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