not freely convertible into foreign exchange. The SAFE and the PBOC are responsible for administering all matters relating to foreign exchange.

The RMB is subject to a regulated and managed floating exchange rate system in which the exchange rate is determined based on supply and demand and with reference to a basket of currencies. The PBOC publishes the closing price of Renminbi against foreign currencies such as the U.S. dollar in the inter-bank foreign exchange market after the closing of the market on each business day, and fixes the central parity for Renminbi transactions on the following business day. Transactions may then be undertaken within a limited trading band around this central parity price.

Save for foreign investment enterprises and other exempted enterprises under relevant laws and regulations, all entities in the PRC (except certain foreign trading companies and production enterprises with the import and export right, which may retain some foreign exchange incomes from transactions under their existing current account for payment of transactions under current account or capital account as approved) must sell all of their foreign exchange income to designated foreign exchange banks. Foreign exchange income from loans granted by overseas entities or from the issuance of shares and bonds (including foreign exchange we obtain from the sale of our H shares overseas) is not required to be sold, and may be deposited in foreign exchange accounts at designated foreign exchange banks.

The PRC foreign exchange control regulations classify all international payments and transfers into current account items and capital account items.

Current account items are not subject to any restrictions, and international current account payments and transfers may be made without any SAFE or other government approvals. PRC enterprises which require foreign exchange for transactions relating to current account items may effect payment from their foreign exchange accounts or at the designated foreign exchange banks, on the strength of valid receipts and proof of the relevant transactions.

Conversion of foreign exchange under capital account items, such as direct investments and capital contributions, remains subject to restrictions, and prior approval of the SAFE must be obtained for the purchase of foreign exchange for such transactions.

Dividends to holders of our H Shares are declared in Renminbi but must be paid in Hong Kong dollars.

In accordance with the relevant laws and regulations, PRC enterprises which are required to pay dividends to their shareholders in foreign exchange (such as our Bank) may, on the strength of board resolutions for the distribution of profits, effect payment from their foreign exchange accounts or convert and pay dividends at the designated foreign exchange banks.

Arbitration and Enforcement of Arbitral Awards

The Arbitration Law of the People's Republic of China (the "Arbitration Law") was passed by the Standing Committee of the NPC on August 31, 1994 and became effective on September 1, 1995. It is applicable to, among other matters, trade disputes involving foreign parties where the parties have entered into a written agreement to refer the matter to arbitration before an arbitration committee constituted in accordance with the Arbitration Law. Under the Arbitration Law, an arbitration committee may, before the promulgation by the PRC Arbitration Association of arbitration regulations, formulate interim arbitration rules in accordance with the Arbitration Law and the PRC Civil Procedure Law. Where the parties have by agreement provided arbitration as the method for dispute resolution, the people's court will refuse to handle the case except when the arbitration agreement is declared invalid.

The Listing Rules and the Mandatory Provisions require an arbitration clause to be included in our Articles of Association and, in the case of the Listing Rules, any disputes or claims arise between holders of our H Shares and us; holders of our H Shares and our Directors, Supervisors, or senior officers; or holders of our H Shares and holders of our other Shares, in relation to our affairs or as a result of any rights or obligations arising under our Articles of Association, the PRC Company Law or other relevant laws and administrative regulations, shall be referred to arbitration by parties concerned. Where a foregoing dispute or claim of rights is referred to arbitration, the entire claim or dispute must be referred to arbitration, and all persons who have a cause of action based on the same facts giving rise to the dispute or claim or whose participation is necessary for the resolution of such dispute or claim, if he/she is our Shareholder, Director, Supervisor, President or other senior officers, shall comply with the arbitration. Disputes in respect of the definition of shareholders and disputes in relation to our register of shareholders need not be resolved by arbitration.

A claimant may elect for arbitration to be carried out at either the China International Economic and Trade Arbitration Commission in accordance with its Rules or the Hong Kong International Arbitration Center in accordance with its Securities Arbitration Rules. Once a claimant refers a dispute or claim to arbitration, the other party must submit to the arbitral body elected by the claimant. If the claimant elects for arbitration to be carried out at the Hong Kong International Arbitration Center, any party to the dispute or claim may apply for a hearing to take place in Shenzhen in accordance with the Securities Arbitration Rules of the Hong Kong International Arbitration Center.

Under the Arbitration Law and PRC Civil Procedure Law, an arbitral award is final and binding on the parties. If a party fails to comply with an award, the other party to the award may apply to the people's court for enforcement. A people's court may refuse to enforce an arbitral award made by an arbitration commission if there is any procedural or membership irregularity specified by law or the award exceeds the scope of the arbitration agreement or is outside the jurisdiction of the arbitration commission.

A party seeking to enforce an arbitral award of PRC arbitration panel against a party who, or whose property, is not within the PRC, may apply to a foreign court with jurisdiction over the case for enforcement. Similarly, an arbitral award made by a foreign arbitration body may be recognized and enforced by the PRC courts in accordance with the principles of reciprocity or any international treaty concluded or acceded to by the PRC. The PRC acceded to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the "New York Convention") adopted on June 10, 1958 pursuant to a resolution of the Standing Committee of the NPC passed on December 2, 1986. The New York Convention provides that all arbitral awards made in a state which is a party to the New York Convention shall be recognized and enforced by other parties to the New York Convention, subject to their right to refuse enforcement under certain circumstances, including where the enforcement of the arbitral award is against the public policy of the state to which the application for enforcement is made. It was declared by the Standing Committee of the NPC simultaneously with the accession of the PRC that (i) the PRC will only recognize and enforce foreign arbitral awards on the principle of reciprocity and (ii) the PRC will only apply the New York Convention in disputes considered under PRC laws to arise from contractual and non-contractual mercantile legal relations. On June 18, 1999, an arrangement was made between Hong Kong Legislative Council and the Supreme People's Court of the PRC for the mutual enforcement of arbitral awards. This new arrangement was approved by the Supreme People's Court of the PRC and the Hong Kong Legislative Council, and became effective on February 1, 2000. The arrangement is made in accordance with the spirit of the New York Convention. Under the arrangement, awards made by PRC arbitral authorities recognized under the Arbitration Ordinance of Hong Kong can be enforced in Hong Kong. Hong Kong arbitration awards are also enforceable in China.

Material differences between certain company law matters in the PRC and Hong Kong

Hong Kong company law is primarily set out in the Hong Kong Companies Ordinance and supplemented by common law and rules of equity that apply to Hong Kong. There are material differences between Hong Kong company law and the PRC law applicable to a joint stock limited company incorporated under the PRC Company Law, to which the Bank is and will be subject. Material differences between certain company law matters in the PRC and Hong Kong are summarized below.

Corporate Existence

Under Hong Kong company law, a company having share capital is incorporated and will acquire an independent corporate existence after the company registrar of Hong Kong issues a certificate of incorporation. A company may be incorporated as a public company or a private company. Pursuant to the Hong Kong Companies Ordinance, the articles of association of a private company incorporated in Hong Kong shall contain certain preemptive provisions. A public company's articles of association does not contain such preemptive provisions.

Under the PRC Company Law, a joint stock limited company may be incorporated by promotion or public subscription. A joint stock limited company must have a minimum registered capital of RMB5 million, or a higher amount as may otherwise be required by laws and regulations. Under the PRC Company Law, the monetary contributions by all the shareholders must not be less than 30% of the registered capital.

Hong Kong law does not prescribe any minimum capital requirement for a Hong Kong company. There is no minimum monetary contribution restriction on a Hong Kong company under Hong Kong law.

Share Capital

Under Hong Kong law, the authorized share capital of a Hong Kong company is the amount of share capital that the company is authorized to issue. A company is not bound to issue the entire amount of its authorized share capital. The authorized share capital of a Hong Kong company may be larger than the issued share capital. Hence, the directors of a Hong Kong company may, with the prior approval of the shareholders if required, cause the company to issue new shares. The PRC Company Law does not provide for authorized share capital. Our registered capital is the amount of our issued share capital. Any increase in our registered capital must be approved by our Shareholders' general meeting and the relevant PRC governmental and regulatory authorities.

Under the PRC law, a company which is approved by the relevant securities administration authority to list its shares on a stock exchange must have a total share capital of no less than RMB30 million. Hong Kong law does not prescribe any minimum capital requirements for companies incorporated in Hong Kong. Under the PRC Company Law, the monetary contribution of all shareholders shall not be less than 30% of a joint stock limited company's registered capital. There is no such restriction on a Hong Kong company under Hong Kong law.

Restrictions on Shareholding and Transfer of Shares

Under PRC law, our A Shares, which are denominated and subscribed for in Renminbi, may only be subscribed for or traded by the government authorities, PRC legal persons, natural persons, qualified foreign institutional investors, or eligible foreign strategic investors. Our overseas listed H Shares, which are denominated in Renminbi and subscribed for in a currency other than Renminbi, may only be subscribed for, and traded by, investors from Hong Kong, Macau and Taiwan or any country and territory outside the PRC, or QDIIs.

Under the PRC Company Law, our Promoters are not allowed to transfer the Shares they hold for a period of one year from the date of the establishment of our Bank or for a period of one year after the date when the Shares are listed and traded on a stock exchange. Similarly, our Directors, Supervisors and the senior management cannot transfer their Shares within one year from the day when the Shares are listed and traded on a stock exchange. There are no such restrictions on shareholdings and transfer of shares in respect of such persons under Hong Kong law.

Financial Assistance for Acquisition of Shares

Although the PRC Company Law does not prohibit or restrict us or our subsidiaries from providing financial assistance for the purpose of an acquisition of our Shares, the Mandatory Provisions contain restrictions on a company and its subsidiaries from providing such financial assistance similar to those under the Hong Kong company law.

Shareholders' Meetings – Notice

Under the PRC Company Law, notice of a shareholders' general meeting must be given 20 days prior to the date of the meeting, while notice of an extraordinary meeting must be given 15 days before the date of the meeting or, in the case of a company with bearer shares, a public announcement of a shareholders' general meeting must be made 30 days prior to it being held. Under the Special Regulations and the Mandatory Provisions, 45 days' written notice must be given to all shareholders and those shareholders who wish to attend the meeting must reply in writing 20 days before the date of the meeting. For a company incorporated in Hong Kong, the minimum notice periods of a shareholders' meeting convened for passing an ordinary resolution or a special resolution are 14 days and 21 days, respectively; and the notice period for an annual general meeting is 21 days.

Shareholders' Meetings – Quorum

Under Hong Kong law, the quorum for a shareholders' general meeting is provided for in the articles of association of a company, but must be at least two members. For one member companies, one member will be a quorum. The PRC Company Law does not specify any quorum requirement for a shareholders' general meeting, but the Special Regulations and the Mandatory Provisions provide that we shall receive written reply slip 20 days before the proposed date of the Shareholders' general meeting and calculate the number of the voting rights held by Shareholders to be attend. The general meeting may only be convened when the Shares held by Shareholders to be attend reach the number of Shares representing 50% of the voting rights, or if that 50% level is not achieved, we must within five days notify our Shareholders about the venue, date and time by way of a public announcement and we may hold the Shareholders' general meeting thereafter.

Shareholders' Meetings – Voting

Under Hong Kong law, an ordinary resolution is passed by a simple majority of affirmative votes cast by members present in person or by proxy at a general meeting and a special resolution is passed by a majority of not less than three quarters of votes cast by members present in person or by proxy at a general meeting. Under the PRC Company Law, the passing of any resolution requires more than one-half of the affirmative votes held by our Shareholders present in person or by proxy at a Shareholders' general meeting except in cases such as proposed amendments to our articles of association, merger, division, dissolution or transformation, which require more than two-thirds of the affirmative votes cast by Shareholders present in person or by proxy at a Shareholders' general meeting.

Variation of class rights

The PRC Company Law makes no specific provision relating to variation of class rights. However, the PRC Company Law states that the State Council can promulgate regulations relating to other kinds of shares. The Mandatory Provisions contain detailed provisions relating to the circumstances which are deemed to be variations of class rights and the approval procedures required to be followed in respect thereof. These provisions have been incorporated in the Articles of Association, which are summarized in Appendix VI.

Under the Hong Kong Companies Ordinance, no rights attached to any class of shares can be varied except (i) with the approval of a special resolution of the holders of the relevant class at a separate meeting, (ii) with the consent in writing of the holders of three-fourths in nominal value of the issued shares of the class in question, (iii) by agreement of all the members of the company or (iv) if there are provisions in the articles of association relating to the variation of those rights, then in accordance with those provisions.

As required by the Listing Rules and the Mandatory Provisions, we have adopted in the Articles of Association provisions protecting class rights in a similar manner to those found in Hong Kong law. Holders of overseas listed shares and domestic listed shares are defined in the Articles of Association as different classes, and our right to change or cancel the class rights of shareholders shall be exercised upon approval by special resolution in the Shareholders' general meeting and decision by Shareholders' meetings held for the class of Shareholders affected in accordance with our Articles of Association. The special procedures for voting by specific class of Shareholders are not applicable if: (i) upon approval by special resolution in the Shareholders' general meeting, we issue, either separately or concurrently in any 12-month period, not more than 20% of each of the existing issued overseas listed shares and the domestic listed shares; (ii) the plan for the issue of domestic listed shares and overseas listed shares upon its establishment is implemented within 15 months following the date of approval by the securities regulation agency of the State Council; and (iii) the conversion of our domestic shares to overseas listed shares by the holders of our domestic shares and trading of such shares in foreign securities exchanges upon approval by the securities regulation agency of the State Council.

Derivative action by minority shareholders

Hong Kong law permits minority shareholders to start a derivative action on behalf of all shareholders against directors who have committed a breach of their fiduciary duties to the company if the directors control a majority of votes at a general meeting, thereby effectively preventing a company from suing the directors in breach of their duties in its own name.

Although the PRC Company Law permits our Shareholders to initiate proceedings in the people's court to restrain the implementation of any resolution passed by our shareholders in a general meeting, or by the board, that violates any law, administrative rules or Articles of Association or if the directors or management personnel violate laws, administrative rules or articles of association when performing their duties and cause losses to the company, there is no form of proceedings equal to a derivative action under the Hong Kong law. The Mandatory Provisions, however, provide us with certain remedies against the directors, supervisors and officers who breach their duties to us. In addition, as a condition to the listing of our H Shares on the Hong Kong Stock Exchange and in accordance with our Articles of Association, each of our directors and supervisors is required to give an undertaking in favor of us acting as agent for each of our shareholders. This allows minority shareholders to act against our directors and supervisors in default.

Minority shareholder protection

Under Hong Kong law, a shareholder who complains that the affairs of a company incorporated in Hong Kong are conducted in a manner unfairly prejudicial to his or her interests may petition to the court to either wind up the company or make an appropriate order regulating the affairs of the company. In addition, on the application of a specified number of members, the financial secretary of Hong Kong government may appoint inspectors who are given extensive statutory powers to investigate the affairs of a company incorporated in Hong Kong.

There is no specific provision in the PRC Company Law to guard against oppression by the majority shareholders of minority shareholders, however the Bank, as required by the Mandatory Provisions, has adopted in its Articles of Association minority protection provisions similar to (though not as comprehensive as) those available under the Hong Kong law. These provisions state that a controlling Shareholder may not exercise its voting rights in a manner prejudicial to the interests of other Shareholders, may not relieve a Director or Supervisor of his/her duty to act honestly in our best interests or may not approve the expropriation by a Director or Supervisor of our assets or the individual rights of other Shareholders.

Directors

The PRC Company Law, unlike Hong Kong company law, does not contain any requirements relating to the declaration of directors' interests in material contracts, restrictions on directors' authority in making major dispositions, restrictions on companies providing certain benefits to directors and guarantees in respect of directors' liability and prohibitions against compensation for loss of office without shareholders' approval. The Mandatory Provisions, however, contain certain restrictions on major dispositions and specify the circumstances under which a director may receive compensation for loss of office, all of which provisions have been incorporated in the Articles of Association, a summary of which is set out in Appendix VI.

Board of Supervisors

Under the PRC Company Law, a company's directors and senior officers are subject to the supervision of a board of supervisors. There is no mandatory requirement for the establishment of a board of supervisors for a company incorporated in Hong Kong. The Mandatory Provisions provide that each supervisor owes a duty, in the exercise of his or her powers, to act in good faith and honestly in what he or she considers to be our best interests and to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

Receiving Agent

Under the PRC Company Law and Hong Kong law, dividends once declared are debts payable to shareholders. The limitation period for debt recovery action under Hong Kong law is six years, while under the PRC law this limitation period is two years. The Mandatory Provisions require us to appoint a trust company registered under the Hong Kong Trustee Ordinance (Chapter 29 of the Laws of Hong Kong) as a receiving agent to receive on behalf of holders of H Shares dividends declared and all other monies owed by us in respect of our H Shares.

Corporate Reorganization

Corporate reorganizations involving a company incorporated in Hong Kong may be effected in a number of ways, such as a transfer of the whole or part of the business or property of the company in the course of being wound up voluntarily to another company pursuant to Section 237 of the Hong Kong Companies Ordinance or a compromise or arrangement between the company and its creditors or between the company and its members pursuant to Section 166 of the Hong Kong Companies Ordinance, which requires the sanction of the court. For PRC companies, such reorganizations are supervised administratively and implemented pursuant to the PRC Company Law.

Dispute Resolution

In Hong Kong, disputes between shareholders and a company incorporated in Hong Kong or its directors may be resolved through legal proceedings in the courts. The Mandatory Provisions provide that such disputes should be submitted to arbitration at either the Hong Kong International Arbitration Centre ("HKIAC") or the China International Economic and Trade Arbitration Commission ("CIETAC"), at the claimant's choice.

Mandatory Deductions

Under the PRC Company Law, after tax profits of a company are subject to deductions of contributions to the statutory surplus reserve of a company before they can be distributed to shareholders. There are prescribed limits under the PRC Company Law for such deductions. There are no corresponding provisions under the Hong Kong Companies Ordinance.

Remedies of the Company

Under the PRC Company Law, if a director, supervisor or senior officer in carrying out his or her duties infringes any law, administrative regulation or the articles of association of a company, which results in damage to the company, that director, supervisor or senior officer should be responsible to the company for such damages. In addition, in compliance with the Listing Rules, remedies of the Bank similar to those available under the Hong Kong law (including rescission of the relevant contract and recovery of profits made by a Director, Supervisor or officer) have been set out in the Articles of Association.

Dividends

The Articles of Association empower the Bank to withhold, and pay to the relevant tax authorities, any tax payable under PRC law on any dividends or other distributions payable to a shareholder. Under Hong Kong law, the limitation period for an action to recover a debt (including the recovery of dividends) is six years, whereas under PRC laws, the relevant limitation period is two years. The Bank shall not exercise its powers to forfeit any unclaimed dividend in respect of H Shares until after the expiry of the applicable limitation period.

Fiduciary Duties

In Hong Kong, there is the common law concept of the fiduciary duty of directors. Under the PRC law and the Special Regulations, directors, supervisors and senior officers owe a fiduciary duty towards their company and are not permitted to engage in any activities which compete with or damage the interests of their company.

Closure of Register of Shareholders

The Hong Kong Companies Ordinance requires that the register of shareholders of a company must not generally be closed for the registration of transfers of shares for more than 30 days (extendable to 60 days in certain circumstances) in a year, whereas, as required by the Mandatory Provisions, share transfers may not be registered within 30 days before the date of a shareholders' meeting or within five days before the record date set for the purpose of distribution of dividends.

Set out below is a summary of certain provisions of our Articles of Association. As the information contained below is in summary form, it does not contain all the information that may be important to potential investors.

Our Bank was incorporated in the PRC as a joint stock limited liability company. The Articles of Association comprise our constitution.

Our Articles of Association were adopted by our Shareholders in the shareholders' extraordinary general meeting held on March 29, 2013 and approved by the CBRC on May 7, 2013 and will come into effect upon listing of our H Shares on Hong Kong Stock Exchange.

Our Articles of Association are available for inspection at the address specified in Appendix VIII "Documents Delivered to the Registrar of Companies and Available for Inspection."

(a) Classes of Shares

Shareholders holding different types of shares shall be shareholders of different classes.

Shareholders of different classes shall enjoy the rights and assume the obligations stipulated by laws, administrative regulations, and the Articles of Association.

Except shareholders holding other types of shares, shareholders holding domestic-listed shares and shareholders holding overseas-listed shares are considered as shareholders of different classes.

Shareholders of different classes shall enjoy the same rights in any distribution in the form of dividends or any other form.

(b) Directors

The Board of Directors

The Board of Directors is responsible for the shareholders' meeting. Each term of our Board of Directors is three years. The Board of Directors is composed of 11 to 19 members including independent directors no less than one third of the Board, one chairman and one deputy chairman of the Board of Directors. The chairman and deputy chairman shall be elected and removed by more than half of the members of the Board of Directors.

The Board of Directors exercises the following functions and authorities:

- convening the shareholders' meeting and reporting to the shareholders' meeting;
- implementation of the resolutions of the shareholders' meeting;
- decision on business plan and investment strategy;
- formulation of proposals of annual financial budgets, final accounts and risk-based capital allocation, decision on any material change or adjustment during the implementation;
- formulation of profit distribution and loss appropriation plan;
- formulation of plan of increase or reduction of registered capital, issuance of corporate bonds or other securities and listing plan;
- proposal of plan of material acquisition and repurchase plan;
- formulation of plan of merger, division, dissolution or change of the legal form of our Bank;

- formulation of related party transactions management rules, examination and approval of material related party transactions other than those subject to the resolution of the shareholders' meeting as required by laws, administrative regulations, rules and provisions of the securities regulatory authorities of the places where our shares are listed, and preparation of special reports to the Shareholders' meeting on implementation of the related party transactions management rules and related party transactions;
- review and approval of the long and medium term strategy and plan of the Bank and decision on the capital adequacy ratio management objectives;
- review and approval of external investment, purchase and sale of assets, mortgage of assets, provision of guarantee of the Bank and other matters within the authorization by the shareholders' meeting;
- decision on the establishment of internal management organizations and an all-encompassing business management system reform plan of the Bank;
- appointment and removal of the President and the secretary to the Board of the Directors, appointment and removal of the vice President, financial principals, assistant of the President and other senior management upon the nomination by the President and personnel the Board of Directors deems necessary to be appointed or dismissed by it; and decision on the remuneration and punishment of such personnel;
- decision on the fundamental management rules (including human resource, finance and remuneration, etc.) and risk management and internal control policy;
- proposal of amendments to the Articles of Association;
- formulation of information disclosure rules, management of information disclosure and being ultimately liable to the completeness and accuracy of the accounting and financial reporting system of the Bank;
- supervision of performance for senior management and ensuring senior management will perform their management duties efficiently;
- listening to the work reporting of the President and inspection of the President's work;
- proposal to the shareholders' meeting for engagement, or replacement of the accounting firm that performs audits for the Bank;
- review of the regulatory opinions from CBRC and the implementation of remedial actions in related to the inspection;
- regular evaluation and improvement of corporate governance of the Bank; and
- other functions as required by laws, regulations, rules, statutory documents and the Articles of Association and authorized by the shareholders' meeting.

Chairman of Board of Directors

The chairman of the Board of Directors shall exercise the following duties and powers:

- presiding over the shareholders' general meeting, and convening and presiding over the Board of Directors' meeting;
- supervising and inspecting the implementation of resolutions of the Board of Directors;
- signing certificates of bonds and others marketable securities of the Bank;
- signing important documents of the Board of Directors and other documents that shall be signed by the legal representative of the Bank;

- exercising the duties as legal representative of the Bank;
- exercising special powers in connection with the affairs of the Bank under the emergency circumstance of material natural disaster and force majeure in compliance with statutory rules and in the interest of the Bank and reporting to the Board of Directors and the shareholders' meeting of the Bank afterwards; and
- exercising other duties and powers vested by laws, regulations, rules, statutory documents and the Articles of Association as well as authorized by the Board of Directors.

The vice chairman assists the Chairman, and when the chairman of the Board of Directors cannot perform or fails to perform his/her duties and powers, the vice chairman shall act on his/her behalf; when the vice chairman cannot perform or fails to perform his/her duties and powers, a director elected jointly by half or more of all the directors shall act on his/her behalf.

(i) Power to allot and issue shares

There is no provision in the Articles of Association empowering the directors, supervisors and senior management members to allot and issue shares.

Any proposal to increase the registered capital of the Bank must be submitted for approval by a special resolution of the shareholder's general meeting. Any such increase is subject to approval of relevant authorities.

(ii) Power to dispose of the assets of the Company or any subsidiary

When disposing of fixed assets, if the expected value of the fixed assets the Board of Directors intends to dispose of and the total value of the fixed assets already disposed of four months before such disposal proposal in aggregate exceeds 33% of the fixed assets value shown in the most recent balance sheet reviewed by the shareholders' general meeting, the Board of Directors must not dispose of or consent to the disposal of such fixed assets before such disposal is approved by the shareholders' general meeting.

Disposal of fixed assets referred to above includes the transfer of certain interests of assets, but excludes the provision of security using fixed assets.

The effectiveness of transactions conducted by the Bank to dispose of fixed assets is not subject to any violations of the above provisions.

(iii) Compensation or payment for loss of office

The remuneration plan of the Directors or Supervisors (among which the plan on the remuneration of Supervisors shall be subject to the opinions solicited from the Board of Supervisors) shall be formulated by the remuneration committee under the Board of Directors, and be subject to the approval of a shareholders' general meeting upon passing the Board of Directors. With the prior approval of a shareholders' general meeting, the Bank shall sign written agreements with its directors and supervisors in the matter of remuneration. The matter of remuneration above includes:

- remuneration for positions as the Bank's Directors, Supervisors or senior management members;
- remuneration for positions as the Directors, Supervisors or senior management members of bank subsidiaries of the Bank (subsidiary companies);
- remuneration for other services supporting the management of the Bank and its bank subsidiaries (subsidiary companies); and
- compensation for a Director or Supervisor's loss of posts or retirement.

Unless pursuant to the aforesaid agreements, the Directors and Supervisors shall not file any lawsuit against the Bank and claim the benefits they shall obtain for the foregoing matters.

(iv) Loans to directors, supervisors and senior management

The Bank shall not, directly or indirectly, provide loans or loan guarantees for its Directors, Supervisors, President or senior management members, nor shall it provide the same to their related persons.

The following situations are not subject to the above provisions:

- the provision of a loan or a guarantee for a loan by the Bank to the bank subsidiaries (subsidiary companies);
- the provision of a loan or a guarantee for a loan or any other funds by the Bank to any of its Directors, Supervisors, President, or other senior management to meet expenditure incurred or to be incurred by him/her for the purpose of the Bank or for the purpose of enabling him/her to perform his/her duties properly, in accordance with the terms of an employment contract approved by the shareholders' general meeting; and
- the Bank may provide loans or loan guarantees for related Directors, Supervisors, President and other senior management members and related persons based on normal commercial terms.

(v) Financial assistance to purchase shares

The Bank or the bank subsidiaries (subsidiary companies) shall not offer any financial assistance for the purpose of purchasing or planning to purchase the Bank's Shares at any time by any means to purchasers or prospective purchasers of the Bank's shares. Such purchasers of the Bank's shares as mentioned above shall include those who directly or indirectly assume the obligations due to purchase of the shares of the Bank.

The Bank or the bank subsidiaries (subsidiary companies) shall not offer any financial assistance at any time by any means in order to reduce or relieve the obligations of the aforesaid obligator due to their purchase or intention of purchase of the shares of the Bank.

For these purposes, the financial assistance shall include but is not limited to the following means:

- gifts;
- guarantee (including the assumption of liability by the guarantor or the provision of assets by the guarantor to secure the performance of obligations by the obligor), compensation (other than the compensation in respect of the Bank's fault) or release or waiver of any rights;
- provision of loan or any agreement under which the obligations of the Bank are to be fulfilled before the obligations of another party, or a change in the parties to, or the novation of, or the assignment of rights arising under, such loan or agreement; or
- any other form of financial assistance given by the Bank when the Bank is insolvent or has no net assets or when its net assets would thereby be reduced to a material extent.

The obligations referred to shall include the obligations of the obligator by signing a contract or making an arrangement or changing its financial status in any other way, regardless of whether or not the aforesaid agreement or arrangement is enforceable, or whether or not such obligations are assumed by the obligator individually or jointly with any other person.

The acts listed below are not prohibited:

- where the Bank provides relevant financial assistance truthfully for the interests of the Bank and the main purpose of the financial assistance is not to purchase shares of the Bank, or the financial assistance is an incidental part of an overall plan of the Bank;

- lawful distribution of the Bank's property in the form of dividends;
- distribution of dividends in the form of shares;
- reduction of registered capital, repurchase of shares, shareholding structuring, etc., in accordance with the Articles of Association of the Bank;
- provision of a loan by the Bank within its scope of business and in the ordinary course of its business (provided that the same does not lead to a reduction in the net assets of the Bank or that if the same constitutes a reduction, the financial assistance is deducted from the Bank's distributable profits); and
- the provision of money by the Bank for an employee shareholding scheme (provided that the same does not lead to a reduction in the net assets of the Bank or that if the same constitutes a reduction, the financial assistance is deducted from the Bank's distributable profits).

(vi) Disclosure of interest in contracts with the Bank or any of its subsidiaries

Where the Bank's Directors, Supervisors, President and other senior management members are directly or indirectly relevant to the agreements, transactions or arrangements (except employment agreements between the Bank and its Directors, Supervisors, President and other senior management members) signed or planned by the Bank, they shall disclose to the Board of Directors the nature and degree of such a relationship, no matter whether such matter, in general, shall be approved by the Board of Directors.

Unless the interested Directors, Supervisors, President and other senior management members of the Bank have informed the Board of Directors of the matter as specified, and the Board of Directors has approved it at a meeting where they are not incorporated into the quorum and nor do they participate in the voting, the Bank shall have the right to cancel such agreements, transactions or arrangements, except where the counterparty is an innocent party who is not aware of the relevant Directors, Supervisors, President and other senior management members' violation of their obligations.

The Bank's Directors, Supervisors, President and other senior management members shall be treated as interested parties where their related persons are interested in a certain contract, transaction or arrangement.

(vii) Remuneration

The remuneration of directors shall be subject to the approval of a shareholders' general meeting. Please refer to the above mentioned "compensation or payment for loss of office."

(viii) Retirement, appointment and removal

Nomination and Election of Directors

Candidates for directors of the board shall be nominated by the Board of Directors or the Shareholders who individually or in aggregate hold 3% or more of total shares of the Bank, and shall be elected by the general meeting of Shareholders. The qualification for holding a position as a Director shall be submitted to and reviewed by the CBRC.

The Board of Directors, Board of Supervisors and shareholders who individually or in aggregate hold 1% or more of outstanding shares of the Bank can nominate candidates for independent directors, who shall be elected by the general meeting of Shareholders. Service term of independent directors is the same as that of other directors of the Bank.

Nomination and Election of Supervisors

Supervisors of the Bank include supervisors representing shareholders, external supervisors and supervisors representing employees. The proportion of the Bank's supervisors representing employees shall not be less than one third of the total number of supervisors, and the Bank shall have at least two external supervisors.

Candidates for supervisors representing shareholders shall be nominated by the Board of Supervisors or the Shareholders holding individually or jointly 3% or more of the shares of the Bank, and elected by the general meeting of Shareholders of the Bank.

Supervisors representing employees shall be elected and removed by the employees' congress, the employees' meeting or other democratic method.

The external supervisor of the Bank shall be nominated by the Board of Supervisors or the shareholders holding individually or jointly 1% or more of shares of the Bank and elected by the general meeting of shareholders.

Removal and Resignation of Directors

A director may resign prior to the expiry of his/her service term. When a director intends to resign, he/she shall submit a written resignation to the Board of Directors. The Board of Directors shall disclose this fact within 2 days.

If, upon the expiry of a director's service term, a new director cannot be elected in time, or the resignation of any director causes the number of directors to fall below the minimum number of directors required by the Articles of Association, such director shall continue to perform his/her duties in accordance with laws, rules, regulations, statutory documents and the Articles of Association until a new director is elected and assumes his/her office.

Except in the situation aforesaid that resignation of any director causes the number of directors to fall below the minimum number of directors required by law, the resignation of a director shall become effective when it is served to the Board. The resignation of independent directors shall comply with the Articles of Association.

There is no provision in the Articles of Association regarding retirement or non-retirement of directors under an age limit.

Removal and Resignation of Supervisors

A supervisor may offer to resign before the expiry of his/her term of office. A supervisor who intends to resign shall submit a written resignation to the Board of Supervisors.

(ix) Borrowing powers

The Articles of Association do not specifically provide for the manner in which borrowing powers may be exercised nor do they contain any specific provision in respect of the manner in which such borrowing powers may be amended, except for:

- the proposals formulated by the Board of Directors for the issuance and listing of corporate bonds or other securities by the Bank; and
- provisions which provide that the issuance of corporate bonds and other securities and listing plan shall be approved by the shareholders' general meeting by a special resolution.

(x) Proceedings of the Board of Directors

The resolutions of the Board meetings are divided into the general resolutions and special resolutions.

The general resolutions of Board meetings shall be adopted by more than half of the votes cast by all directors, provided that the resolution on approval of related party transactions shall be adopted by more than half of the directors not related.

The special resolutions of Board meetings shall be adopted by a two-thirds majority of all directors and the following matters shall be adopted by a special resolution of the Board meetings:

- plans for profit distribution;
- plans for investment including material equity investment;
- purchase (disposal and write-off) of material assets;
- plans for hiring or dismissing senior management;
- annual risk tolerance of the Bank;
- external donation;
- formulation of plans for the increase or decrease of registered capital, and plans for issuance of bonds;
- proposal on plans for merger, division and dissolution;
- amendments to the Articles of Association;
- plans for annual operations and fiscal budget and accounts; and
- such other matters whereby more than half of all directors consider will have a material adverse effect on the Bank and shall be approved and adopted by more than two-thirds of all directors.

In considering the following matters, the meeting of Board of Directors may not be held by way of written resolution:

- plans for profit distribution;
- plans for material investment;
- plan for disposal of material assets;
- hiring or dismissing senior management;
- plans for risk-based capital allocation;
- plans for financial budget, final budgets and recovery of losses;
- plans for the increase or decrease of registered capital, and plans for issuance and listing of bonds or other securities;
- plans for material acquisition, repurchase of own shares or merger, division and dissolution; and
- such other material matters which the Board of directors consider is not appropriate for a written resolution.

(c) Alteration to Constitutional Documents

In any of the following circumstances, our Bank shall amend the Articles of Association:

- If upon amendments to the Company Law, or other applicable laws, rules, regulations, statutory documents, any terms contained in the Articles of Association become inconsistent with the provisions of the amended laws, rules, regulations, statutory documents;
- certain changes of our Bank resulting in the non-compliance with certain terms specified in the Articles of Association; and
- a resolution being passed by the shareholders' meeting to amend the Articles of Association.

For any amendments to the Articles of Association, the Board of Directors shall propose the plan on amendments, which are subject to approval by the shareholders' meeting. The amendments to the Articles of Association passed by the shareholders' meeting shall be subject to the approval by the relevant banking authorities, if required; and where an amendment to the Articles of Association shall be subject to registration, the Bank shall register such amendment in accordance with relevant laws.

(d) Variation of Rights of Existing Shares or Classes of Shares

If the Bank intends to change or abrogate the rights of a class of shareholders, it may do so only after such change or abrogation has been approved by way of a special resolution of the shareholders' general meeting and by a separate shareholders' meeting convened by the affected shareholders of that class in accordance with the Articles of Association.

In the following conditions, rights of a class of shareholders shall be deemed to have been changed or abrogated:

- an increase or decrease in the number of shares of such class or an increase or decrease in the number of shares of a class having voting rights, distribution rights or other privileges equal or superior to those of the shares of such class;
- a change of all or part of the shares of such class into shares of another class, a conversion of all or part of the shares of another class into shares of such class or the grant of the right to such change;
- a removal or reduction of rights to accrued dividends or cumulative dividends attached to shares of such class;
- a reduction or removal of a dividend preference or property distribution preference during liquidation of the Bank, attached to shares of such class;
- an addition, removal or reduction of share conversion rights, options, voting rights, transfer rights, preemptive rights to rights issues or rights to acquire securities of the Bank attached to shares of such class;
- a removal or reduction of rights to receive amounts payable by the Bank in a particular currency attached to shares of such class;
- a creation of a new class of shares with voting rights, distribution rights or other privileges equal or superior to those of the shares of such class;
- an imposition of restrictions or additional restrictions on the transfer or ownership of shares of such class;
- an issuance of rights to subscribe for, or convert into, shares of such type or other classes;
- an increase in the rights and privileges of shares of other classes;
- restructuring of the Bank causing shareholders of different categories to bear liability to different extents during the restructuring; or
- an amendment or cancellation of the above provisions.

Interested shareholders shall not enjoy voting rights in class shareholders' general meeting. "Interested shareholders" shall have the following meanings:

- after the Bank has made a repurchase offer to all shareholders equally pro rata or made a repurchase by means of public transaction at the stock exchange in accordance with the Articles of Association, "interested shareholders" refers to the controlling shareholders defined in the Articles of Association;
- after the Bank has made a repurchase by means of agreement outside the stock exchange in accordance with the Articles of Association, "interested shareholders" refers to the shareholders concerned with this agreement; and
- in the Bank's restructuring plan, "interested shareholders" refers to those shareholders who assume responsibilities with smaller proportion than other shareholders of the same class or those shareholders who enjoy different interests from other shareholders of the same class.

A resolution of class shareholders' meeting shall be passed after it is adopted by two-thirds or more of voting shares present at a class shareholders' meeting.

Special procedures for voting by shareholders of different classes do not apply to the following cases:

- after approval by the shareholders' general meeting through special resolution, the Bank issues domestic listed shares and overseas listed shares every other 12 months, either separately or simultaneously, and the domestic listed shares and overseas listed shares to be issued do not exceed 20% of this kind of shares already issued to the public;
- the plan to issue domestic listed shares and overseas listed shares during the Bank's establishment is accomplished within 15 months from the date of approval of the securities regulatory authorities of the State Council; and
- shares of the Bank held by the shareholders of domestic shares, after approval from the securities regulatory authorities of the State Council can be converted to overseas listed shares and be listed on an overseas stock exchange.

(e) Alteration of Capital

Increase of Registered Capital

Upon the demands of operation and business development and in accordance with relevant laws, rules, regulations and statutory documents, the Bank may, subject to resolutions of the shareholders' meeting, increase its registered capital in the following ways:

- public offering of shares;
- non-public offering of shares;
- placing new shares to existing shareholders;
- allotting dividend shares to existing shareholders;
- transferring capital reserve funds to increased capital; and
- other methods permitted by relevant competent authorities or by laws and regulations.

The Bank's increase of its capital by issuing new shares shall be conducted in accordance with the procedures provided in relevant laws, rules, regulations and statutory documents after being approved according to the Articles of Association.

Reduction of Registered Capital

The Bank may reduce its registered capital in accordance with the provisions of the Articles of Association.

The Bank must prepare a balance sheet and a list of properties when it is to reduce its registered capital.

The Bank shall notify its creditors within ten days of adopting the resolution to reduce its registered capital and shall publish an announcement of the resolution in a newspaper at least three times within 30 days. Creditors shall, within 30 days of receiving a written notice or within 90 days since the date of the first public announcement for those who have not received a written notice, be entitled to require the Bank to pay its debts or to provide a corresponding guarantee for repayment.

The registered capital of the Bank after reduction may not be less than the statutory minimum.

(f) Special Resolution – Majority Required

The resolutions of the shareholders' general meeting are divided into two types: (i) general resolutions, and (ii) special resolutions.

General resolutions made by shareholders' general meeting shall be adopted by more than half of the voting shares represented by the shareholders present at the meeting (including their proxies).

Special resolutions made by shareholders' general meeting shall be adopted by two-thirds or more of the voting shares represented by the shareholders present at the meeting (including their proxies).

The following items shall be adopted by shareholders' general meeting through general resolution:

- guidelines for operations and plan for investment of the Bank;
- work reports of the Board of Directors and the Board of Supervisors;
- profit distribution plans and plans to cover company losses proposed by the Board of Directors;
- appointment and dismissal of directors and supervisors and their remuneration and payment thereof;
- plans for financial budget, final budgets, balance sheets, statements of loss and profits and other financial statements of the Bank;
- annual reports of the Bank;
- engagement and dismissal of the accounting firms;
- guarantee to shareholders, actual controllers and their related parties; and
- other matters than those stipulated by laws, regulations, rules and statutory documents, or the Articles of Association, which require the adoption through a special resolution.

The following items shall be adopted by shareholders' general meeting through special resolution:

- revision of the Articles of Association;
- increase or reduction of the Bank's registered capital and issuance of stock, warrants of any type or any other similar securities;
- repurchase of the Bank's shares;
- such matters as merger, division, dissolution, liquidation and change of corporate form of the Bank;
- offering of bonds of the Bank;
- review and approval of or authorization to the Board of Directors for approval of the establishment of important legal person entities, material mergers and acquisitions, materials investment, material asset disposal and provision of material guarantee;
- shareholding incentive scheme;
- adjustment to the profit distribution policy of the Bank pursuant to laws, regulations, rules, statutory documents or the Articles of Association; and
- other matters stipulated by laws, regulations, rules, statutory documents or the Articles of Association, and determined by the shareholders' general meeting by an ordinary resolution that are significant to the Bank and shall be approved by special resolution.

(g) Voting Rights (generally, on a poll and right to demand a poll)

When voting in a shareholders' general meeting, shareholders (including their proxies) shall exercise their voting rights according to the voting shares held by them, with each share representing one voting right.

Shares held by the Bank have no voting rights, and will not be counted toward the total voting shares present in the shareholders' general meeting.

Shareholders may vote by hand in a shareholders' general meeting, unless relevant regulations of the securities regulatory authorities of the locality where the shares of the Bank are listed require ballot voting, or the following persons require ballot voting before or after hand voting:

- chairman of the meeting;
- at least two shareholders or their proxies with voting rights; and
- one or several shareholders (including their proxies) holding more than 10% of the voting shares in the meeting, whether individually or in aggregate.

Unless someone proposes ballot voting, the chairman of the meeting shall announce the adoption status of the proposal according to the hand voting result, and record it in the meeting minutes as the final basis without demonstrating the affirmative or negative votes or their proportion for the resolution adopted in this meeting. The request for ballot voting can be withdrawn by the proposer.

Ballot voting requested for matters concerning the election of chairman of the meeting or termination of the meeting shall be conducted immediately; for other matters, the chairman of the meeting shall decide when to conduct ballot voting. The meeting can continue to discuss other matters, and the voting result there from will still be deemed as the resolution adopted in this meeting.

During ballot voting, shareholders (including their proxies) with two or more voting rights do not necessarily use them all for affirmative or negative votes or abstention of votes.

In the case of an equality of votes, whether on a show of hands or on ballot voting, the chairman of the meeting shall be entitled to an additional vote.

(h) Annual General Meetings

There are two types of shareholders' general meeting: annual shareholders' general meeting and interim shareholders' general meeting. The shareholders' general meeting is generally convened by the board.

The annual shareholders' general meeting shall be held once a year within six months after the end of the previous fiscal year. If the meeting has to be postponed due to special reasons, it shall be reported to the CBRC in time with the reasons stated.

An interim shareholders' general meeting shall be convened within two months from the occurrence date of any of the following events:

- the number of directors is less than the minimum quorum as specified by the Company Law, or two-thirds of the number of the Board of Directors as stipulated by the Articles of Association;
- the outstanding balance of the Bank's loss reaches one-third of the Bank's total paid-up share capital;
- shareholders holding 10% or more of the Bank's shares with voting rights, either individually or jointly, request in writing the convening of a shareholders' general meeting;
- the Board of Directors deems it as necessary;
- the Board of Supervisors proposes its opening; and
- other situations, as stipulated in laws, regulations, rules, statutory documents and the Articles of Association.

(i) Accounts and Audit

The Bank shall establish its financial and accounting systems according to laws, administrative rules and the provisions of Chinese accounting standards formulated by the MOF.

The Board of Directors shall at each annual shareholders' general meeting submit to the Shareholders the financial statements prepared by the Bank as required by the relevant laws, regulations, rules and statutory documents.

The Bank shall prepare its financial statement not only according to the Chinese accounting standards and regulations but also according to the international accounting standards or the accounting standards in the overseas-listing place. In case there are major differences between the financial statements prepared according to the two accounting standards, they should be indicated clearly in the notes of the financial statements. When distributing the after-tax profit for the related accounting year, the Bank shall adopt whichever is the lower of the after-tax profit in the aforesaid two financial statements.

The Bank shall publish its financial report twice in each fiscal year, i.e. publish the interim financial report within 60 days after the end of the first six months of a fiscal year, and publish the annual financial report within 120 days after the end of a fiscal year. Other regulations of the regulatory authorities of the locality where the shares of the Bank are listed shall prevail.

(j) Notice of Meetings and Business to be Conducted

When the Bank is to convene a shareholders' general meeting, the Board of Directors shall notify all Shareholders with the location and time of the meeting and matters to be considered 45 days prior to the meeting. Shareholders to be present in the shareholders' general meeting shall send a written reply of attendance to the Bank 20 days before the meeting is convened.

The Bank shall calculate the number of shares with voting rights based upon the written reply received 20 days prior to the shareholders' general meeting. Where the number of voting rights shares held by Shareholders who are going to attend the meeting reaches half of the total of shares with voting rights of the Bank, then the meeting can be held. Otherwise, the Bank shall inform the Shareholders again, in the form of an announcement about the matters to be discussed in the meeting, with the location, date and duration of the meeting to be held within five days. The Bank may convene such a Shareholders' general meeting after such announcement has been made.

The meeting notice for the Shareholders' general meeting shall satisfy the following conditions:

- made in writing;
- specifying the location, date and time of the meeting;
- describing the matters to be considered at the meeting;
- providing the materials and explanations necessary for shareholders to make sensible decisions regarding the matters to be discussed, principally including (but not limited to) specific terms and agreements (if any) for a proposed transaction, and a detailed explanation of its reason and sequence where the Bank proposes a merger, repurchase of shares, restructuring of shares or other form of restructuring;
- where any Directors, Supervisors, President and other senior management have an important interest with regard to matters to be discussed, then the nature and extent of that interest shall be disclosed. Further, where the impact of the matters to be discussed by such directors, supervisors, President and other senior management who are shareholders is different from the impact on other shareholders of the same class, then that difference shall be illustrated;
- containing the full text of any special resolution proposed to be passed at the meeting;

- providing a clear description stating that all shareholders have the right to attend the shareholders' general meeting and to entrust at least one proxy, as necessary, who does not need to be a shareholder of the Bank, to attend the meeting and also to put forward a resolution; and
- setting the deadline and place for the delivery of the proxy letter of the meeting.

(k) Transfer of Shares

Unless otherwise specified by the relevant laws, regulations, rules and statutory documents and the regulations of the securities regulatory authorities (including the stock exchanges of the place of listing) in the locality where the shares of the Bank are listed, the shares of the Bank may be transferred freely without any lien attached. To transfer the overseas-listed shares listed in Hong Kong, the transferor shall entrust the stock registration organization entrusted by the Bank in Hong Kong to deal with the registration procedures.

All fully paid overseas-listed shares listed on the Hong Kong Stock Exchange may be freely transferred in accordance with the Articles of Association. However, the Board of Directors may refuse to recognize any transfer documents without stating any reason unless the conditions stipulated in the Articles of Association are met.

For all transfer of the overseas-listed shares that are listed in Hong Kong, the written transfer documents that are in general or ordinary form or in a form acceptable to the Board of Directors shall be adopted. The written transfer document may be signed by hand. If the shareholders are the recognized clearing house as defined in SFO or its proxy, then the written transfer document may be signed in the machine printing form.

The Bank shall not accept any pledge with its own shares as the subject matters.

(l) Power of the Company to Purchase Its Own Shares

The Bank may repurchase its shares in the following circumstances in accordance with the provisions of the Article of Associations and subject to the approval from the relevant state authorities:

- canceling the shares for the purpose of reducing the capital of the Bank;
- merging with any other companies holding the shares of the Bank;
- giving the shares to employees of the Bank as a reward;
- being requested to repurchase the shares of the Bank by the shareholders who object to the resolutions adopted at the shareholders' general meeting concerning merger and division of the Bank; and
- other circumstances permitted by laws, regulations and rules, statutory documents.

Where the Bank repurchases its shares under circumstances (1) to (3), it shall obtain approval from shareholders' general meeting. Where the Bank repurchases its shares under circumstance (1), it shall cancel the shares within 10 days from the date of repurchase. Where the Bank repurchases its shares under circumstances (2) and (4), the Bank shall transfer or cancel the shares within 6 months.

The shares repurchased by the Bank under circumstance (3) shall not exceed 5% of the total issued shares of the Bank. The funds for repurchase shall be paid from the after-tax profits of the Bank. The shares redeemed shall be transferred to the employees within one year.

The Bank may repurchase its shares in any of the following ways after being approved by relevant competent authorities:

- making a repurchase offer pro rata to all shareholders;
- repurchasing by means of open transaction at a stock exchange;
- repurchasing by means of contractual agreement outside a stock exchange; and
- other methods as permitted by relevant competent authorities or by laws, regulations, rules and statutory documents.

(m) Power of Any Subsidiary of the Company to Own Shares

There are no provision in the Articles of Association restricting ownership of shares in our Bank by any of our subsidiaries.

(n) Dividends and Other Methods of Distributions

The Bank's profits shall be distributed in the following order of priority:

(i) offsetting the losses in previous years;

(ii) contributing 10% of them to its statutory reserve fund;

(iii) making general reserve;

(iv) contributing to its discretionary reserve fund; and

(v) paying dividends to its shareholders.

No further contribution to the Bank's statutory surplus reserve is required when the cumulative amount reaches or exceeds 50% of the Bank's registered capital. In case the Bank's statutory reserve fund is not sufficient to offset the losses of any previous year, the profits of the current year shall be used to offset the loss before contributing to the statutory reserve fund. The Bank may contribute to the discretionary reserve fund from the after-tax profits upon the resolution of the shareholders' general meeting after contributing to the statutory reserve fund and making general reserve from the after-tax profits. The Bank may distribute at the proportion of the shares held by a shareholder any of its profits after offsetting its losses, contributing to its statutory reserve fund, making general reserve and contributing to the discretionary reserve fund. In case the shareholders' general meeting distribute profits to its shareholders in breach of the provisions above before offsetting its losses, contributing to its statutory reserve fund and making general reserve, the shareholders receiving such distribution shall return the profits distributed in breach of the prescribed provisions. The Bank will not participate in any distribution of profits in terms of the shares it holds.

The Bank may distribute dividends by way of cash, shares or the combination of cash and shares. The Bank prefers profit distribution in cash. Where conditions allow, the Bank may make interim profit distribution.

Except in extraordinary circumstances, the Bank shall make its profit distribution by way of cash dividend if the Bank makes profits and its accumulated undistributed profit is a positive figure in the current year. The profit distributed by way of cash dividend shall not be less than 10% of the realized distributable profit of the Bank in the current financial year. "Extraordinary circumstances" shall mean circumstances in which:

(i) the Bank's capital adequacy ratio has become lower than the regulatory standard, or is expected to become lower than the regulatory standard after distribution of cash dividend for the year;

(ii) the Bank's reserves made fails to meet the requirements from relevant financial regulatory authorities;

(iii) dividend distribution is otherwise restricted by laws and regulations; or

(iv) cash distribution will otherwise affect the long-term interest of the Shareholders in the Bank's belief.

Where the Bank performs well and the Board of Directors opines that the price of the Bank's shares does not match the size of share capital of the Bank and distribution of share dividend is beneficial to the interest of the Shareholders as a whole, the Board of Directors may, subject to the satisfaction of the above conditions for distributing cash dividend, present a proposal for profit distribution in share dividend. Where the Bank makes profit distribution in share dividend, the Bank shall seek approval from the relevant national regulatory authorities.

In case of force majeure such as war and natural disaster, or external changes in the operation circumstances having material effects to the Bank's operation, or material internal changes in the Bank's operation, the Bank may adjust its profit distribution policy. Any adjustment to the profit distribution policy of the Bank shall be adopted by the shareholders' general meeting through special resolution.

The Board of Directors shall implement plans of profit distribution (either in cash dividend or share dividend) within two months after the shareholders' general meeting on which relevant resolution has been approved.

The Bank shall appoint a proxy to receive payment for shareholders of overseas-listed shares. The proxy shall receive dividends distributed to overseas-listed shares and other payments from the Bank on behalf of the shareholders concerned. The proxy appointed by the Bank shall meet the requirements of the laws or the relevant provisions of the securities exchange in the place of listing. The proxy appointed by the Bank for shareholders of its overseas-listed shares in Hong Kong shall be a trust company registered in accordance with Trustee Ordinance in Hong Kong.

(o) Proxies

Any shareholders entitled to attend and vote at a shareholders' meeting shall have the right to appoint one or more persons (who need not be shareholders) as his/her proxies to attend and vote on his/her behalf.

Shareholders shall entrust the proxy in writing, and the proxy shall be signed by the shareholders or agents authorized by the shareholders in writing. If a shareholder is a legal person or other agencies, the instrument shall be sealed with the legal person's stamp or signed by its legal representative or its director or agent authorized in writing.

The proxy letter shall specify that in the absence of instructions from the shareholder, the proxy may vote as he/she thinks fit.

- Where a shareholder has died, lost capacity for acts, revoked the proxy or the signed authorization prior to the voting, or the relevant shares have been transferred prior to the voting, a vote given in accordance with the terms of proxy letter shall remain valid as long as our Bank does not receive a written notice of the event before the commencement of the relevant meeting.

(p) Calls on Shares and Forfeiture of Shares

For dividends that are not claimed by anyone, the Bank may exercise the right of expropriation under the precondition of complying with the relevant laws, regulations, rules and statutory documents of China, but the right shall be exercised only after the expiration of the applicable period.

The Bank shall have the right to terminate sending dividend warrants to holders of overseas listed shares by mail, but the Bank shall exercise the right only after a dividend warrant fails to be redeemed for two consecutive occasions, however the Bank can exercise the right after the first occasion on which such a dividend warrant is returned as undelivered.

The Bank shall have the right to sell the shares of shareholders of overseas-listed shares who are untraceable in a way deemed appropriate by the Board of Directors, provided the following conditions are met:

- the Bank has distributed dividends at least three times to the shares within 12 years, and the dividends are not claimed by anyone during the period; and
- the Bank publishes announcements in one or more newspapers in the place where the Bank's shares are listed after the expiration of the 12-year period, stating its intention to sell the shares, and informs the securities regulatory authorities in the place where the Bank's shares are listed.

(q) Inspection of Register of Members

Our shareholders are entitled to inspect all parts of the register of members and make photocopies upon payment of a reasonable cost according to the Articles of Association of the Bank.

(r) Quorum for Meetings and Separate Class Meetings

The Bank shall calculate the number of shares with voting rights represented by the shareholders who are going to attend the shareholders' general meeting based upon the written reply received 20 days prior to the shareholders' general meeting. Where the number of voting rights shares held by shareholders who are going to attend the meeting reaches half of the total of shares with voting rights of the Bank, then the meeting can be held. Otherwise, the Bank shall inform the shareholders again, in the form of an announcement about the matters to be discussed in the meeting, with the location, date and duration of the meeting to be held within five days. The Bank may convene such shareholders' general meeting after such announcement has been made.

When the voting shares represented by the shareholders to be present in the meeting reach half or more of the total voting shares of that class in the meeting, the Bank can convene class shareholders' general meeting; otherwise, the Bank shall, within five days, inform the shareholders again of the matters to be reviewed in the meeting, the meeting date and place through public announcement, after which it can convene class shareholders' general meeting.

(s) Rights of Minorities in Relation to Fraud or Oppression

The controlling shareholders of the Bank have a fiduciary duty to the Bank and other shareholders. The controlling shareholders shall strictly comply with laws, regulations, rules and statutory documents and the Articles of Association when exercising their rights as investors, and shall not abuse their position to gain improper benefits, or cause detriment to the legitimate rights and interests of the Bank or other shareholders.

Except for the obligations as required by laws, regulations, rules and statutory documents or relevant regulations of securities regulatory authorities in the place where the shares of the Bank are listed, the controlling shareholders shall not make any decisions that impair the interests of all or part of the shareholders concerning the following aspects when they exercise their rights as shareholders and exercise their voting rights:

- exempting the responsibility of the directors and the supervisors to act in good faith for the maximum benefit of the Bank;
- approving the directors and the supervisors to deprive the property of the Bank (including but not limited to the opportunities that are favorable to the Bank) in any form for their own benefit or for the benefit of others; and

- approving the directors and the supervisors to deprive the individual rights and interests of other shareholders (including but not limited to any distribution rights, voting rights, but excluding the reorganization of the Bank which is submitted to the shareholders' general meeting for approval in accordance with the Articles of Association) for their own benefit or for the benefit of others.

The controlling shareholders of the Bank shall not directly or indirectly interfere with the decision-making of the Bank as well as the management and operation activities conducted in accordance with laws and shall not impair the rights and interests of the Bank and other shareholders.

The term "controlling shareholder(s)" herein shall refer to the person(s) satisfying any of the following conditions:

- acting alone or in concert with others, has the right to elect half or more of the directors;
- acting alone or in concert with others, has the right to exercise or control the exercise of 30% or more of the voting rights of the Bank;
- acting alone or in concert with others, holds 30% or more of the issued shares of the Bank; and
- acting alone or in concert with others, can de facto control the Bank in any other manners.

(t) Procedure on liquidation

The Bank shall be dissolved according to laws, if:

- its shareholders meeting has resolved to do so;
- it is required as a result of the merger or division of the Bank;
- the Bank is declared bankrupt according to law due to its failure to discharge its debts due;
- the Bank's business license is suspended, or it is ordered to be terminated or revoked due to its violation of any law or regulation; or
- in case the Bank encounters significant difficulties in its operation and management, under the circumstance of which continuing existence will cause material harm to shareholders' interests, and the problems could not be solved by other means, the shareholders holding 10% or more of all the voting shares may request the People's Court to dissolve the Bank.

If the Board of Directors decides the Bank shall carry out liquidation (except for liquidation resulting from the Bank's declaration of bankruptcy), it shall state in the notice of the shareholders' general meeting convened for this purpose that the Board of Directors has conducted comprehensive investigation of the Bank's condition and believes that the Bank is able to pay off all its debts within 12 months after starting the liquidation.

The powers and functions of the Board of Directors shall terminate immediately upon the resolution on liquidation by shareholders' general meeting.

The liquidation committee shall follow the directions of the shareholders' general meeting to report on its income and expenditures, the Bank's business and progress of liquidation at least once a year to the shareholders' general meeting and make a final report to shareholders' general meeting at the end of liquidation.

The liquidation committee shall give notice of its establishment to the creditors within 10 days of its establishment and publish an announcement of the establishment in a newspaper at least three times within 60 days from its establishment.

The creditors shall declare their claims to the liquidation committee within 30 days of the date of receiving the notice or within 45 days of the date of the announcement in the case of not receiving the notice.

The creditors shall explain the matters related to their claims and provide supporting materials when declaring their claims. The liquidation committee shall register the claims.

The liquidation committee shall not settle any debt with the creditors during the period of claim declaration.

(u) Other Provisions Material to Our Shareholders

Functions and Authority of the Shareholders' Meeting

The shareholders' meeting is the authorized entity to exercise the functions and authorities as follows:

- decision on business policies and investment plans;
- election and replacement of directors who are not employee representatives and decision on the remuneration of directors;
- election and replacement of supervisors who are not employee representatives and decision on remuneration of supervisors;
- review and approval of reports of the Board of Directors;
- review and approval of reports of the Board of Supervisors;
- review and approval of proposed annual financial budgets and final accounts;
- review and approval of profit distribution and loss appropriation plan;
- resolutions on increase or reduction of registered capital;
- resolutions on merger, division, dissolution, liquidation or change of the legal form of our Bank;
- resolutions on issuance and listing of corporate bonds and other forms of securities;
- decision on engagement, dismissal or discontinuance of engagement of accounting firm;
- amendment to the Articles of Association;
- review and approval of proposals by shareholders independently or collectively representing more than 3% of voting rights;
- review and approval of establishment of material legal person entity, merger and acquisition, significant investment, disposal of material assets and significant provision of guarantees;
- review and approval of the change of use of proceeds;
- review and approval of stock incentive plan;
- resolution on repurchase of the shares of the Bank;
- review and approval of related party transactions which shall be reviewed and approved by the shareholders' meeting in accordance with laws, regulations, rules, statutory documents and requirements by relevant securities regulatory authorities; and
- review and approval of other matters which shall be reviewed and approved by the shareholders' meeting in accordance with laws, regulations, rules, statutory documents and requirements by relevant securities regulatory authorities and the Articles of Association.

Loans to Shareholders

The conditions of loans that the Bank offers to the shareholders shall not be more favorable than those that the Bank offers to other borrowers of the same type of loan.

The balance of loans granted to one shareholder of the Bank shall not exceed 10% of the net capital of the Bank.

Shareholders who hold more than 3% of the voting shares of the Bank and owe overdue loans to the Bank shall be disqualified from exercising voting rights during the overdue period and the shares held by them shall not be included in the total voting shares of the shareholders present at the shareholders' general meeting. The Bank shall have the right to withhold the dividends of such shareholders as repayment of their overdue loans. Any assets to be distributed to such shareholders in the Bank's liquidation process shall also be used in priority for repayment of their outstanding loans to the Bank.

Directors' Qualification Shares

A director is a natural person, who does not necessarily hold the shares of the Bank.

Committees of the Board of Directors

The Board of Directors shall have a strategy committee, risk management committee, audit committee, nomination committee, remuneration committee and related party transactions control committee. The Bank may establish other committees according to demands. The committees under the Board of Directors shall be responsible to the Boards of Directors and the proposals of the committees shall be subject to the review and decision by the Board of Directors.

Each committee shall be composed of no less than three Directors.

Strategy Committee

The strategy committee shall perform the following duties:

- studying and advising on the business objectives and long and medium term development strategy regularly, and ensuring that the development strategy of the Bank is consistent with the changes of the operation situation and the market environment;
- reviewing the capital adequacy ratio management objective and capital replenishment plan and advising on the information disclosure in respect of capital adequacy ratio;
- reviewing annual business plans and annual financial budgets and any material change or adjustment in the implementation process and making proposals to the Board of Directors;
- reviewing and advising on the material investment plans and material capital operation plans that are subject to approval by the Board of Directors;
- carrying out regular assessment and inspection of the implementation of items described above that have been approved by the Board of Directors, and reporting to the Board of Directors; and
- functions required by law, regulations, rules, statutory documents and our Articles of Association as well as those authorized by the Board of Directors.

Risk Management Committee

The risk management committee shall perform the following duties:

- proposing the risk management strategies and the overall acceptable risk level of the Bank, and implementing the same upon approval by the Board of Directors;
- supervising the risk control conducted by the senior management in respect of credit, market and operational risks;
- assessing the basic risk management rules and risk management systems, and advising on the improvement of the risk management of the Bank to the Board of Directors;
- submitting risk management reports to the Board of Directors regularly;
- proposing the capital adequacy ratio management objectives of the Bank, and reviewing the capital plans and supervising the implementation of such plans;
- advising on the information disclosure in respect of capital adequacy ratio; and
- functions required by law, regulations, rules, statutory documents and our Articles of Association as well as those as authorized by the Board of Directors.

Audit Committee

The audit committee shall perform the following duties:

- reviewing our accounting policy, financial operation and financial reporting procedures, and reviewing our internal control system and supervising its implementation;
- reviewing reports from our internal audit department and supervising our internal audit work, internal audit system and its implementation, directing the work of the internal audit department and examining and supervising the work of the internal audit department;
- advising on the appointment of external auditors, and guide and supervise the work of external auditors;
- being responsible for our annual audit work, reporting on the truthfulness, completeness and accuracy of the financial information and submitting the annual accounts to the Board of Directors for approval;
- appointing independent counsel or lawyers if the committee deems necessary; and
- other matters required by law, regulations, rules and statutory documents, our Articles of Association as well as those authorized by the Board of Directors.

Nomination Committee

The nomination committee shall perform the following duties:

- setting up the human resource database of qualified candidates for directors and senior management;
- formulating standards and procedures for the election of Directors and senior management members, carrying out preliminary review of the qualifications of the candidates and making suggestions to the Board of Directors;
- making suggestions on the composition of other committees under the Board of Directors based on the nomination by the chairman and taking into account the specialties and intentions of the directors and the need of the Board of Directors; and
- other matters required by law, regulations, rules and statutory documents, the Articles of Association of the Bank as well as those authorized by the Board of Directors.

Remuneration Committee

The remuneration committee shall perform the following duties:

- proposing plans on the remuneration of the Directors, Supervisors and senior management, making suggestions to the Board of Directors and supervising implementation of the remuneration plans according to the relevant provisions of the competent state authorities;
- reviewing the performance of the Directors and senior management and making suggestions to the Board of Directors on evaluation and assessment;
- reviewing the basic rules on salaries and benefits of the employees of the Bank, making suggestions to the Board of Directors and supervising implementation of such rules; and
- other matters required by laws, regulations, rules, statutory documents and the Articles of Association of the Bank and those as authorized by the Board of Directors.

Related Party Transactions Control Committee

The related party transactions control committee shall perform the following duties:

- keeping records of the ordinary related party transactions approved by the Credit Approval Committee of our Head Office or other competent department authorized by the President of the Bank;
- reviewing material related party transactions and submitting such transactions to the Board of Directors for approval;
- submitting a detailed report on related party transactions to the Board of Directors after each operating year, including the overall situation, risk level and composition and distribution of the related party transactions occurred;
- formulating related party transactions management rules of the Bank and implementing the same upon approval by the Board of Directors;
- identifying our related parties, reporting to the Board of Directors and Board of Supervisors and informing other relevant staff promptly regarding identified related parties; and
- other matters required by laws, regulations, rules, statutory documents and the Articles of Association of the Bank and those as authorized by the Board of Directors.

The Board of Supervisors

We established the Board of Supervisors and the Board of Supervisors has the following functions and authorities:

- reviewing and making comments in writing on the report prepared by the Board of Directors at regular intervals;
- supervising the Directors and senior management in their performance of duties and proposing the removal of directors and senior management who have contravened any law, administrative regulation, our Articles of Association or resolutions at the shareholders' general meeting;
- requesting rectification from the directors and senior management when the acts of such persons are harmful to the Bank's interest;
- reviewing financial reports, operation reports and profit distribution plan which is submitted by the Board of Directors to the shareholders' meeting; engaging accountants and auditors on behalf of the Bank to review such reports if any problems are identified;
- examining the Bank's financials;
- inspecting and supervising the operation decision, risk management and internal control of the Bank;

- enquiring with the Directors, the chairman, the President or senior management;
- proposing interim shareholders' meeting and convening and presiding the shareholder's meeting in the event that the Board of Directors fails to perform the duties of convening and presiding the shareholder's meeting as provided in the Articles of Association;
- attending the meeting of the Board of Directors;
- submitting proposal to the shareholders' meeting;
- negotiating with the Directors and senior management or caring out litigation on the Directors and senior management on behalf of the Bank according to the laws and the Articles of Association;
- carrying out investigation where any unusual situations in the process of operation of the Bank was discovered and, if necessary, engaging accounting firms, law firms and other professional institutions to help to carry out such investigations; and
- other functions as required by laws, regulations, rules, statutory documents and the Articles of Association or those as authorized by the shareholders' meeting.

A. FURTHER INFORMATION ABOUT OUR GROUP

1. Incorporation

We were incorporated in the PRC on June 18, 1992 under the PRC law and were converted into a joint stock limited liability company in 1997. Our registered address is at China Everbright Center, No. 25 and 25A Taipingqiao Avenue, Xicheng District, Beijing 100033, the PRC. We have registered a place of business in Hong Kong at Room E, 40/F, Far East Finance Centre, 16 Harcourt Road, Admiralty, Hong Kong and have been registered as a non-Hong Kong company on June 20, 2011 under Part XI of the Hong Kong Companies Ordinance. Ms. LO Yee Har, Susan and Ms. LEE Mei Yi have been appointed as our agents for the acceptance of service of process and notices in Hong Kong. The address for service of process on the Bank in Hong Kong is Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong. Our A Shares have been listed on the Shanghai Stock Exchange since August 18, 2010.

As our Bank was established in the PRC, we operate subject to the relevant laws and regulations of the PRC and our constitution which comprises our Articles of Association. Certain aspects of the relevant laws and regulations of the PRC, and a summary of certain provisions of our Articles of Association are set out in Appendices V and VI to this prospectus, respectively.

2. Changes in the share capital of our Group

The Bank

Immediately upon our conversion into a joint stock limited liability company which took effect in 1997, our registered capital was RMB2,800 million.

In 1999, we increased our registered capital by converting our capital reserve to paid-in capital. Our Shareholders received 5.4 new Shares for each 10 Shares they held, through which we issued 1,512 million new Shares in total. Upon completion of the conversion, our registered capital was increased to RMB4,312 million.

Pursuant to resolutions adopted at our extraordinary general meeting held on September 28, 2000 and our general meeting held on September 7, 2001 and upon the approval by the PBOC, we issued 3,157.90 million new Shares at a subscription price of RMB1.95 per Share for a total consideration of RMB6,157.91 million. 72 of our then existing Shareholders subscribed for a total of 1,742.70 million new Shares and 93 new Shareholders subscribed for a total of 1,415.20 million new Shares. Upon completion of the capital increase, our registered capital was increased to RMB7,469.90 million.

Pursuant to a resolution adopted at our general meeting held on April 30, 2002 and upon approval by the PBOC, our capital reserve was converted into paid-in capital on the basis of one new Share for every 10 Shares through which we issued 746.99 million new Shares in total as a result. Upon completion of the conversion, our registered capital was increased to RMB8,216.89 million.

Pursuant to a resolution adopted at our extraordinary general meeting held on November 28, 2007 and upon approval by the State Council and the CBRC, Huijin subscribed for 20 billion new Shares at a subscription price of RMB1.00 per Share. Upon completion of the capital increase, our registered capital was increased to RMB28,216.89 million.

Pursuant to a resolution adopted at our general meeting held on July 17, 2009 and upon approval by the MOF and the CBRC, we entered into share subscription agreements with China Reinsurance, China Power Finance Corporation Limited (中國電力財務有限公司), Shenergy (Group) Corporation Limited (申能(集團)有限公司), China Aerospace Science and Technology Corporation (中國航天科技集團公司), Aerospace Science and Technology Finance Co., Ltd. (航天科技財務有限責任公司), Baosteel Group Corporation (寶鋼集團有限公司), Shanghai Chengtou Holding Co., Ltd. (上海城投控股股份有限公司) and Guangdong Provincial Expressway Development Co., Ltd. (廣東省高速公路發展股份有限公司). Pursuant to these share subscription agreements, we issued 5,217.90 million new Shares to the above mentioned investors at a subscription price of RMB2.20 per Share for a total consideration of RMB11,479.38 million. Our registered capital was increased to RMB33,434.79 million upon completion of the capital increase.

Immediately following the listing and trading of the A Shares on August 18, 2010 and the exercise of over-allotment option on September 16, 2010, our registered capital was RMB40,434.79 million divided into 40,434.79 million A Shares of nominal value of RMB1.00 each, all of which were credited as fully paid up.

Immediately after the Global Offering, our registered capital will be RMB45,514.79 million (assuming neither the Offer Size Adjustment Option nor the Over-allotment Option is exercised), made up of 5,588,000,000 H Shares of RMB1.00 each (assuming neither the Offer Size Adjustment Option nor the Over-allotment Option is exercised) and 39,926,790,000 A Shares of RMB1.00 each.

Save as disclosed in this prospectus, there has been no alteration in the Company's registered capital since our conversion into a joint stock limited liability company.

Our Principal Subsidiaries

Our principal subsidiaries are referred to in the Accountants' Report, the text of which is set out in Appendix I to this prospectus:

(1) Shaoshan Everbright Village Bank

Shaoshan Everbright Village Bank is 70% held by us, 10% by Sany Group Co., Ltd. (三一集團有限公司), 6% by Changsha Tongcheng Holding Co., Ltd. (長沙通程控股股份有限公司), 8% by Hunan Poly Real Estate Development Co., Ltd. (湖南保利房地產開發有限公司) and 6% by Shaoshan City Construction and Investment Company Limited (韶山市城市建設投資有限責任公司). It was established under the laws of the PRC on September 24, 2009 with a registered capital of RMB50 million.

(2) Everbright Financial Leasing

Everbright Financial Leasing is 90% held by us, 5% by Wuhan New Harbor Construction and Investment Development Group Co., Ltd. (武漢新港建設投資開發集團有限公司) and 5% by Wuhan Rail Transit Construction Co., Ltd. (武漢市軌道交通建設公司). It was established under the laws of the PRC on May 19, 2010 with a registered capital of RMB800 million.

(3) Huai'an Everbright Village Bank

Huai'an Everbright Village Bank is 70% held by us, 10% by Jiangsu Golden Fox Garment Co., Ltd. (江蘇金狐狸服飾有限公司), 10% by Huai'an Shuanglong Weiye Technology Co., Ltd. (淮安市雙龍偉業科技有限公司), 5% by Jiangsu Taihua Pharmaceutical Company Limited (江蘇泰華醫藥有限責任公司) and 5% by Nanjing Mengdu Tobacco Packing Co., Ltd. (南京夢都煙草包裝有限公司). It was established under the laws of the PRC on February 1, 2013 with a registered capital of RMB100 million.

There has been no alteration in the share capital of the subsidiaries of our Company within the two years preceding the date of this prospectus.

3. Resolutions of our Shareholders

Pursuant to the extraordinary general meeting held on March 29, 2013, our Shareholders resolved that:

(a) the listing plan of our Company be approved, including, among other things,

- listing on the Hong Kong Stock Exchange through an initial public offering of H Shares;
- as part of Global Offering, offering of H Shares in the United States to Qualified Institutional Buyers (as such term is defined in Rule 144A) and outside of the United States in reliance on Regulation S, offering of H Shares to professional and institutional investors in Hong Kong, and offering of H Shares without listing in Japan; and
- the conversion of our Company into an overseas subscription joint stock company with limited liability;

(b) the Board of Directors be authorized, among other things, to do any acts and things relating to the issue and listing of the H Shares on the Hong Kong Stock Exchange.

Pursuant to the extraordinary general meeting held on the same day, our Shareholders resolved that the amendments to the Articles of Association be approved and shall become effective on the Listing Date upon approval by the CBRC.

B. FURTHER INFORMATION ABOUT OUR BUSINESS

1. Summary of material contracts

We have entered into the following contracts (not being contracts entered into in the ordinary course of business) within the two years immediately preceding the date of this prospectus that are or may be material:

(a) a cornerstone investment agreement dated November 29, 2013 and an amendment agreement dated December 6, 2013, entered into among Ocean Fortune Investment Limited, China International Capital Corporation Hong Kong Securities Limited, UBS AG, Hong Kong Branch, Morgan Stanley Asia Limited and us, pursuant to which Ocean Fortune Investment Limited agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 1,000 H Shares) as may be purchased for US$800 million at the Offer Price;

(b) a cornerstone investment agreement dated May 29, 2013 and a supplemental agreement dated November 25, 2013, entered into among Ever Ideal Limited, China International Capital Corporation Hong Kong Securities Limited, UBS AG, Hong Kong Branch, Morgan Stanley Asia Limited and us, pursuant to which Ever Ideal Limited agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 1,000 H Shares) as may be purchased for HK$780 million at the Offer Price;

(c) a cornerstone investment agreement dated June 14, 2013, entered into among The Prudential Insurance Company of America, China International Capital Corporation Hong Kong Securities Limited, UBS AG, Hong Kong Branch, Morgan Stanley Asia Limited and us, pursuant to which The Prudential Insurance Company of America agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 1,000 H Shares) as may be purchased for Hong Kong dollar equivalent of US$50 million at the Offer Price;

(d) a cornerstone investment agreement dated November 24, 2013, entered into among Sun Life Assurance Company of Canada, China International Capital Corporation Hong Kong Securities Limited, UBS AG, Hong Kong Branch, Morgan Stanley Asia Limited and us, pursuant to which Sun Life Assurance Company of Canada agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 1,000 H Shares) as may be purchased for Hong Kong dollar equivalent of US$50 million at the Offer Price;

(e) a cornerstone investment agreement dated June 30, 2013, entered into among Zhongrong International Trust Co., Ltd., Essence International Securities (Hong Kong) Limited, China International Capital Corporation Hong Kong Securities Limited, UBS AG, Hong Kong Branch, Morgan Stanley Asia Limited and us, pursuant to which Zhongrong International Trust Co., Ltd. agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 1,000 H Shares) as may be purchased for Hong Kong dollar equivalent of US$200 million at the Offer Price;

(f) a cornerstone investment agreement dated October 29, 2013, entered into among TEDA Investment Holding Co., Ltd., China International Capital Corporation Hong Kong Securities Limited, UBS AG, Hong Kong Branch, Morgan Stanley Asia Limited, Haitong International Securities Company Limited and us, pursuant to which TEDA Investment Holding Co., Ltd. agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 1,000 H Shares) as may be purchased for Hong Kong dollar equivalent of US$80 million at the Offer Price;

(g) a cornerstone investment agreement dated October 16, 2013, entered into among Wenze International Investment Limited, BNP Paribas Securities (Asia) Limited, China International Capital Corporation Hong Kong Securities Limited, UBS AG, Hong Kong Branch, Morgan Stanley Asia Limited and us, pursuant to which Wenze International Investment Limited agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 1,000 H Shares) as may be purchased for HK$546 million at the Offer Price;

(h) a cornerstone investment agreement dated August 16, 2013, entered into among China Oceanwide International Investment Co., LTD., Haitong International Securities Company Limited, China International Capital Corporation Hong Kong Securities Limited, UBS AG, Hong Kong Branch, Morgan Stanley Asia Limited and us, pursuant to which China Oceanwide International Investment Co., LTD. agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 1,000 H Shares) as may be purchased for Hong Kong dollar equivalent of US$67 million at the Offer Price;

(i) a cornerstone investment agreement dated November 23, 2013, entered into among Sinochem International (Overseas) Pte. Ltd., China International Capital Corporation Hong Kong Securities Limited, UBS AG, Hong Kong Branch, Morgan Stanley Asia Limited and us, pursuant to which Sinochem International (Overseas) Pte. Ltd. agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 1,000 H Shares) as may be purchased for Hong Kong dollar equivalent of RMB400 million at the Offer Price;

(j) a cornerstone investment agreement dated October 31, 2013, entered into among Shanghai Electric Group Hongkong Company Limited, China International Capital Corporation Hong Kong Securities Limited, UBS AG, Hong Kong Branch, Morgan Stanley Asia Limited and us, pursuant to which Shanghai Electric Group Hongkong Company Limited agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 1,000 H Shares) as may be purchased for Hong Kong dollar equivalent of US$30 million at the Offer Price;

(k) a cornerstone investment agreement dated July 10, 2013, entered into among Sany International Development Limited, China Everbright Securities (HK) Limited, China International Capital Corporation Hong Kong Securities Limited, UBS AG, Hong Kong Branch, Morgan Stanley Asia Limited and us, pursuant to which Sany International Development Limited agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 1,000 H Shares) as may be purchased for Hong Kong dollar equivalent of US$30 million at the Offer Price;

(l) a cornerstone investment agreement dated July 19, 2013, entered into among C.N. Team Ltd., BNP Paribas Securities (Asia) Limited, China International Capital Corporation Hong Kong Securities Limited, UBS AG, Hong Kong Branch, Morgan Stanley Asia Limited and us, pursuant to which C.N. Team Ltd. agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 1,000 H Shares) as may be purchased for HK$234 million at the Offer Price;

(m) a cornerstone investment agreement dated July 22, 2013, entered into among NorthShore Investment (HK) Limited, China Everbright Securities (HK) Limited, China International Capital Corporation Hong Kong Securities Limited, UBS AG, Hong Kong Branch, Morgan Stanley Asia Limited and us, pursuant to which NorthShore Investment (HK) Limited agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 1,000 H Shares) as may be purchased for Hong Kong dollar equivalent of US$30 million at the Offer Price;

(n) a cornerstone investment agreement dated July 19, 2013, entered into among Guangzhou Fortune Field Gold Trade Co., Ltd, ABCI Securities Company Limited, China International Capital Corporation Hong Kong Securities Limited, UBS AG, Hong Kong Branch, Morgan Stanley Asia Limited and us, pursuant to which Guangzhou Fortune Field Gold Trade Co., Ltd agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 1,000 H Shares) as may be purchased for Hong Kong dollar equivalent of US$30 million at the Offer Price;

(o) a cornerstone investment agreement dated November 6, 2013, entered into among China Chengtong Holdings Group Ltd., ABCI Securities Company Limited, China International Capital Corporation Hong Kong Securities Limited, UBS AG, Hong Kong Branch, Morgan Stanley Asia Limited and us, pursuant to which China Chengtong Holdings Group Ltd. agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 1,000 H Shares) as may be purchased for Hong Kong dollar equivalent of US$30 million at the Offer Price;

(p) a cornerstone investment agreement dated November 27, 2013, entered into among Hongkong Energy Group Investment Limited, CCB International Capital Limited, China International Capital Corporation Hong Kong Securities Limited, UBS AG, Hong Kong Branch, Morgan Stanley Asia Limited and us, pursuant to which Hongkong Energy Group Investment Limited agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 1,000 H Shares) as may be purchased for Hong Kong dollar equivalent of US$30 million at the Offer Price;

(q) a cornerstone investment agreement dated 19 July 2013, entered into among Haochen Holding Limited, BNP Paribas Securities (Asia) Limited, China International Capital Corporation Hong Kong Securities Limited, UBS AG, Hong Kong Branch, Morgan Stanley Asia Limited and us, pursuant to which Haochen Holding Limited agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 1,000 H Shares) as may be purchased for HK$234 million at the Offer Price;

(r) a cornerstone investment agreement dated November 6, 2013, entered into among Sun Hung Kai Strategic Capital Limited, China International Capital Corporation Hong Kong Securities Limited, UBS AG, Hong Kong Branch, Morgan Stanley Asia Limited and us, pursuant to which Sun Hung Kai Strategic Capital Limited agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 1,000 H Shares) as may be purchased for Hong Kong dollar equivalent of US$10 million at the Offer Price;

(s) a cornerstone investment agreement dated November 6, 2013, entered into among First Asian Holdings Limited, China International Capital Corporation Hong Kong Securities Limited, UBS AG, Hong Kong Branch, Morgan Stanley Asia Limited and us, pursuant to which First Asian Holdings Limited agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 1,000 H Shares) as may be purchased for Hong Kong dollar equivalent of US$10 million at the Offer Price;

(t) an underwriting agreement in relation to the public offering without listing in Japan dated October 29, 2013, entered into between Daiwa Capital Markets Hong Kong Limited and us, pursuant to which Daiwa Capital Markets Hong Kong Limited has agreed with an underwriting commitment of 500 million H Shares; and

(u) the Hong Kong Underwriting Agreement.

2. Intellectual property rights

As of the Latest Practicable Date, our Group has registered or has applied for the registration of the following intellectual property rights which are material in relation to our Group's business.

(a) Trademarks

(i) As of June 30, 2013, our Group has registered the following trademarks which are material in relation to our Group's business:

Trademarks	Territory of registration	Class	Registration number	Valid period
储寿保	PRC	36	3567783	October 28, 2005 – October 27, 2015
	PRC	9	1153297	February 21, 2008 – February 20, 2018
阳光易	PRC	9	5271861	April 28, 2009 – April 27, 2019
炎黄	PRC	36	5036550	June 28, 2009 – June 27, 2019
	PRC	36	1327316	October 21, 1999 – October 20, 2019
	PRC	36	5396320	October 28, 2009 – October 27, 2019
如意三宝	PRC	36	5529191	November 28, 2009 – November 27, 2019
SunCard	PRC	36	1357454	January 21, 2000 – January 20, 2020
阳光卡	PRC	36	1357455	January 21, 2000 – January 20, 2020
阳光易	PRC	36	5271860	May 21, 2010 – May 20, 2020
阳光网盾	PRC	36	6444402	May 28, 2010 – May 27, 2020
	PRC	36	7044635	July 28, 2010 – July 27, 2020

Trademarks	Territory of registration	Class	Registration number	Valid period
	PRC	35	7653322	December 28, 2010 – December 27, 2020
阳光e缴费	PRC	9	5271858	March 7, 2011 – March 6, 2021
e路阳光 EVERBRIGHT E-BANKING	PRC	36	5695165	March 14, 2011 – March 13, 2021
阳光网盾	PRC	9	6444403	September 7, 2011 – September 6, 2021
	PRC	36	7653323	January 21, 2011 – January 20, 2021
银关贷	PRC	36	6109544	July 7, 2012 – July 6, 2022
银关保	PRC	36	6109545	July 7, 2012 – July 6, 2022
光合动力	PRC	35	9156902	March 21, 2012 – March 20, 2022
光合动力	PRC	36	9156977	March 21, 2012 – March 20, 2022
光合动力	PRC	42	9156995	September 28, 2012 – September 27, 2022
	PRC	36	9997840	November 21, 2012 – November 20, 2022
Eank 中国光大银行	Hong Kong	36	301931319	May 30, 2011 – May 29, 2021
中国光大银行 CHINA EVERBRIGHT BANK	Hong Kong	36	301931328	May 30, 2011 – May 29, 2021
乐享人生	PRC	35	10040580	March 7, 2013 – March 6, 2023

Trademarks	Territory of registration	Class	Registration number	Valid period
乐享人生	PRC	36	10040599	March 28, 2013 – March 27, 2023
乐容	PRC	35	10339360	February 28, 2013 – February 27, 2023
乐容	PRC	36	10342646	February 28, 2013 – February 27, 2023
	PRC	35	10339359	February 28, 2013 – February 27, 2023

(ii) As of June 30, 2013, our Group has applied for the registration of the following trademarks which are material in relation to our Group's business:

Trademarks	Territory of application	Class	Application number	Application date
e路阳光	PRC	36	7965697	January 4, 2010
全程通	PRC	36	8040752	February 1, 2010
阳光财富 EVERBRIGHT WEALTH MANAGEMENT	PRC	36	8051627	February 4, 2010
易管家	PRC	36	10838697	April 27, 2012
易管家	PRC	36	10838698	April 27, 2012
养福	PRC	36	11166967	July 5, 2012
阳光e	PRC	42	11545289	September 26, 2012
阳光e	PRC	41	11545290	September 26, 2012
阳光e	PRC	38	11545291	September 26, 2012

Trademarks	Territory of application	Class	Application number	Application date
阳光 e	PRC	36	11545292	September 26, 2012
阳光 e	PRC	35	11545293	September 26, 2012
阳光 e	PRC	16	11545294	September 26, 2012
阳光 e	PRC	9	11545295	September 26, 2012
	PRC	36	10342654	December 22, 2011
阳光财富 WEALTH MANAGEMENT	PRC	36	10342685	December 22, 2011

The class number represents the specifications of products or services which have already been registered or are in the process of registration. Detailed specifications of the products or services represented by that class number are set out in the relevant registration certificates or application forms.

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

(b) Domain Names

As of June 30, 2013, our Group has registered the following domain names:

Domain Name	Valid period
cebbank.com	March 25, 1999 – March 25, 2015
cebbank.com.cn	October 27, 2000 – October 27, 2015
95595.com.cn	October 27, 2000 – October 27, 2015
95595.cn	March 17, 2003 – March 17, 2015
cebbank.cn	March 17, 2003 – March 17, 2015
光大電子支付.cn	November 20, 2008 – November 20, 2018
出國金融服務.cn	November 20, 2008 – November 20, 2018
光大出國通.cn	November 20, 2008 – November 20, 2018
陽光存管.cn	November 20, 2008 – November 20, 2018
陽光供應鏈.cn	November 20, 2008 – November 20, 2018
陽光商品融資.cn	November 20, 2008 – November 20, 2018
陽光保理.cn	November 20, 2008 – November 20, 2018
everbrightsupplychain.com	November 20, 2008 – November 20, 2018
bjceb.com	November 20, 2008 – November 20, 2018

Domain Name	Valid period
cebxyk.com	November 20, 2008 – November 20, 2018
xykceb.com	November 20, 2008 – November 20, 2018
cebcreditcard.com	November 20, 2008 – November 20, 2018
光大手機銀行.cn	November 24, 2008 – November 24, 2018
陽光財富.cn	November 20, 2008 – November 20, 2018
光大私人銀行.cn	November 24, 2008 – November 24, 2018
光大銀行.cn	November 6, 2000 – April 27, 2021
中國光大銀行.cn	November 6, 2000 – April 27, 2021
中國光大銀行.com	October 30, 2011 – October 30, 2021
光大理財夜市.cn	September 27, 2012 – September 27, 2022
陽光營業廳.cn	September 27, 2012 – September 27, 2022
光大營業廳.cn	September 27, 2012 – September 27, 2022
光大網上營業廳.cn	September 27, 2012 – September 27, 2022
光大陽光營業廳.cn	September 27, 2012 – September 27, 2022
光大銀行營業廳.cn	September 27, 2012 – September 27, 2022
光大銀行網上營業廳.cn	September 27, 2012 – September 27, 2022
光大銀行陽光營業廳.cn	September 27, 2012 – September 27, 2022
中國光大銀行營業廳.cn	September 27, 2012 – September 27, 2022
中國光大銀行網上營業廳.cn	September 27, 2012 – September 27, 2022
中國光大銀行陽光營業廳.cn	September 27, 2012 – September 27, 2022
光大理財夜市.中國	September 27, 2012 – September 27, 2022
陽光營業廳.中國	September 27, 2012 – September 27, 2022
光大營業廳.中國	September 27, 2012 – September 27, 2022
光大網上營業廳.中國	September 27, 2012 – September 27, 2022
光大陽光營業廳.中國	September 27, 2012 – September 27, 2022
光大銀行營業廳.中國	September 27, 2012 – September 27, 2022
光大銀行網上營業廳.中國	September 27, 2012 – September 27, 2022
光大銀行陽光營業廳.中國	September 27, 2012 – September 27, 2022
中國光大銀行營業廳.中國	September 27, 2012 – September 27, 2022
中國光大銀行網上營業廳.中國	September 27, 2012 – September 27, 2022
中國光大銀行陽光營業廳.中國	September 27, 2012 – September 27, 2022
光大理財夜市.com	September 27, 2012 – September 27, 2022
陽光營業廳.com	September 27, 2012 – September 27, 2022
光大營業廳.com	September 27, 2012 – September 27, 2022
光大網上營業廳.com	September 27, 2012 – September 27, 2022
光大陽光營業廳.com	September 27, 2012 – September 27, 2022
光大銀行營業廳.com	September 27, 2012 – September 27, 2022
光大銀行網上營業廳.com	September 27, 2012 – September 27, 2022
光大銀行陽光營業廳.com	September 27, 2012 – September 27, 2022
中國光大銀行營業廳.com	September 27, 2012 – September 27, 2022
中國光大銀行網上營業廳.com	September 27, 2012 – September 27, 2022
中國光大銀行陽光營業廳.com	September 27, 2012 – September 27, 2022
ygyyt.com	September 27, 2012 – September 27, 2022
cebhall.com	September 27, 2012 – September 27, 2022
gdhall.cn	September 27, 2012 – September 27, 2022
gdhall.com.cn	September 27, 2012 – September 27, 2022
wsyyt.cn	September 27, 2012 – September 27, 2022
wsyyt.com.cn	September 27, 2012 – September 27, 2022
ygyyt.cn	September 27, 2012 – September 27, 2022
ygyyt.com.cn	September 27, 2012 – September 27, 2022
nethall.com.cn	September 27, 2012 – September 27, 2022
ebhall.cn	September 27, 2012 – September 27, 2022
ebhall.com.cn	September 27, 2012 – September 27, 2022
sunshinehall.cn	September 27, 2012 – September 27, 2022
sunshinehall.com.cn	September 27, 2012 – September 27, 2022
cebhall.cn	September 27, 2012 – September 27, 2022
cebhall.com.cn	September 27, 2012 – September 27, 2022
陽光e融資.cn	November 5, 2012 – November 5, 2022
陽光e支付.cn	November 5, 2012 – November 5, 2022
陽光e留學.cn	November 5, 2012 – November 5, 2022

Domain Name	Valid period
陽光e管家.cn	November 5, 2012 – November 5, 2022
陽光e分期.cn	November 5, 2012 – November 5, 2022
陽光e加油.cn	November 5, 2012 – November 5, 2022
陽光e購房.cn	November 5, 2012 – November 5, 2022
陽光e商旅.cn	November 5, 2012 – November 5, 2022
陽光e保險.cn	November 5, 2012 – November 5, 2022
陽光e購車.cn	November 5, 2012 – November 5, 2022
陽光e繳費.cn	November 5, 2012 – November 5, 2022
陽光e購金.cn	November 5, 2012 – November 5, 2022
陽光e基金.cn	November 5, 2012 – November 5, 2022
陽光e理財.cn	November 5, 2012 – November 5, 2022
陽光e申請.cn	November 5, 2012 – November 5, 2022
陽光e融資.中國	November 5, 2012 – November 5, 2022
陽光e支付.中國	November 5, 2012 – November 5, 2022
陽光e留學.中國	November 5, 2012 – November 5, 2022
陽光e管家.中國	November 5, 2012 – November 5, 2022
陽光e分期.中國	November 5, 2012 – November 5, 2022
陽光e加油.中國	November 5, 2012 – November 5, 2022
陽光e購房.中國	November 5, 2012 – November 5, 2022
陽光e商旅.中國	November 5, 2012 – November 5, 2022
陽光e保險.中國	November 5, 2012 – November 5, 2022
陽光e購車.中國	November 5, 2012 – November 5, 2022
陽光e繳費.中國	November 5, 2012 – November 5, 2022
陽光e購金.中國	November 5, 2012 – November 5, 2022
陽光e基金.中國	November 5, 2012 – November 5, 2022
陽光e理財.中國	November 5, 2012 – November 5, 2022
陽光e申請.中國	November 5, 2012 – November 5, 2022
陽光e融資.com	October 30, 2012 – October 30, 2022
陽光e支付.com	October 30, 2012 – October 30, 2022
陽光e留學.com	October 30, 2012 – October 30, 2022
陽光e管家.com	October 30, 2012 – October 30, 2022
陽光e分期.com	October 30, 2012 – October 30, 2022
陽光e加油.com	October 30, 2012 – October 30, 2022
陽光e購房.com	October 30, 2012 – October 30, 2022
陽光e商旅.com	October 30, 2012 – October 30, 2022
陽光e保險.com	October 30, 2012 – October 30, 2022
陽光e購車.com	October 30, 2012 – October 30, 2022
陽光e繳費.com	October 30, 2012 – October 30, 2022
陽光e購金.com	October 30, 2012 – October 30, 2022
陽光e基金.com	October 30, 2012 – October 30, 2022
陽光e理財.com	October 30, 2012 – October 30, 2022
陽光e申請.com	October 30, 2012 – October 30, 2022
光大電子支付.中國	November 20, 2008 – November 20, 2018
出國金融服務.中國	November 20, 2008 – November 20, 2018
光大出國通.中國	November 20, 2008 – November 20, 2018
陽光存管.中國	November 20, 2008 – November 20, 2018
陽光供應鏈.中國	November 20, 2008 – November 20, 2018
陽光商品融資.中國	November 20, 2008 – November 20, 2018
陽光保理.中國	November 20, 2008 – November 20, 2018
光大手機銀行.中國	November 24, 2008 – November 24, 2018
陽光財富.中國	November 20, 2008 – November 20, 2018
光大私人銀行.中國	November 24, 2008 – November 24, 2018
光大銀行.中國	November 6, 2000 – April 27, 2021
中國光大銀行.中國	November 6, 2005 – April 27, 2021

3. Our Depositors and Borrowers

Our five largest depositors and five largest borrowers accounted for less than 30% of the respective total deposits from customers and total loans and advances to customers as of the Latest Practicable Date.

C. FURTHER INFORMATION ABOUT OUR DIRECTORS, MANAGEMENT AND STAFF

1. Disclosure of Interests

Immediately following completion of the Global Offering (but without taking into account the exercise of either the Offer Size Adjustment Option or the Over-allotment Option), none of our Directors and Supervisors will have any interests and short positions in the Shares, underlying shares or debentures of our Company or any associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to us and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions which they are taken or deemed to have under such provisions of the SFO), or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules, to be notified to us and the Hong Kong Stock Exchange or which will be required pursuant to section 352 of the SFO to be entered in the register referred to therein once the shares are listed. For this purpose, the relevant provisions of the SFO will be interpreted as if they applied to our supervisors.

Save as disclosed in this prospectus, none of the Directors or Supervisors is a director or employee of a company which is expected to have an interest in the Shares failing to be disclosed to the Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO once the H Shares are listed on the Hong Kong Stock Exchange.

2. Substantial shareholders

So far as our Directors are aware, immediately following completion of the Global Offering (without taking into account the exercise of either the Offer Size Adjustment Option or the Over-allotment Option), the following persons will have interests or short positions in our Shares which are required to be disclosed to us and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of shareholder	Nature of interest	Class of securities	Number of securities	Approximate percentage of interest in our Bank immediately after the Global Offering	Approximate percentage of interest in the relevant class of Shares of our Bank immediately after the Global Offering
Huijin[1]	Beneficial and attributable interest	A Shares	20,338,103,054	44.68%	50.94%
China Everbright (Group)	Attributable interest	A Shares	2,058,791,354	4.52%	5.16%
China Shipping (Group) Company[2]	Attributable interest	H Shares	1,531,377,000	3.36%	27.40%
Ocean Fortune Investment Limited	Beneficial owner	H Shares	1,531,377,000	3.36%	27.40%
SSF[3]	Attributable interest	H Shares	508,000,000	1.12%	9.09%
Jingwei Textile Machinery Company Limited[4]	Attributable interest	H Shares	382,844,000	0.84%	6.85%
Zhongrong International Trust Co., Ltd.	Beneficial owner	H Shares	382,844,000	0.84%	6.85%

Notes:

(1) Huijin directly holds 19,328,718,247 A Shares of our Bank, and China Reinsurance holds 1,009,384,807 A Shares of our Bank. Huijin holds 84.91% of the shares of China Reinsurance and is therefore deemed to be interested in the 1,009,384,807 A Shares directly held by China Reinsurance.

(2) China Shipping (Group) Company is the ultimate controlling shareholder of Ocean Fortune Investment Limited and is therefore deemed to be interested in the 1,531,377,000 H Shares directly held by Ocean Fortune Investment Limited. The calculation is based on the mid-point of the indicative Offer Price range stated in this prospectus. See "Our Corporate Investors".

(3) SSF also holds 640,983,131 A Shares of our Bank as of the Latest Practicable Date.

(4) Jingwei Textile Machinery Company Limited is the ultimate controlling shareholder of Zhongrong International Trust Co. Ltd. and is therefore deemed to be interested in the 382,844,000 H Shares directly held by Zhongrong International Trust Co. Ltd.. The calculation is based on the mid-point of the indicative Offer Price range stated in this prospectus. See "Our Corporate Investors".

So far as our Directors are aware, the following parties (other than us) will, immediately following completion of the Global Offering (without taking into account the exercise of either the Offer Size Adjustment Option or the Over-allotment Option), be directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in any subsidiary of our Bank:

Name of interested party	Name of subsidiary	Percentage of shareholding
Sany Group Co., Ltd.	Shaoshan Everbright Village Bank	10%
Jiangsu Golden Fox Garment Co., Ltd.	Huai'an Everbright Village Bank	10%
Huai'an Shuanglong Weiye Technology Co., Ltd.	Huai'an Everbright Village Bank	10%

3. Service contracts

Pursuant to Rules 19A.54 and 19A.55 of the Listing Rules,we have entered into a contract with each of our Directors and Supervisors in respect of, among other things, compliance with relevant laws, regulations and the Articles of Association and provisions on arbitration. Save as disclosed above, we have not entered, and do not propose to enter, into any service contracts with any of our Directors or Supervisors in their respective capacities as Directors or Supervisors (other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).

4. Directors' and Supervisors' remuneration

The aggregate amount of remuneration (including fees, salaries, contributions to pension schemes, housing allowances and other allowances and benefits in kind and discretionary bonuses) which was paid to our Directors in respect of each of the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013 was approximately RMB4.12 million, RMB4.00 million, RMB2.47 million and RMB1.32 million, respectively.

The aggregate amount of remuneration (including fees, salaries, contributions to pension schemes, housing allowance and other allowances and benefits in kind and discretionary bonuses) which was paid to our Supervisors in respect of each of the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013 was approximately RMB4.14 million, RMB6.22 million, RMB6.07 million and RMB3.04 million, respectively.

Under the arrangements currently in force, the aggregate remuneration payable to, and benefits in kind receivable by, our Directors and Supervisors for the year ending December 31, 2013 is estimated to be approximately RMB4.53 million and RMB9.75 million, respectively.

5. Fees or commissions received

Save as disclosed in this prospectus, none of our Directors or any of the persons whose names are listed in the paragraph headed "Consents" in this Appendix had received any commissions, discounts, agency fee, brokerages or other special terms from our Group in connection with the issue or sale of any capital of any member of our Group within the two years preceding the date of this prospectus.

6. Personal guarantees

None of the Directors and Supervisors has provided personal guarantees in favor of lenders in connection with banking facilities granted to us.

7. Related party transactions

During the two years preceding the date of this prospectus, we have engaged in material related party transactions as described in the Accountants' Report set out in Appendix I to this prospectus.

D. OTHER INFORMATION

1. Estate Duty

Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or any of our subsidiaries.

2. Litigation

Save as disclosed in this prospectus, no member of our Group was engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened against any member of our Group as of the Latest Practicable Date.

3. Joint Sponsors

Each of the Joint Sponsors, except China Everbright Capital Limited, satisfies the independence criteria applicable to sponsors as set out in Rule 3A.07 of the Listing Rules.

As China Everbright Capital Limited is ultimately owned by one of our major shareholders, China Everbright (Group), hence it is not independent from our Company according to Rule 3A.07 of the Listing Rules.

The Company has entered into an engagement agreement with the Joint Sponsors, pursuant to which the Company agreed to pay the Joint Sponsors a fee of RMB3,000,000 to act as the sponsors to the Company in the Global Offering.

4. Promoters

We have 131 Promoters, including China Everbright (Group), China National Tobacco Corporation Yunnan Company and Asian Development Bank. Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus, no cash, security or benefit has been paid, allotted or given, or is proposed to be paid, allotted or given to the Promoters named above in connection with the Global Offering or the related transactions described in this prospectus.

5. Preliminary Expenses

Our estimated preliminary expenses are approximately HK$1.30 million. All such preliminary expenses relating to the Global Offering are payable by our Company.

6. Qualifications of Experts

The qualifications of the experts (as defined under the Listing Rules and the Hong Kong Companies Ordinance) who have given their opinions or advice in this prospectus are as follows:

Name	Qualifications
China International Capital Corporation Hong Kong Securities Limited	Licensed corporation under the SFO to conduct type 1 (dealing in securities), type 2 (dealing in future contracts), type 3 (leveraged foreign exchange trading), type 4 (advising on securities), type 5 (advising on future contracts) and type 6 (advising on corporate finance) regulated activities as defined under the SFO
UBS Securities Hong Kong Limited	Licensed corporation under the SFO to conduct type 1 (dealing in securities), type 6 (advising on corporate finance) and type 7 (providing automated trading services) regulated activities as defined under the SFO
Morgan Stanley Asia Limited	Licensed corporation under the SFO to conduct type 1 (dealing in securities), type 4 (advising on securities), type 5 (advising on futures contracts), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities as defined under the SFO
China Everbright Capital Limited	Licensed corporation under the SFO to conduct type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities as defined under the SFO
BNP Paribas Securities (Asia) Limited	Licensed corporation under the SFO to conduct type 1 (dealing in securities), type 2 (dealing in future contracts), type 4 (advising on securities), type 6 (advising on corporate finance) and type 7 (providing automated trading services) regulated activities as defined under the SFO
BOCI Asia Limited	Licensed corporation under the SFO to conduct type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities as defined under the SFO
KPMG	Certified Public Accountants
King & Wood Mallesons	PRC legal advisor to our Bank
Jingtian & Gongcheng, Attorneys At Law	PRC legal advisor to the Joint Sponsors and the Underwriters

7. Consents

Each of the Joint Sponsors, KPMG as our independent reporting accountants and auditor, King & Wood Mallesons as our PRC legal advisor and Jingtian & Gongcheng, Attorneys At Law as PRC legal advisor to the Joint Sponsors and the Underwriters has given and has not withdrawn its respective written consents to the issue of this prospectus with the inclusion of their reports and/or letters and/or the references to their names included herein in the form and context in which they are respectively included.

None of the experts named above has any shareholding interests in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.

8. Binding Effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Hong Kong Companies Ordinance so far as applicable.

9. No Material Adverse Change

Our Directors confirm that up to the date of this prospectus, there has been no material adverse change in our financial or trading position since June 30, 2013.

E. WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

Please refer to the section headed "Waivers from Strict Compliance with the Listing Rules" in this prospectus for details.

F. BILINGUAL PROSPECTUS

The English language and the Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided by section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

G. MISCELLANEOUS

Save as otherwise disclosed in this prospectus:

(a) none of our Directors or Supervisors nor any of the parties listed in the paragraph headed "Consents" in "Other Information" of this Appendix is interested in our promotion, or in any assets which have, within the two years immediately preceding the date of this prospectus, been acquired or disposed of by or leased to us, or are proposed to be acquired or disposed of by or leased to any member of our Group;

(b) none of our Directors or Supervisors nor any of the parties listed in the paragraph headed "Consents" in "Other Information" of this Appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to our business;

(c) no share or loan capital of our Company is under option or is agreed conditionally or unconditionally to be put under option;

(d) we have not issued nor agreed to issue any founder shares, management shares or deferred shares;

(e) within the two years preceding the date of this prospectus, no commission has been paid or is payable (except commissions to the Underwriters) for subscription, agreeing to subscribe for, procuring subscription or agreeing to procure subscription of any H Shares;

(f) no amount or securities or benefit has been paid or allotted or given within the two years preceding the date of this prospectus to any of our Promoters nor is any such securities or amount or benefit intended to be paid or allotted or given;

(g) none of our Directors or their respective associates has any interest in our top five borrowers or our top five depositors;

(h) there are no arrangements under which future dividends are waived or agreed to be waived;

(i) within the two years preceding the date of this prospectus, we have not issued nor agreed to issue any share or loan capital fully or partly paid either for cash or for a consideration other than cash;

(j) we have no outstanding convertible debt securities or debentures;

(k) there has been no interruption in our business which may have or have had a significant effect on our financial position in the last 12 months;

(l) save for our A Shares which are listed on the Shanghai Stock Exchange, none of our equity and debt securities is listed on or dealt with in any other stock exchange, nor is any listing or permission to deal being or proposed to be sought; and

(m) the Company currently does not intend to apply for the status of sino-foreign investment joint stock limited company and does not expect to be subject to the PRC Sino-foreign Joint Venture Law.

1. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to a copy of this prospectus and delivered to the Registrar of Companies in Hong Kong for registration were (i) copies of the **WHITE**, **YELLOW** and **GREEN** Application Forms; (ii) copies of each of the material contracts referred to the section headed "Further Information About Our Business" in "Appendix VII – Statutory and General Information" to this prospectus; and (iii) the written consents referred to in the section headed "Other Information" in "Appendix VII – Statutory and General Information" to this prospectus.

2. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Freshfields Bruckhaus Deringer, 11th Floor, Two Exchange Square, Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

(a) the Articles of Association of the Company;

(b) the accountants' report prepared by KPMG, the text of which is set out in Appendix I;

(c) the audited financial statements of the Group for the three years ended December 31, 2010, December 31, 2011 and December 31, 2012 and the six months ended June 30, 2013;

(d) the unaudited interim financial information, the text of which is set out in Appendix II;

(e) the unaudited supplementary financial information, the text of which is set out in Appendix III;

(f) the report in relation to unaudited pro forma financial information, the text of which is set out in Appendix IV;

(g) the PRC legal opinions issued by King & Wood Mallesons, our legal advisor on PRC law, in respect of our general matters and property interests of the Group;

(h) the material contracts referred to in Appendix VII;

(i) the written consents referred to in Appendix VII;

(j) the service contracts referred to in Appendix VII; and

(k) the copies of the following PRC laws and regulations, together with unofficial English translations thereof:

 (i) the PRC Company Law;

 (ii) the PRC Securities Law;

 (iii) the PRC Commercial Banking Law;

 (iv) the Mandatory Provisions for the Articles of Association of Companies Listed Overseas; and

 (v) the Special Regulations on Overseas Offering and Listing of Shares by Joint Stock Limited Companies.

Bank

中国光大银行

CHINA EVERBRIGHT BANK