



HARBIN BANK CO., LTD.

(A joint stock company incorporated in the People's Republic of China with limited liability) Stock Code: 6138

Global Offering

Joint Sponsors



Joint Global Coordinators



Joint Bookrunners and Joint Lead Managers



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



Harbin Bank Co., Ltd.*
哈爾濱銀行股份有限公司**

(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 : 3,023,570,000 H Shares (comprising 2,748,700,000 New Shares to be offered by the Bank and 274,870,000 Sale Shares to be offered by the Selling Shareholders, subject to the Over-allotment Option)

Number of Offer Shares in the International Offering : 2,721,212,000 H Shares (subject to reallocation and the Over-allotment Option)

Number of Hong Kong Offer Shares : 302,358,000 H Shares (subject to reallocation)

Maximum Offer Price : HK\$3.33 per H Share

Nominal Value : RMB1.00 per H Share

Stock Code : 6138

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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 IX – 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 (Winding up and Miscellaneous Provisions) 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.

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 Tuesday, 25 March 2014 and, in any event, not later than Friday, 28 March 2014. The Offer Price will be no more than HK\$3.33 per Offer Share and is currently expected to be no less than HK\$2.89 per Offer Share unless otherwise announced. If, for whatever reason, the Offer Price is not agreed by Friday, 28 March 2014, between the Joint Global Coordinators (on behalf of the Underwriters) and us, the Global Offering (including the Hong Kong Public Offering) will not proceed and will lapse.

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. See "Risk Factors", "Supervision and Regulation", "Appendix V – Summary of Principal Legal and Regulatory Provisions" and "Appendix VI – Summary of Articles of Association".

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\$2.89 to HK\$3.33 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 Hong Kong Economic Times (in Chinese). Such notice will also be available on the websites of the Hong Kong Stock Exchange at www.hkexnews.hk and our Company at www.hrbb.com.cn. See "Structure of the Global Offering" and "How to Apply for Hong Kong Offer Shares".

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

* For identification purposes only.

** Harbin Bank Co., Ltd. is not an authorised institution within the meaning of the Banking Ordinance (Chapter 155 of the Laws of Hong Kong), not subject to the supervision of the Hong Kong Monetary Authority, and not authorised to carry on banking/deposit-taking business in Hong Kong.

19 March 2014

EXPECTED TIMETABLE⁽¹⁾

Latest time to complete electronic applications under White

Form eIPO service through the designated website

www.eipo.com.hk⁽²⁾ 11:30 a.m. on Monday, 24 March 2014

Application lists open⁽³⁾ 11:45 a.m. on Monday, 24 March 2014

Latest time to lodge **WHITE** and **YELLOW**

Application Forms 12:00 noon on Monday, 24 March 2014

Latest time to give **electronic application**

instructions to HKSCC⁽⁴⁾ 12:00 noon on Monday, 24 March 2014

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 Monday, 24 March 2014

Application lists close 12:00 noon on Monday, 24 March 2014

Expected Price Determination Date Tuesday, 25 March 2014

Announcement of the Offer Price Friday, 28 March 2014

Announcement of:

- the level of application in the Hong Kong Public Offering;
- the level of indication of interest in the International Offering; and
- the basis of allocation of the Hong Kong Offer Shares to be published
 - (a) in the South China Morning Post (in English) and Hong Kong Economic Times (in Chinese); and
 - (b) on our website at **www.hrbb.com.cn**⁽⁵⁾ and the website of the Hong Kong Exchanges and Clearing Limited at **www.hkexnews.hk**⁽⁶⁾ on or before Friday, 28 March 2014

Results of allocations in the Hong Kong

Public Offering (with successful applicants’

identification document numbers where appropriate)

to be available through a variety of channels

(see “How to Apply for Hong Kong Offer Shares

– 11. Publication of Results”) from Friday, 28 March 2014

Result of allocations in the Hong Kong Public Offering

(with successful applicants’ identification document numbers where

appropriate)

will be available at **www.iporesults.com.hk**

with a “search by ID” function Friday, 28 March 2014

H Share certificates in respect of wholly or partially successful

applications to be dispatched or deposited into CCASS on or before⁽⁷⁾ Friday, 28 March 2014

White Form e-Refund payment instructions/refund cheques

in respect of wholly or partially unsuccessful

applications to be dispatched on or before⁽⁷⁾⁽⁸⁾⁽⁹⁾ Friday, 28 March 2014

Dealings in H Shares on the Hong Kong Stock Exchange

expected to commence at 9:00 a.m. on Monday, 31 March 2014

EXPECTED TIMETABLE⁽¹⁾

Notes:

- (1) All times refer to Hong Kong local time, except as otherwise stated. For details of the structure of the Global Offering, including conditions of the Hong Kong Public Offering, see “Structure of the Global Offering”.
- (2) If you have already submitted your application through the designated website at www.eipo.com.hk 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. 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.
- (3) 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 Monday, 24 March 2014, 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 the Application Lists”.
- (4) Applicants who apply for the 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 HKSCC via CCASS”.
- (5) None of the website or any of the information contained on the website forms part of this prospectus.
- (6) The announcement will be available for viewing on the Hong Kong Stock Exchange’s website at www.hkexnews.hk.
- (7) Applicants who apply for 1,000,000 or more Hong Kong Offer Shares and have provided all required information in their Application Forms may collect refund cheques (where applicable) and H Share certificates (where applicable) in person from our H Share Registrar, Computershare Hong Kong Investor Services Limited, at 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 Friday, 28 March 2014. Applicants being individuals who opt for personal collection must not authorise any other person to make collection on their behalf. Applicants being corporations who opt for personal collection must attend by their authorised representatives each bearing a letter of authorisation from their corporation stamped with the corporation’s chop. Both individuals and authorised representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to Computershare Hong Kong Investor Services Limited. Uncollected refund cheques 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. For details of the arrangements, see “How to Apply for Hong Kong Offer Shares”.
- (8) Applicants who apply through the White Form eIPO service and paid their applications monies through single bank accounts may have refund monies (if any) dispatched to their application payment bank 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 cheques, by ordinary post at their own risk.
- (9) e-Refund payment instruction/refund cheques 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.

The H Share certificates will only become valid certificates of title provided that the Global Offering has become unconditional in all respects and neither of the Hong Kong Underwriting Agreement nor the International Underwriting Agreement is terminated in accordance with its respective terms prior to 8:00 a.m. on the Listing Date. The Listing Date is expected to be on or about Monday, 31 March 2014. Investors who trade the 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.

CONTENTS

This prospectus is issued by Harbin Bank Co., Ltd. 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 securities 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 jurisdiction 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 jurisdiction 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 authorisation 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 authorised 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 authorised by us, the Selling Shareholders, the Joint Global Coordinators, the Joint Bookrunners, the Joint Sponsors, the Joint Lead Managers, the Underwriters, any directors of any of them or any other person involved in the Global Offering. Information contained on our website at www.hrbb.com.cn does not form part of this prospectus.

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SUMMARY

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 the section entitled “Risk Factors” of this prospectus. You should read that section carefully before you decide to invest in the Offer Shares.

OVERVIEW

We were the second largest commercial bank in Heilongjiang Province, and the largest commercial bank in Harbin in terms of total assets as of 31 December 2012 and net profit for the year ended 31 December 2012. As of 31 December 2012, our total assets accounted for 11.5% of the total assets of all banking institutions in Heilongjiang Province. Our net profit for the year ended 31 December 2012 accounted for 11.2% of the net profit of all banking institutions in Heilongjiang Province for the same year, according to the records of the CBRC Heilongjiang Bureau.

In recent years, our Bank has experienced rapid growth in profits. Our net profit increased from RMB1,227.2 million for the year ended 31 December 2010 to RMB2,871.5 million for the year ended 31 December 2012, representing a CAGR of 53.0%. For the nine months ended 30 September 2013, our net profit was RMB2,371.3 million.

We have an extensive network of branch outlets, covering a broad and diverse customer base. As of 31 January 2014, we had a total of 304 branch outlets, consisting of 15 branches, 245 sub-branches, 24 Village and Township Banks and their 20 sub-branches in the PRC. Our branches and sub-branches are mainly located in Heilongjiang Province. As of 31 January 2014, we had 10 branches and 198 sub-branches in Heilongjiang Province, among which 138 sub-branches were located in Harbin. Outside Heilongjiang Province, we have five branches and 47 sub-branches in the economically developed cities in the PRC, including Tianjin, Dalian, Shenyang, Chongqing and Chengdu. Our 24 Village and Township Banks and their 20 sub-branches are located in 14 provinces and municipalities directly under the State Council.

The table below sets forth, for the periods indicated, a breakdown of our total operating income by geographical regions.

	For the year ended 31 December						For the nine months ended 30 September			
	2010		2011		2012		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
(Unaudited)										
(in millions of RMB, except percentages)										
Heilongjiang region ⁽¹⁾	2,779.3	85.6	4,224.5	78.0	5,020.0	65.1	3,932.2	71.7	3,840.3	64.8
Other Northeast region ⁽²⁾	246.8	7.6	424.3	7.8	872.2	11.3	541.2	9.9	656.1	11.1
Southwest region ⁽³⁾	59.4	1.8	352.1	6.5	1,122.7	14.6	611.7	11.2	897.0	15.1
Northern China ⁽⁴⁾	147.7	4.6	370.7	6.9	559.6	7.3	302.4	5.5	376.9	6.4
Other regions ⁽⁵⁾	12.2	0.4	42.4	0.8	136.8	1.7	91.5	1.7	153.3	2.6
Total operating income	3,245.4	100.0	5,414.0	100.0	7,711.3	100.0	5,479.0	100.0	5,923.6	100.0

SUMMARY

Notes:

- (1) Heilongjiang region: Our headquarters, Harbin Branch, Shuangyashan Branch, Jixi Branch, Hegang Branch, Suihua Branch, Daqing Branch, Qitaihe Branch, Mudanjiang Branch, Jiamusi Branch and Qiqihar Branch and the Village and Township Banks operating in Heilongjiang Province.
- (2) Other Northeast region: Dalian Branch, Shenyang Branch and the Village and Township Banks operating in the Northeast region excluding Heilongjiang Province.
- (3) Southwest region: Chengdu Branch, Chongqing Branch and the Village and Township Banks operating in Southwest region, mainly including Sichuan and Chongqing.
- (4) Northern China: Tianjin Branch and the Village and Township Banks operating in Northern China, mainly including Beijing and Hebei.
- (5) Other regions: Other Village and Township Banks except those operating in the above regions.

Our principal businesses include corporate banking business, personal banking business, treasury operations and other businesses. See “Business – Our Principal Business Activities”. The table below sets forth our operating income by business segments and the proportion to our total operating income for the periods indicated:

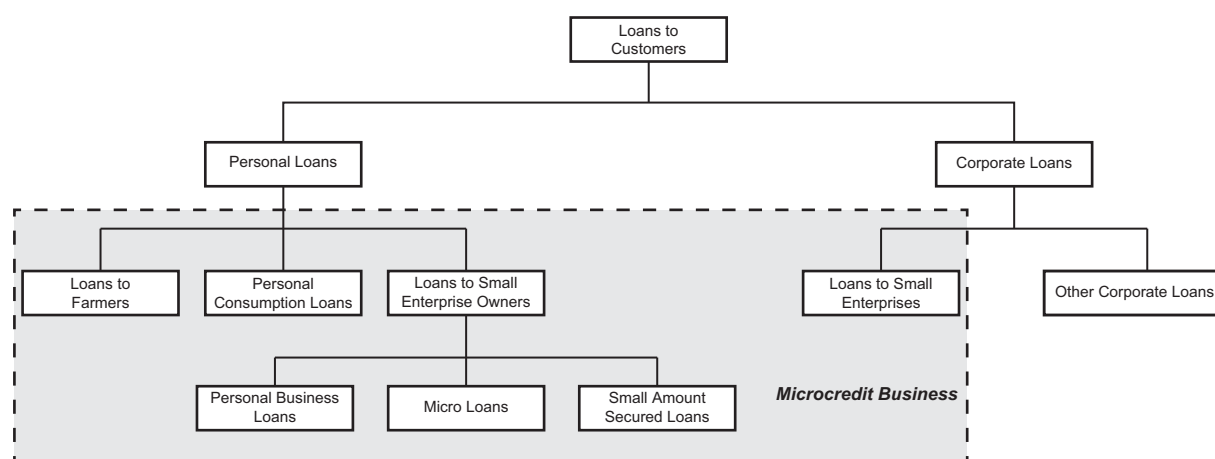
	For the year ended 31 December						For the nine months ended 30 September			
	2010		2011		2012		2012		2013	
	% of		% of		% of		% of		% of	
	Amount	total	Amount	total	Amount	total	Amount	total	Amount	total
(Unaudited)										
(in millions of RMB, except percentages)										
Corporate banking business	1,502.5	46.3	2,000.2	36.9	2,585.6	33.5	1,722.4	31.4	2,034.7	34.3
Personal banking business	1,309.0	40.3	1,947.6	36.0	2,228.7	28.9	1,808.8	33.0	1,761.4	29.7
Treasury operations	377.4	11.6	1,425.6	26.3	2,808.6	36.4	1,907.1	34.8	2,111.8	35.7
Other businesses ⁽¹⁾	56.5	1.8	40.6	0.8	88.4	1.2	40.7	0.8	15.7	0.3
Total operating income	3,245.4	100.0	5,414.0	100.0	7,711.3	100.0	5,479.0	100.0	5,923.6	100.0

Note:

- (1) Other businesses comprise businesses that cannot be identified as an independent segment or to a reasonable extent in considered part of our corporate banking business, personal banking business and treasury operations. Income generated from other businesses mainly includes government subsidies, leasing income, technology consultation fees and gains from disposals of fixed assets.

SUMMARY

We believe we are one of the leading providers of microcredit in the PRC. We are one of only two commercial banks in China to be awarded by the CBRC as a “Leading Banking Institution Providing Services to Small and Micro Enterprises” (全國銀行業金融機構小微企業金融服務先進單位) for five consecutive times. Furthermore, we are the first PRC commercial bank to export microcredit know-how and technology to other banking institutions which is a testament to our advanced microcredit know-how and technology. On these bases, we believe we are one of the leading providers of microcredit in the PRC. Our microcredit business commenced in 2001 and our Bank is a leading provider of microcredit in the PRC. The products and services of our microcredit business consist primarily of loans to Small Enterprise Customers, personal consumption loans and loans to farmers. The loans we offer to Small Enterprise Customers consist of corporate loans to Small Enterprises (which includes small enterprises¹ and micro enterprises² as defined in the SMEs Classification Standards) and personal loans offered to Small Enterprises Owners (which refers to individual customers that are owners of small enterprises and micro enterprises). See “Business – Our Principal Business Activities – Corporate Banking Business – Microcredit Business”. The following diagram illustrates our microcredit business.



¹ According to the SMEs Classification Standards, there are different classification standards for different industries. For example, industrial enterprises having more than 20 but fewer than 1,000 employees and generating more than RMB3 million in operating income in a year are classified as small enterprises, while enterprises having more than five but fewer than 200 employees and generating more than RMB10 million in operating income in a year in the wholesale industry are also classified as small enterprises.

² According to the SMEs Classification Standards, there are different classification standards for different industries. For example, industrial enterprises having fewer than 20 employees or generating less than RMB3 million in operating income in a year are classified as micro enterprises, while enterprises having fewer than five employees or generating less than RMB10 million in operating income in a year in the wholesale industry are also classified as micro enterprises.

SUMMARY

As of 31 December 2012 and 30 September 2013, the total balance of our microcredit loans amounted to RMB58,448.1 million and RMB72,527.0 million, respectively, representing 67.0% and 69.1%, respectively, of our total loans to customers as of those dates. For the year ended 31 December 2012 and the nine months ended 30 September 2013, our interest income from microcredit business amounted to RMB4,146.5 million and RMB3,706.0 million, respectively, representing 63.4% and 67.8%, respectively, of our total interest income for the same periods. The following table sets forth the distribution of the total balance of our microcredit business by product type as of the dates indicated.

	As of 31 December						As of 30 September	
	2010		2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)								
Loans to Small								
Enterprises	9,062.6	27.7	15,171.9	34.2	23,638.0	40.4	31,657.6	43.6
Personal loans ⁽¹⁾	23,668.2	72.3	29,139.7	65.8	34,810.1	59.6	40,869.4	56.4
Total balance of our microcredit loans	32,730.8	100.0	44,311.6	100.0	58,448.1	100.0	72,527.0	100.0

Note:

(1) Include loans to Small Enterprise Owners, loans to farmers and personal consumption loans.

We believe that our businesses, strong operating results and high-quality services have enabled us to become a market leader in various banking business segments:

- We were one of the earliest city commercial banks in the PRC to launch a microcredit business, and the first commercial bank in the PRC to export microcredit know-how and technology to other banking institutions;
- We were the first city commercial bank in Northeast China to obtain an operating permit for a foreign exchange business;
- We are one of the four market makers for Renminbi-Ruble tradings in the interbank foreign exchange market of the PRC, the domestic bank with the largest scale of Ruble cash exchange and also a pilot bank for various banking businesses with Russia;
- We were one of the first city commercial banks in Northeast China to launch investment banking and interbank business; and
- We are one of the three promoters of the Asia Financial Cooperation Association¹.

Our headquarters is in Harbin and a majority of our business is conducted in Heilongjiang Province. As of 30 September 2013, approximately 52.0% of our loans and approximately 61.8% of our total deposits were with customers in Heilongjiang Province. Heilongjiang Province is the most northern province in Northeast China and adjoins Russia. Benefiting from political support in the PRC and its geographical environment, Heilongjiang Province has become an important commodity grain base within China. From 2008 to 2012, Heilongjiang Province's nominal GDP grew at a CAGR of 13.3%. See "Industry Overview – Overview – Economy of Heilongjiang Province".

¹ Asia Financial Corporation Association is a regional financial cooperation organisation formed by certain small and medium-sized banks and non-banking financial institutions in Asia on 24 April 2012 in Sanya, Hainan. The association strives to provide a cooperation platform for its members, facilitate compliance management of its members and assist its members to overcome development delays, thus contributing to the healthy development of the economy and the financial sector.

SUMMARY

HONOURS AND AWARDS

We were ranked 4th among the city commercial banks in the PRC according to the “2013 Research Report on Asian Bank Competitiveness Rankings” released by the 21st Century Business Herald, representing an advancement of five places as compared with 2012. The ranking is based on statistics of eight aspects relating to a bank’s capabilities to enhance capital value for its shareholders, such as return on capital, market share, asset quality and capital adequacy ratio². We were ranked 33rd in terms of total assets among the “Top 50 Banks in China” published by Standard & Poor’s in 2012. We were ranked 9th among the city commercial banks with assets scale of over RMB200 billion as published by The Banker, a PRC-based magazine, in 2013. City commercial banks are ranked by a number of indicators of financial performance, including total assets, risk profile, capital structure, profitability and liquidity ratio. Our Bank was ranked 313th in the “Top 1000 World Banks 2013” recently announced by The Banker, a UK-based magazine, in terms of total tier 1 capital³, representing an advancement of 85 places as compared with our ranking in the same list of the previous year. According to the list, 96 banks in the PRC ranked among the “Top 1000 Word Banks 2013”. Among these PRC banks on the list, we were ranked 27th, 7th among city commercial banks and first among city commercial banks in Northeast China.

We have received a number of honours and awards for our strong business performance. In recent years, our major honours and awards included the following:

- In 2011, we were awarded the “Best SME Banking in China” (中國最佳中小企業銀行服務獎) award by The Asian Banker, being the only city commercial bank in the PRC to receive such award. We were also recognised as the “Market Maker of Emerging Currency with the Greatest Improvement” (最大進步新興貨幣市場做市商) by the China Foreign Exchange Trade System and an outstanding debt valuation member by China Central Depository & Clearing Co. Ltd.;
- We received the award for “Leading Banking Institution Providing Services to Small and Micro Enterprises” (全國銀行業金融機構小微企業金融服務先進單位) by the CBRC for five consecutive times; and
- In 2012, we were honoured as the “Outstanding Investment Bank in China – Investment Bank with the Greatest Growth Potential” (中國區優秀投行—最具成長性投行) by Securities Times.

OUR STRENGTHS

We believe our competitive strengths are as follows:

- We are one of the leading providers of microcredit in the PRC;
- We have comparative advantages among PRC city commercial banks in terms of our cross-regional operating network;
- We are a pioneer among PRC city commercial banks in launching rural financial services;
- We are the leading PRC city commercial bank in Russian financial services;
- We have a prudent and improving risk management and internal control system; and
- We have an experienced and dedicated management team and a competent staff base.

² A bank’s asset scale, liquidity and efficiency indicators, deposit structure and branch network are also taken into consideration.

³ The banks are also assessed with other secondary indicators, namely, assets, capital asset ratio, pre-tax profits, profit on capital, return on assets, capital adequacy ratio, NPL to total loans, loans to assets, risk weighted assets to assets and cost to income.

SUMMARY

OUR STRATEGIES

Our goal is to become a “first-class domestic and internationally renowned microfinance bank”. We will continue to apply the development philosophy of “Inclusive Finance, Harmonious Co-Enrichment”. We strive to further enhance our leading position in microcredit business and improve our general competitiveness with the aim of establishing our Bank as a city commercial bank with “sound governance practices, clear positioning, distinctive features, a strong capital base, an excellent team and an advanced corporate culture”.

We plan to achieve these goals by adopting the following strategic measures:

- Maintain and further enhance our competitive edge in the microcredit industry;
- Achieve comprehensive development of rural financial services;
- Accelerate the development of international financial business for small enterprises and micro enterprises and cross-border financial business with Russia;
- Strategically expand our operating regions and further improve our multi-channel distribution network;
- Further enhance our corporate governance, risk management and internal controls;
- Utilise information technology to drive business development and management; and
- Continue to implement our “talent-oriented” strategy.

SUMMARY FINANCIAL AND OPERATING INFORMATION

The summary consolidated income statement data for the years ended 31 December 2010, 2011 and 2012 and the nine months ended 30 September 2012 and 2013 and summary consolidated statement of financial position data as of 31 December 2010, 2011 and 2012 and 30 September 2013 set forth below are extracted from the Accountants’ Report set out in Appendix I to this prospectus. The summary consolidated income statement data for the year ended 31 December 2013 and the consolidated statement of financial position as of 31 December 2013 set forth below are extracted from the unaudited preliminary financial information of our Bank for the year ended 31 December 2013 set out in Appendix IV to this prospectus. You should read the summary financial information set forth below in conjunction with the Accountants’ Report and its accompanying notes and the unaudited preliminary financial information for the year ended 31 December 2013 and its accompanying notes. Our financial information for the nine months ended 30 September 2012 has not been audited.

SUMMARY

Summary Consolidated Income Statement Data

The following table summarises, for the periods indicated, our consolidated income statement. The preliminary financial information for the year ended 31 December 2013 is not audited and is subject to change. See “Appendix IV – Unaudited Preliminary Financial Information of the Bank for the Year ended 31 December 2013”.

	For the year ended 31 December				For the nine months ended 30 September	
	2010	2011	2012	2013	2012	2013
					(unaudited)	(unaudited)
					(in millions of RMB)	
Net interest income	2,955.9	4,818.1	6,658.4	6,817.8	4,757.5	4,924.3
Net fee and commission income	116.2	411.8	678.7	1,247.1	471.1	871.2
Net trading income	124.6	282.1	356.6	283.9	280.5	150.1
Net gain/(loss) on financial investments	0.7	(128.8)	(87.4)	(46.5)	(73.4)	(34.2)
Other operating income, net	48.0	30.8	105.0	241.6	43.3	12.2
Operating income	3,245.4	5,414.0	7,711.3	8,543.9	5,479.0	5,923.6
Operating expenses	(1,401.5)	(2,082.8)	(3,025.5)	(3,591.0)	(1,991.4)	(2,388.6)
Impairment losses on:						
Loans and advances to customers	(238.7)	(876.0)	(837.2)	(517.7)	(809.7)	(422.1)
Others	11.7	52.2	1.0	11.6	—	—
Operating profit	1,616.9	2,507.4	3,849.6	4,446.8	2,677.9	3,112.9
Share of profits of an associate	—	—	9.4	3.2	8.0	7.1
Profit before tax	1,616.9	2,507.4	3,859.0	4,450.0	2,685.9	3,120.0
Income tax expense	(389.7)	(651.0)	(987.5)	(1,078.9)	(664.8)	(748.7)
Profit for the year/period	1,227.2	1,856.4	2,871.5	3,371.1	2,021.1	2,371.3
Attributable to equity holders of the parent company	1,227.6	1,854.2	2,864.3	3,350.3	2,017.1	2,357.8

SUMMARY

Summary Consolidated Statement of Financial Position Data

The following table summarises, as of the dates indicated, our consolidated statement of financial position. The preliminary financial information as at 31 December 2013 is not audited and is subject to change. See “Appendix IV – Unaudited Preliminary Financial Information of the Bank for the Year ended 31 December 2013”.

	As of 31 December				As of 30 September
	2010	2011	2012	2013	2013
	(unaudited)				
	(in millions of RMB)				
Assets					
Cash and balances with central bank	23,413.2	30,935.7	51,858.5	51,552.1	40,729.7
Due from banks and other financial institutions	9,837.9	15,907.0	19,946.8	33,871.2	27,730.0
Financial assets held for trading	5,318.6	4,780.8	7,879.0	2,512.3	7,201.6
Reverse repurchase agreements	17,863.5	49,973.6	51,745.6	51,110.9	27,783.5
Loans and advances to customers	53,200.5	67,018.2	85,298.1	103,515.0	102,638.4
Financial investments	12,930.6	31,273.5	43,301.1	68,523.6	44,645.0
Investments in an associate	—	1,000.0	1,017.0	964.0	993.7
Property and equipment	1,656.7	3,488.5	6,038.2	7,314.9	6,542.6
Deferred income tax assets	136.0	167.0	258.3	333.9	370.8
Other assets	1,476.9	2,117.1	2,747.6	2,477.5	3,024.8
Total assets	<u>125,833.9</u>	<u>206,661.4</u>	<u>270,090.2</u>	<u>322,175.4</u>	<u>261,660.1</u>
Liabilities					
Due to central bank	—	174.8	594.9	787.2	756.0
Due to banks and other financial institutions	2,594.2	18,051.1	36,523.5	50,610.9	37,208.1
Repurchase agreements	2,871.7	27,972.5	22,832.7	19,091.2	6,289.8
Due to customers	112,891.6	145,962.4	186,642.4	224,178.1	191,130.0
Income tax payable	125.8	201.2	311.1	262.9	272.9
Debt securities issued	1,000.0	1,000.0	3,500.0	3,500.0	3,500.0
Other liabilities	1,211.9	1,769.0	2,748.6	3,817.9	3,494.9
Total liabilities	<u>120,695.2</u>	<u>195,131.0</u>	<u>253,153.2</u>	<u>302,248.2</u>	<u>242,651.7</u>
Total equity	<u>5,138.7</u>	<u>11,530.4</u>	<u>16,937.0</u>	<u>19,927.2</u>	<u>19,008.4</u>

SUMMARY

Summary of Key Financial and Operating Indicators

The following table sets forth a summary of key financial and operating indicators for the periods or as of the dates indicated. The key financial and operating indicators for the year ended 31 December 2013 are calculated based on the preliminary financial information for the year ended 31 December 2013, which is not audited and subject to change. See “Appendix IV – Unaudited Preliminary Financial Information of the Bank for the Year ended 31 December 2013”.

	Year ended 31 December				Nine month ended 30 September
	2010	2011	2012	2013	2013
	(unaudited)				
Profitability indicators					
Return on average total assets ⁽¹⁾⁽³⁾	1.17%	1.12%	1.20%	1.14%	1.19%
Return on average equity ⁽²⁾⁽³⁾	27.64%	22.57%	20.35%	18.36%	17.67%
Net interest spread ⁽³⁾⁽⁴⁾	3.38%	3.27%	3.06%	2.56%	2.49%
Net interest margin ⁽³⁾⁽⁵⁾	3.34%	3.29%	3.09%	2.64%	2.55%
Net fee and commission income to operating income ratio	3.58%	7.61%	8.80%	14.60%	14.71%
Cost-to-income ratio ⁽⁶⁾	39.11%	33.80%	34.51%	35.85%	34.23%
	As of 31 December				As of 30 September
	2010	2011	2012	2013	2013
	(unaudited)				
Capital adequacy indicators ⁽⁷⁾					
Core capital adequacy ratio	9.04%	11.37%	11.94%	11.67%	12.04%
Capital adequacy ratio	11.75%	12.61%	12.97%	12.55%	13.04%
Assets quality indicators					
Non-performing loans ratio ⁽⁸⁾	0.79%	0.62%	0.64%	0.85%	0.86%
Impairment coverage ratio ⁽⁹⁾	192.60%	347.16%	353.52%	268.34%	263.01%
Impairment losses on loans ⁽¹⁰⁾	1.53%	2.14%	2.25%	2.29%	2.26%
Other indicators					
Loan-to-deposit ratio	47.86%	46.92%	46.75%	47.26%	54.94%

Notes:

- (1) The percentage of net profit for a period to the average balance of the total assets at the beginning and the end of the period.
- (2) The percentage of net profit attributable to the equity shareholders of our Bank for a period to the average balance of total equity attributable to equity holders of the parent company at the beginning and the end of the period.
- (3) Calculated with the annualised benchmark.
- (4) Calculated as the difference between the average yield on total interest-earning assets and the average cost on total interest-bearing liabilities, calculated based on the daily average of the interest-earning assets and interest-bearing liabilities.
- (5) Calculated by dividing net interest income by average interest-earning assets, calculated based on the daily average of the interest-earning assets.
- (6) Calculated with the operating cost after the business tax and surcharges and divided by the operating income.
- (7) Calculated pursuant to the Capital Adequacy Measures and other relevant regulations in the PRC and in accordance with PRC GAAP. Core capital adequacy ratio = (core capital – core capital deductions) / (risk-weighted assets + 12.5 x capital charge for market risk); capital adequacy ratio = (capital – capital deductions) / (risk-weighted assets + 12.5 x capital charge for market risk). Since 2013, we have calculated and disclosed the capital adequacy ratio in accordance with the New Capital Adequacy Measures. Core tier 1 capital adequacy rate = (core tier-1 capital – corresponding capital deductions) / risk-weighted assets; tier 1 capital adequacy rate = (tier 1 capital – corresponding capital deductions) / risk-weighted assets; capital adequacy ratio = (total capital – corresponding capital deductions) / risk-weighted assets. According to the New Capital Adequacy Measures, our core tier 1 capital adequacy ratio, tier 1 capital adequacy ratio and capital adequacy ratio were 11.65%, 11.65% and 13.24%, respectively, as of 30 September 2013. According to the New Capital Adequacy Measures, our core tier 1 capital adequacy ratio, tier 1 capital adequacy ratio and capital adequacy ratio were 10.68%, 10.68% and 11.95%, respectively, as of 31 December 2013.
- (8) Calculated with the total non-performing loans divided by the total loans to customers.
- (9) Calculated with the allowance for impairment loss divided by the total non-performing loans.
- (10) Calculated with the allowance for impairment loss on loan divided by the total loans to customers.

SUMMARY

RISK FACTORS

Our business is subject to numerous risks as set out in the section headed “Risk Factors”. Since different investors may apply different interpretations and criteria when determining the materiality of a risk, you should read the section headed “Risk Factors” in this prospectus in its entirety before you decide to invest in the Offer Shares. The risks we primarily face include the following:

- If we are unable to effectively maintain the quality of our loan portfolio, our business, financial condition and results of operations may be materially and adversely affected.
- Our financial condition and results of operations may be materially and adversely affected if we are not able to maintain the growth of our loan portfolio.
- We may have to increase our allowance for impairment losses to cover future losses to our loan portfolio, which could materially and adversely affect our business, financial condition, results of operations and prospects.
- If the collateral or guarantees securing our loans are insufficient to cover the outstanding amounts of the loans, or if we are unable to realise the full values of the collateral or guarantees in a timely manner, our financial condition and results of operations could be materially and adversely affected.
- Any significant or protracted downturn in, or change in national policies affecting, the real estate market in the PRC may have a material adverse effect on our asset quality as well as our future growth.
- Any deterioration in the ability of local government financing vehicles to repay debt or any change in national policy relating to local government financing vehicles may have an adverse impact on our asset quality, financial condition or results of operations.
- We have a concentration of loans to certain industries and customers and if the condition of these industries or customers significantly deteriorates, our asset quality, financial condition and results of operations may be adversely affected.
- We cannot provide assurance that we will be able to satisfy the capital adequacy requirements of the CBRC.
- We are subject to risks in concentrating our business in Northeast China.
- If we are unable to maintain our growth rate in customer deposits or if there is a significant decrease in our customer deposits, our liquidity, financial condition and results of operations may be adversely affected.
- We have been increasingly focused on the development of wealth management products in recent years, and any adverse developments or changes in regulatory policies relating to these products could materially and adversely affect our business, financial condition, results of operations and prospects.
- We have made substantial investments in receivables, and any adverse development relating to these types of investments could materially and adversely affect our profitability.
- If our risk management and internal control policies and procedures are not able to fully protect us from risks relating to our business operations, our reputation, business, financial condition and results of operations may be materially and adversely affected.
- We have not obtained the title certificates for some of the properties held by us, and some of the lessors of the properties that we lease have not obtained the relevant title certificates, which may materially and adversely affect our rights to use such properties.

SUMMARY

- Intensifying competition in the PRC banking industry and competition in the capital market of the PRC in terms of capital could have material adverse effects on our business, financial condition, results of operations and prospects.
- Our business and operations are highly regulated, and our business, financial condition, results of operations and prospects may be materially and adversely affected by adverse changes in regulations or other PRC governmental policies (including their interpretation and application).
- The liquidity risk of the PRC banking industry may materially and adversely affect our liquidity, business, financial condition and results of operations.

INFORMATION OF OUR SUBSTANTIAL SHAREHOLDER

Harbin Economic Development is the only substantial shareholder of our Bank within the meaning of the Hong Kong Listing Rules. As of the Latest Practicable Date, Harbin Economic Development directly held approximately 29.48% of our equity interests. Immediately following the completion of the Global Offering, Harbin Economic Development will directly hold approximately 19.65% of our then total issued shares, assuming the Over-allotment Option is not exercised (or approximately 18.58% if the Over-allotment Option is exercised in full).

Established on 22 August 1992, Harbin Economic Development is wholly owned by Harbin Municipal Finance Bureau, a functional division of Harbin Municipal Government that comprehensively manages municipal fiscal revenue and expenditure, implements financial supervision, and participates in adjustment and monitor of the municipal economy of Harbin. The business scope of Harbin Economic Development is to make financial investments in areas like fixed-assets to municipally owned enterprises and to receive dividends in return. See “Our Relationships with Our Substantial Shareholder and Connected Transactions”.

USE OF PROCEEDS

We expect to use the net proceeds from the Global Offering to strengthen our capital base to support the on-going growth of our business. We will not receive any of the proceeds from the sale of the Sale Shares by the Selling Shareholders in the Global Offering. See “Share Capital – Transfer of Shares to the NSSF”.

OFFERING STATISTICS

The statistics below are based on the assumptions that (i) the Global Offering is completed and 2,748,700,000 H Shares are newly issued in the Global Offering, (ii) the Over-Allotment Option is not exercised and (iii) 10,995,599,553 Shares are issued and outstanding following the completion of the Global Offering:

	Based on an Offer Price of HK\$2.89	Based on an Offer Price of HK\$3.33
Market capitalisation of our Shares	HK\$31,777.3 million	HK\$36,615.3 million
Price/earnings multiple on a pro forma basis ⁽¹⁾	7.49 times	8.63 times
Unaudited pro forma adjusted net tangible assets per share ⁽²⁾	HK\$2.86 (RMB2.26)	HK\$2.97 (RMB2.35)

Notes:

- (1) The calculation of price/earnings multiple is based on the earnings per share from the preliminary unaudited results for the year ended 31 December 2013, on a pro forma basis at respective Offer Prices of HK\$2.89 and HK\$3.33 per H Share.

SUMMARY

- (2) The amount of unaudited pro forma adjusted net tangible assets per share is calculated in accordance with Rule 4.29 of the Hong Kong Listing Rules after the adjustments referred to in “Appendix III – Unaudited Pro Forma Financial Information”.

GLOBAL OFFERING

The Global Offering comprises:

- (i) the Hong Kong Public Offering of 302,358,000 New Shares (subject to adjustment) in Hong Kong; and
- (ii) the International Offering of 2,721,212,000 Offer Shares to be sold 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 solely to “qualified institutional buyers” in reliance on Rule 144A or another exemption from, or in transactions not subject to, the registration requirements of the U.S. Securities Act.

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

The number of H Shares to be offered under the Hong Kong Public Offering and the International Offering, respectively, may be subject to reallocation as described in the subsection headed “Structure of the Global Offering – The Hong Kong Public Offering – Reallocation and clawback”.

The number of the H Shares that may be over allocated will not exceed the number of the H Shares that may be sold under the Over-allotment Option, namely, 453,530,000 H Shares, which is approximately 15% of the number of Offer Shares initially available under the Global Offering, in the event that the whole or part of the Over-allotment Option is exercised.

DIVIDEND POLICY AND DIVIDEND DECLARED BEFORE LISTING

We can declare and pay dividends in cash and shares. Our Board is responsible for submitting proposals in respect of dividend payments. The determination of whether to pay a dividend and in what amount is based on and subject to various factors, including but not limited to, our business, financial performance, assets and regulations and general business conditions. See “Financial Information – Dividend Policy”.

We declared and paid bonus shares in the amount of RMB1,890.3 million in 2011, declared and paid bonus shares in the amount of RMB392.4 million and cash dividend of RMB392.4 million in 2012, and declared and paid bonus shares in the amount of RMB686.7 million and cash dividend of RMB171.7 million in 2013 in respect of profits for the years ended 31 December 2010, 2011 and 2012, respectively. Dividends paid in prior periods may not be indicative of future dividend payments. We cannot guarantee when, if and in what form or size dividends will be paid in the future.

At the shareholders’ general meeting held on 10 May 2013, it was resolved that the accumulated undistributed profits before the Global Offering would be shared among existing shareholders and new shareholders.

According to the Articles of Association of our Bank, our Bank shall distribute dividends for any profitable year. Profits to be distributed by our Bank in cash shall not be less than 10% of the distributable profits realised in that year.

SUMMARY

RECENT DEVELOPMENTS AND MATERIAL ADVERSE CHANGE

Our business has experienced growth since 30 September 2013, the date of the latest audited financial information of our Bank as set forth in the Accountants' Report in Appendix I to this prospectus.

To diversify our business operations, we applied for a financial leasing license from the CBRC and we received preliminary approval from the CBRC on 15 January 2014. Preparatory work for the establishment of our financial leasing company has commenced since then and remained at the initial stage as of the Latest Practicable Date. Our Directors have confirmed that, since 30 September 2013, there has been no material adverse change in our financial or trading position. Based on our unaudited preliminary financial information for the year ended 31 December 2013, our net interest income for the year ended 31 December 2013 was RMB6,817.8 million, representing an increase of 2.4% compared to RMB6,658.4 million for the year ended 31 December in 2012. Our net profit for the year ended 31 December 2013 was RMB3,371.1 million, representing an increase of 17.4% compared to RMB2,871.5 million for the year ended 31 December in 2012. In addition, our total loans and advances to customers (before subtracting allowance for impairment losses) and total due to deposits as of 31 December 2013 were RMB105,941.3 million and RMB224,178.1 million, respectively, and were higher than the corresponding financial data as of 31 December 2012. As of 31 December 2013, our total assets were RMB322,175.4 million, representing an increase of 19.3% from RMB270,090.2 million as of 31 December 2012.

The unaudited financial data as of and for the year ended 31 December 2013 have been reviewed by the reporting accountants in accordance with the Practice Note 730 issued by the Hong Kong Institute of Certified Public Accountants. You should read the discussion above in conjunction with the unaudited preliminary financial information of our Bank for the year ended 31 December 2013 and the accompanying notes, as well as the "Management's Discussion and Analysis of Financial Condition and Results of Operations" set forth in Appendix IV to this prospectus.

LISTING EXPENSES

We will incur listing expenses in connection with the Listing, which include professional fees, underwriting commissions and other fees. Listing expenses to be borne by our Bank are estimated to be RMB214.5 million. Listing expenses of approximately RMB7.5 million had been incurred as of 30 September 2013. Listing expenses of approximately RMB207.0 million are expected to be incurred after 30 September 2013, of which RMB37.5 million is expected to be charged to our statement of comprehensive income and RMB169.5 million is expected to be accounted for as a deduction from equity. The listing expenses above are the latest practicable estimate for reference only and the actual amount may differ from this estimate. Our Directors do not expect such expenses to have a material adverse impact on our results of operations for the year ending 31 December 2014.

DEFINITIONS AND CONVENTIONS

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

“12 th Five-Year Plan”	The Guiding Principle of China’s 12 th Five-Year Plan for National Economic and Social Development (中華人民共和國國民經濟和社會發展第十二個五年規劃綱要)
“Application Form(s)”	white, yellow and green application forms or, where the context so requires, any of them, relating to the Hong Kong Public Offering
“Articles of Association” or “Articles”	the articles of association of our Bank, the current version of which was passed at the shareholders’ general meeting on 10 May 2013 and was approved by the CBRC Heilongjiang Bureau on 22 January 2014, which will become effective upon Listing, as the same may be amended, supplemented or otherwise modified from time to time
“Bank”, “our Bank”, “Group”, “we” or “us”	Harbin Bank Co., Ltd. (哈爾濱銀行股份有限公司), a joint stock company incorporated in the PRC on 25 July 1997 with limited liability in accordance with PRC laws and, unless context indicates otherwise, all of its subsidiaries and branches
“Banking Disclosure Rules”	the Banking (Disclosure) Rules, Chapter 155M of the Laws of Hong Kong, as the same may be amended, supplemented or otherwise modified from time to time
“Banking Ordinance”	the Banking Ordinance, Chapter 155 of the Laws of Hong Kong, as the same may be amended, supplemented or otherwise modified from time to time
“Basel Accords”	Basel I, Basel II and Basel III, collectively
“Basel I”	the 1988 Basel Capital Accord
“Basel II”	the Revised Basel Capital Framework promulgated in June 2004
“Basel III”	the Revised Basel Capital Framework promulgated in December 2010
“Big Four”	Industrial and Commercial Bank of China, China Construction Bank, Bank of China and Agricultural Bank of China
“Board”	the board of Directors of our Bank, as described in “Appendix VI – Summary of the Articles of Association” of this prospectus
“Board of Supervisors”	the supervisory board of our Bank established pursuant to PRC Company Law, as described in “Appendix VI – Summary of the Articles of Association” of this prospectus

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“Building Ownership Certificates”	building ownership certificates in the PRC (中華人民共和國房屋所有權證)
“Business Day(s)”	any day on which banks in Hong Kong are generally open for business to the public and which is not a Saturday, Sunday or public holiday in Hong Kong
“CASBE”	the China Accounting Standards for Business Enterprises
“CAGR(s)”	compound annual growth rate(s)
“Capital Adequacy Measures”	the Administrative Measures on the Capital Adequacy Ratio of Commercial Banks (商業銀行資本充足率管理辦法), that was promulgated by the CBRC on 23 February 2004 and became effective on 1 March 2004, as the same may be amended, supplemented or otherwise modified from time to time
“CBRC”	the China Banking Regulatory Commission (中國銀行業監督管理委員會)
“CBRC Heilongjiang Bureau”	the China Banking Regulatory Commission Heilongjiang Bureau (中國銀行業監督管理委員會黑龍江監管局)
“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 or joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“CIETAC”	the China International Economic and Trade Arbitration Commission (中國國際經濟貿易仲裁委員會)
“CIRC”	the China Insurance Regulatory Commission (中國保險監督管理委員會)
“city commercial banks”	banks that are approved by the CBRC to be incorporated under the PRC Company Law and the PRC Commercial Banking Law with branches set up at the municipal level or above
“commercial banks”	all the banking institutions in the PRC other than policy banks, including: the Large Commercial Banks, the Nationwide Joint-

DEFINITIONS AND CONVENTIONS

	stock Commercial Banks, city commercial banks, rural financial institutions, foreign-owned banks and other banking institutions
“Companies Ordinance”	the Companies Ordinance, Chapter 622 of the Laws of Hong Kong, as the same may be amended, supplemented or otherwise modified from time to time
“Companies (Winding up and Miscellaneous Provisions) Ordinance”	the Companies (Winding up and Miscellaneous Provisions) Ordinance, Chapter 32 of the Laws of Hong Kong, as the same may be amended, supplemented or otherwise modified from time to time
“Core Indicators (Provisional)”	the Core Indicators for Risk Supervision of Commercial Banks (Provisional) (商業銀行風險監管核心指標 (試行)), as promulgated by the CBRC on 31 December 2005 and effective on 1 January 2006, as the same may be amended, supplemented or otherwise modified from time to time
“County Area(s)”	areas designated as counties or county-level cities under China’s administrative division system, which include economically more developed county centres, towns and the vast rural areas within their jurisdictions. As an administrative division unit, a county or county-level city is generally directly below and under the direct supervision of its corresponding municipal-level or provincial-level government
“CSRC”	the China Securities Regulatory Commission (中國證券監督管理委員會)
“Development of New Rural Areas”	the plans, policies and targets underpinning the developments of agricultural activities and building of the rural areas of China into new rural areas (新農村) by the Central Committee of the Communist Party of China and the State Council at the beginning of 2006
“Director(s)”	the director(s) of our Bank
“Domestic Shares”	ordinary shares issued by our Bank in the PRC, with a nominal value of RMB1.00 each, which are subscribed for or credited as paid in Renminbi
“Euro”	the official currency of the eurozone
“GDP”	gross domestic product
“GFA”	gross floor area
“Global Offering”	the Hong Kong Public Offering and the International Offering

DEFINITIONS AND CONVENTIONS

“Green application form(s)”	the application form(s) to be completed by the White Form eIPO Service Provider, Computershare Hong Kong Investor Services Limited
“Harbin” or “Harbin Municipality”	the Harbin Municipality located in Northeast China, in Heilongjiang. It is the capital of Heilongjiang Province
“Harbin Economic Development”	the Harbin Economic Development and Investment Company (哈爾濱經濟開發投資公司), a limited liability company incorporated in the PRC on 22 August 1992. It is wholly owned by Harbin Municipal Finance Bureau and is the only substantial shareholder (as defined under Hong Kong Listing Rules) of our Bank
“Heilongjiang” or “Heilongjiang Province”	Heilongjiang Province of China
“H Share Registrar”	Computershare Hong Kong Investor Services Limited
“H Shares”	the ordinary shares to be issued by our Bank in Hong Kong under the Global Offering, with a nominal value of RMB1.00 each, which are to be subscribed for and traded in HK dollars and are to be listed and traded on the Hong Kong Stock Exchange
“HK\$” or “HK dollars”	the lawful currency of Hong Kong
“HKFRS”	Hong Kong Financial Reporting Standards
“HKIAC”	Hong Kong International Arbitration Centre
“HKMA”	the Hong Kong Monetary Authority
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly owned subsidiary of HKSCC
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange, as the same may be amended and supplemented or otherwise modified from time to time
“Hong Kong Offer Shares”	302,358,000 H Shares (subject to reallocation) offered in the Hong Kong Public Offering
“Hong Kong Public Offering”	the offer for subscription of the Hong Kong Offer Shares in Hong Kong at the Offer Price and on, and subject to, the terms and conditions of this prospectus and the Application Forms, as further described in the section headed “Structure of the Global Offering”

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“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Hong Kong Underwriters”	the underwriters listed in the section headed “Underwriting – Hong Kong Underwriters”
“Hong Kong Underwriting Agreement”	the underwriting agreement relating to the Hong Kong Public Offering dated 18 March 2014 entered into among, <i>inter alia</i> , us and the Hong Kong Underwriters, as described in the section headed “Underwriting”
“IFRS”	the International Accounting Standards, International Financial Reporting Standards, amendments and the related interpretations issued by the International Accounting Standards Board
“International Offer Shares”	the 2,721,212,000 H Shares (subject to reallocation and the Over-allotment Option) offered in the International Offering
“International Offering”	the offer by us and the Selling Shareholders for the purchase and sale of certain Offer Shares to investors as further described in the section headed “Structure of the Global Offering – The International Offering”
“International Underwriting Agreement”	the international underwriting agreement relating to the International Offering, expected to be entered into on or about 25 March 2014, among, <i>inter alia</i> , us, the Selling Shareholders and the International Underwriters
“International Underwriters”	the group of initial underwriters expected to enter into the International Underwriting Agreement to underwrite the International Offering
“IT”	Information Technology
“Joint Bookrunners”	China International Capital Corporation Hong Kong Securities Limited, Credit Suisse (Hong Kong) Limited, BOCI Asia Limited, ABCI Capital Limited, Deutsche Bank AG, Hong Kong Branch, DBS Asia Capital Limited, Haitong International Securities Company Limited, CIMB Securities Limited, BOCOM International Securities Limited, China Merchants Securities (HK) Co., Limited and CCB International Capital Limited
“Joint Global Coordinators”	China International Capital Corporation Hong Kong Securities Limited, Credit Suisse (Hong Kong) Limited, BOCI Asia Limited, ABCI Capital Limited and Deutsche Bank AG, Hong Kong Branch
“Joint Lead Managers”	China International Capital Corporation Hong Kong Securities Limited, Credit Suisse (Hong Kong) Limited, BOCI Asia Limited, ABCI Securities Company Limited, Deutsche Bank AG, Hong Kong Branch, DBS Asia Capital Limited, Haitong International Securities Company Limited, CIMB Securities Limited, BOCOM International Securities Limited, China Merchants Securities (HK) Co., Limited and CCB International Capital Limited

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“Joint Sponsors”	China International Capital Corporation Hong Kong Securities Limited, BOCI Asia Limited and ABCI Capital Limited
“Land use rights certificates”	land use rights certificates in the PRC (中華人民共和國國有土地使用證)
“Large Commercial Banks”	the five large Chinese commercial banks consisting of Agricultural Bank of China, Bank of China, Bank of Communications, China Construction Bank and Industrial and Commercial Bank of China, and their respective predecessors, collectively
“Latest Practicable Date”	10 March 2014, being the latest practicable date for ascertaining certain information in this prospectus before its publication
“Listing Committee”	the listing committee of the Hong Kong Stock Exchange
“Listing Date”	the date on which dealing in the H Shares commences on the Hong Kong Stock Exchange
“Macau”	the Macau Special Administrative Region of the PRC
“Mandatory Provisions”	the Mandatory Provisions for Articles of Association of Companies to be Listed Overseas (到境外上市公司章程必備條款), as promulgated by the State Council Securities Commission and the State Restructuring Commission on 27 August 1994 and became effective on the same date, as the same may be amended and supplemented or otherwise modified from time to time
“micro enterprises”	enterprises classified as micro enterprises according to the SMEs Classification Standards, subject to different standards based on the nature of the industries. For example, industrial enterprises having fewer than 20 employees or generating less than RMB3 million operating income are classified as micro enterprises, while enterprises having fewer than five employees or generating less than RMB10 million operating income in the wholesale industry are also classified as micro enterprises
“MOF”	the Ministry of Finance of the PRC (中華人民共和國財政部)
“NAO”	the National Audit Office of the PRC (中華人民共和國審計署)
“Nationwide Joint-stock Commercial Banks”	China CITIC Bank, China Everbright Bank, Huaxia Bank, China Guangfa Bank, Ping An Bank (formerly named as Shenzhen Development Bank), China Merchants Bank, Shanghai Pudong Development Bank, Industrial Bank, China Minsheng Bank, Evergrowing Bank, Zheshang Bank and Bohai Bank
“NBSC”	the National Bureau of Statistics of China (中華人民共和國國家統計局)
“NDRC”	the 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)
“New Capital Adequacy Measures”	Measures for Administration on Capital of Commercial Banks (Provisional) (商業銀行資本管理辦法 (試行)), as promulgated by

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	the CBRC on 7 June 2012 and effective on 1 January 2013, as the same may be amended, supplemented or otherwise modified from time to time
“New Shares”	the 2,748,700,000 H Shares to be issued and offered for subscription by our Bank in the Global Offering (assuming the Over-allotment Option is not exercised); and, where relevant, any additional H Shares which may be issued and offered by our Bank pursuant to the exercise of the Over-allotment Option
“Northeast China”	the three provinces of Heilongjiang, Jilin and Liaoning which are located in the northeast of China
“NPC”	the National People’s Congress of the PRC (中華人民共和國全國人民代表大會)
“NSSF”	the National Council for Social Security Fund of the PRC (全國社會保障基金理事會)
“Offer Price”	the final Hong Kong dollar offer price per H Share (exclusive of any brokerage fee, SFC transaction levy and the Hong Kong Stock Exchange trading fee) at which the H Shares are to be subscribed and issued pursuant to the Global Offering, to be determined as described in the section headed “Structure of the Global Offering”
“Offer Shares”	the H Shares offered in the Global Offering
“Over-allotment Option”	the option to be granted by our Bank and the Selling Shareholders to the International Underwriters to purchase up to an aggregate of 453,530,000 additional H Shares at the Offer Price as described in the section headed “Structure of the Global Offering”
“PBOC”	the People’s Bank of China (中國人民銀行), the central bank of the PRC
“PBOC Harbin Central Sub-branch”	the People’s Bank of China Harbin Central Sub-branch (中國人民銀行哈爾濱中心支行), established under the Head Office of the PBOC, and which assumes the function of a central bank in Heilongjiang Province
“Personal Data (Privacy) Ordinance”	the Personal Data (Privacy) Ordinance, Chapter 486 of the Laws of Hong Kong, as the same may be amended, supplemented or otherwise modified from time to time
“PRC Banking Supervision and Regulatory Law”	the Banking Supervision and Regulatory Law of the PRC (中華人民共和國銀行業監督管理法), as enacted by the 6th meeting

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	of the 10th Standing Committee of the NPC on 27 December 2003, effective on 1 February 2004, as the same may be amended, supplemented or otherwise modified from time to time
“PRC Commercial Banking Law”	the Commercial Banking Law of the PRC (中華人民共和國商業銀行法), as enacted by the 13th meeting of the 8th Standing Committee of the NPC on 10 May 1995, effective on 1 July 1995, as the same may be amended, supplemented or otherwise modified from time to time
“PRC Company Law”	the Company Law of the PRC (中華人民共和國公司法), as enacted by the 5th meeting of the 8th Standing Committee of the NPC on 29 December 1993, effective on 1 July 1994, as the same may be amended, supplemented or otherwise modified from time to time
“PRC GAAP”	the generally accepted accounting principles in the PRC
“PRC” or “China”	the People’s Republic of China, but for the purposes of this prospectus only, excluding Hong Kong, Macau and Taiwan, unless otherwise indicated
“PRC PBOC Law”	the Law of the People’s Bank of China of the PRC (中華人民共和國中國人民銀行法), as enacted by the 3rd meeting of the 8th Standing Committee of the NPC on 18 March 1995, effective on the same date, as the same may be amended, supplemented or otherwise modified from time to time
“PRC Securities Law”	the Securities Law of the PRC (中華人民共和國證券法), as enacted by the 6th meeting of the 9th Standing Committee of the NPC on 29 December 1998 and became effective on 1 July 1999, as the same may be amended, supplemented or otherwise modified from time to time
“Price Determination Date”	the date, expected to be on or about 25 March 2014, on which the Offer Price is to be fixed by an agreement between us and the Joint Global Coordinators (on behalf of the Underwriters) for the purpose of the Global Offering
“Promoters”	the promoters that established our Bank on 25 July 1997. At the time of our establishment, our Promoters comprised 154 corporate shareholders and 4,756 individual shareholders
“Regulation S”	Regulation S under the U.S. Securities Act
“RMB” or “Renminbi”	the lawful currency of the PRC
“Ruble” or “RUB”	Russian ruble, the lawful currency of the Russian Federation
“Rule 144A”	Rule 144A under the U.S. Securities Act
“SAFE”	the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)

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“SAIC”	the 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)
“Sale Shares”	the 274,870,000 H Shares converted from Domestic Shares initially to be sold by the Selling Shareholders in the Global Offering (assuming the Over-allotment Option is not exercised); and, where relevant, any additional H Shares converted from Domestic Shares which may be sold by the Selling Shareholders pursuant to the exercise of the Over-allotment Option. For more information, see “Share Capital – Transfer of Shares to the NSSF”
“SASAC”	the State-owned Assets Supervision and Administration Commission of the State Council (中華人民共和國國務院國有資產監督管理委員會)
“SAT”	the State Administration of Taxation of the PRC (中華人民共和國國家稅務總局)
“Selling Shareholders”	the state-owned shareholders, collectively, who are required to reduce their shareholding pursuant to the relevant PRC regulations relating to reduction of state-owned shares as further listed out in the section headed “Information About this Prospectus and Global Offering – The Selling Shareholders”
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as the same may be amended, supplemented or otherwise modified from time to time
“SHIBOR”	Shanghai Interbank Offered Rate, a daily reference rate published by the National Interbank Funding Centre
“small enterprises”	enterprises classified as small enterprises according to the SMEs Classification Standards, subject to different standards based on the nature of the industries. For example, industrial enterprises having more than 20 but fewer than 1,000 employees and generating more than RMB3 million operating income are classified as small enterprises, while enterprises having more than five but fewer than 200 employees and generating more than RMB10 million operating income in the wholesale industry are also classified as small enterprises
“SMEs”	small enterprises, medium enterprises and micro enterprises as classified pursuant to the SMEs Classification Standards
“SMEs Classification Standards”	Regulations on the Standards for Classification of SMEs (中小企業劃型標準規定) jointly promulgated by the PRC Ministry

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	of Industry and Information Technology, the NBSC, the NDRC and the MOF on 18 June 2011. Enterprises in various industries are classified based on a number of criteria, such as the number of employees and operating income
“Special Regulations”	the Special Regulations on the Overseas Offering and Listing of Shares by Joint Stock Limited Companies (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), as promulgated by the State Council on 4 August 1994
“Stabilising Manager”	Haitong International Securities Company Limited
“State Council”	the PRC State Council (中華人民共和國國務院)
“Supervisor(s)”	the supervisor(s) of our Bank
“Track Record Period”	the period comprising the years ended 31 December 2010, 2011 and 2012 and the nine months ended 30 September 2013
“Underwriters”	the Hong Kong Underwriters and the International Underwriters
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
“U.S.”, “U.S.A.” or “United States”	the United States of America
“US\$” or “U.S. dollars”	the lawful currency of the United States
“U.S. Securities Act”	the United States Securities Act of 1933
“Village and Township Banks”	banks that are approved by the CBRC to be incorporated in rural areas with the main business focused on serving local farmers and supporting agricultural development
“White Form eIPO”	the application for Hong Kong Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website of White Form eIPO at www.eipo.com.hk
“White Form eIPO Service Provider”	Computershare Hong Kong Investor Services Limited
“WTO”	the World Trade Organisation

In this prospectus, the terms “associate”, “connected person”, “connected transaction”, “controlling shareholder”, “subsidiary” and “substantial shareholder” shall have the meanings given to such terms in the Hong Kong Listing Rules, unless the context otherwise requires.

Our “branch outlets” include our headquarters, branches, sub-branches, our Village and Township Banks and sub-branches thereunder.

“Small Enterprise Customers” refers to our customers that are “Small Enterprises” or “Small Enterprise Owners”; “Small Enterprises” as defined by our Bank refers to our corporate customers that

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are small enterprises or micro enterprises; “Small Enterprise Owners” as defined by our Bank refers to our individual customers who are owners of small enterprises or micro enterprises, loans to whom include individual business loans, micro loans and small amount secured loans.

For ease of reference, in this prospectus, unless otherwise indicated, we use the terms “loans and advances to customers”, “loans” and “loans to customers” synonymously, the terms “deposits”, “deposits from customers” and “due to customers” synonymously and the terms “net profit” and “profit for the year/period” synonymously.

In this prospectus, the terms “non-performing loans”, “NPLs” and “impaired loans” are used synonymously to refer to the loans identified as “impairment losses on loans and advances to customers” in Note 22 to our consolidated financial statements included in the Accountants’ Report in “Appendix I – Accountants’ Report”. Under the five-category loan classification system we have adopted pursuant to the applicable PRC guidelines, our non-performing loans are classified as substandard, doubtful or loss, as applicable. See “Assets and Liabilities – Assets – Asset Quality of Our Loan Portfolio – Loan Classification Criteria”.

In this prospectus, unless otherwise indicated, the discussions on loans are based on our gross loans and advances to customers, before taking into account the related allowance for impairment losses, rather than our net loans to customers. Our loans and advances to customers are reported net of the allowance for impairment losses on our consolidated balance sheet.

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

Unless otherwise indicated, the growth rates with respect to our business and financial data presented in this prospectus are calculated based on amounts in millions of Renminbi.

FORWARD-LOOKING STATEMENTS

This prospectus contains certain forward-looking statements and information relating to us that are based on the beliefs of, assumptions made by and information currently available to our management. When used in this prospectus, the words “aim”, “anticipate”, “believe”, “could”, “predict”, “potential”, “continue”, “expect”, “going forward”, “intend”, “may”, “ought to”, “plan”, “project”, “seek”, “should”, “will”, “would” and the negative forms of these words and other similar expressions, as they relate to our Bank or our management, are intended to identify forward-looking statements. Such statements reflect the current views of our Bank’s management with respect to future events, operations, liquidity and capital resources, some of which may not materialise 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 Bank which could affect the accuracy of forward-looking statements include, but are not limited to, the following:

- our operations and business prospects, including our development plans for our existing and new products;
- our business strategies and initiatives to implement these strategies;
- our existing risk management system and our ability to improve such system;
- our ability to reduce costs;
- our dividend policy;
- our financial condition, results of operations and performance;
- fluctuation in our fee and commission income;
- the amount and nature of, potential for and future development of our business;
- future developments, trends and conditions in the industry and markets in which we operate;
- changes to the regulatory environment and general outlook in the industry and markets in which we operate;
- the products, actions and developments of our competitors;
- general political and economic conditions; and
- capital market developments.

Subject to the requirements of applicable laws, rules and regulations, we do not intend to 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 the cautionary statements set out in this section.

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You should carefully consider all the information in this prospectus, including the risks and uncertainties described below, before making an investment in our H Shares. Our business could be materially and adversely affected by any of these risks. The trading price of our H Shares could significantly decrease due to any of these risks, and you may lose all or part of your investment. You should also pay particular attention to the fact that we are a PRC company and are governed by a legal and regulatory regime that may differ in some aspects from regimes in other countries. See “Supervision and Regulation”, “Appendix V – Summary of Principal Legal and Regulatory Provisions” and “Appendix VI – Summary of Articles of Association”.

RISKS RELATING TO OUR LOAN PORTFOLIO

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

Our business, financial condition and results of operations may be materially and adversely affected by deterioration of the quality of our loan portfolio or other assets. Our businesses are exposed to risks arising from changes in credit quality, recovery of loans and receivables and other trading and investment activities. As of 31 December 2010, 2011 and 2012 and 30 September 2013, non-performing loans accounted for 0.79%, 0.62%, 0.64% and 0.86%, respectively, of our total loans and advances to customers. We may not effectively control the proportion of non-performing loans in our existing loan portfolio or the proportion of non-performing loans and advances in our loans in the future. In particular, our non-performing loans may increase due to the significant increase of new loans during the Track Record Period or a deterioration in the quality of our loan portfolio. Our gross loans and advances to customers increased from RMB54,024.6 million as of 31 December 2010 to RMB68,483.8 million as of 31 December 2011, and further increased to RMB87,264.4 million as of 31 December 2012 and RMB105,010.4 million as of 30 September 2013.

We cannot assure you that the quality of our existing or future loans to customers will not deteriorate. Deterioration in the overall quality of our loan portfolio may occur due to various reasons, including factors beyond our control such as a slowdown in the growth of the PRC or global economies, trading disputes between the PRC and one or more other countries, other adverse macroeconomic developments in China or other parts of the world and the occurrence of natural disasters, which may adversely affect the operations, financial condition or liquidity of borrowers under or guarantors of our loans. Any of these events may in turn affect borrowers’ ability to repay their debt and guarantors’ ability to perform their obligations under the loans. Any actual or expected default or credit deterioration of our counterparties, decreases in prices of residential and commercial properties that serve as collateral under the loans or decreases in profitability of our borrowers may lead to a deterioration in our asset quality and an increase in our allowance for impairment loss. In addition, if a guarantor of our loans fails to comply with the laws of the PRC, the guarantee may be held to be invalid by the relevant judicial authority or arbitration tribunal, which may adversely affect our asset quality. Any significant deterioration in our asset quality may lead to significant increases in our non-performing loans and allowance for impairment loss, which may have a material adverse effect on our business, financial condition and results of operations.

Our financial condition and results of operations may be materially and adversely affected if we are not able to maintain the growth of our loan portfolio.

Our total operating income was RMB3,245.4 million, RMB5,414.0 million, RMB7,711.3 million and RMB5,923.6 million for the years ended 31 December 2010, 2011 and 2012 and the nine months ended 30 September 2013, respectively. As of 31 December 2010, 2011 and 2012 and 30 September

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2013, our gross loans and advances to customers were RMB54,024.6 million, RMB68,483.8 million, RMB87,264.4 million and RMB105,010.4 million, respectively, and our net loans and advances to customers (after deduction of the allowance of impairment losses) were RMB53,200.5 million, RMB67,018.2 million, RMB85,298.1 million and RMB102,638.4 million, respectively. The CAGR of our net loans and advances to customers from 2010 to 2012 was 26.6%. However, we may not be able to successfully maintain the growth of our loan portfolio if we fail to offer new products to attract new customers, improve our marketing efforts or expand our sales channels. The growth of our loan portfolio may also be influenced by the general state of the PRC economy and macroeconomic factors affecting the PRC or regions where we operate, such as growth in GDP, the rate of inflation, changes in laws or regulations governing banking and financial products, changes in the implementation of macroeconomic regulation, market liquidity and changes in credit policy, changes in loans demand and the progress of financial reforms and liberalisation of interest rates.

In addition, maintaining the growth of our loan portfolio will require substantial managerial and operational resources and there can be no assurance that we will be able to retain and attract qualified personnel to support the growth of our loan portfolio needs in a timely manner, or at all. See “– We may not be able to recruit, train or retain a sufficient number of qualified staff”. We may also need additional capital in the future, and we may not be able to obtain such capital on acceptable terms, or at all, which may result in a lower or non-compliant capital adequacy ratio. See “– We cannot provide assurance that we will be able to satisfy the capital adequacy requirements established by the CBRC”. Any of the above occurrences may materially and adversely affect our financial condition and results of operations.

We may have to increase our allowance for impairment losses to cover future losses to our loan portfolio, which could materially and adversely affect our business, financial condition, results of operations and prospects.

We provide for an allowance for impairment losses on loans to customers in accordance with IAS 39 and the principles of risk-based categorisation and the allowance for impairment loss and advances set by the relevant regulatory authorities. As of 31 December 2010, 2011 and 2012 and 30 September 2013, our allowance for impairment losses on loans and advances to customers amounted to RMB824.1 million, RMB1,465.6 million, RMB1,966.3 million and RMB2,372.0 million, respectively, and the ratio of our allowance for impairment losses on loans and advances to total non-performing loans was 192.60%, 347.16%, 353.52% and 263.01%, respectively. The general increase in our allowance was primarily the result of an increase in our loan portfolio, as well as our relatively conservative allowance policy. See “Assets and Liabilities – Assets – Allowance for Impairment Losses on Loans to Customers”.

The amount of the allowance for impairment losses is based on our assessment of various factors affecting the quality of our loan portfolio under the applicable regulations and accounting standards including, among other things, our borrowers’ operational and financial conditions, repayment ability and repayment intention, the realisable value of any collateral or securities and the ability of the guarantors of our borrowers to fulfil their obligations, as well as China’s economic, legal and regulatory environments. Many of these factors are beyond our control, and therefore our assessment and expectations of these factors may differ from actual future developments. Furthermore, the adequacy and sufficiency of our allowance for impairment losses may be affected by the limitations of our skills in and systems for assessing impairment losses as well as our ability to accurately collect, process and analyse relevant information and data.

If our assessment of, or expectations concerning, the factors that affect the quality of our loan portfolio differs from actual developments or if the quality of our loan portfolio deteriorates, our

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allowance for impairment losses may not adequately cover our actual losses, and we may need to make additional provisions for impairment losses. In addition, our allowance for impairment losses may continue to increase as a result of future regulatory and accounting policy changes, inaccuracies in loan classification or our conservative policy for providing for allowance for impairment losses. Any of the above may significantly reduce our profit and materially and adversely affect our business, financial condition, results of operations and prospects.

If the collateral or guarantees securing our loans are insufficient to cover the outstanding amounts of the loans, or if we are unable to realise the full values of the collateral or guarantees on a timely basis, our financial condition and results of operations could be materially and adversely affected.

As of 30 September 2013, RMB54,528.0 million of our loans were secured by collateral, accounting for 51.9% of our total loans and advances to customers. Collateral relating to our loans primarily comprise real estate, land, certificates of deposits and other assets. The values of the real estate, land and other assets may decline due to various factors. In particular, the slowdown of macroeconomic growth and the implementation of control policies by government authorities may cause a decrease in the value of certain collateral to a level that is insufficient to cover the outstanding amounts of loans.

In the PRC, the procedures for liquidating or otherwise realising the value of collateral in the form of tangible assets may be protracted and it may be difficult to enforce the collateral. For example, in accordance with the Directive on Foreclosure of Mortgage on Housing by the People's Court (最高人民法院關於人民法院執行設定抵押的房屋の規定) issued by the Supreme People's Court of the PRC, effective as from 21 December 2005, in the event that a borrower obtains loans secured by housing, the People's Court cannot evict the borrower and his or her dependents from their mortgaged residence for six months after the court approves the auction, liquidation or foreclosure of such mortgaged residence for the repayment of debt. Therefore, there can be no assurance that we will be able to enforce security on pricing residential property. In addition, in certain circumstances, our rights to the collateral securing our loans may be subordinated to the claims of other individuals or institutions in accordance with the PRC law. For example, according to the Enterprise Bankruptcy Law of the PRC (中華人民共和國企業破產法), should the properties of a bankrupt enterprise be insufficient to settle the outstanding wages and medical, disability allowance and compensation owed to the staff, basic pension insurance and medical insurance premium which should be credited to the personal accounts of the staff, and other compensation payable according to laws and administrative regulations, such claims of the staff should be settled in priority over our collateral.

As of 30 September 2013, 44.4% of our loans were backed by guarantees, which were generally not backed by collateral or other security interests. If a significant number of our borrowers are unable to perform their obligations and there is a significant deterioration in the financial condition of the guarantors, the amounts we may recover from the loans secured by such guarantees may decrease significantly. In addition, we are subject to the risk that a court or any other judicial or arbitral authorities may declare a guarantee to be invalid or otherwise decline to enforce such guarantee. We are therefore exposed to the risk that we may not be able to recover all or any part of the amounts guaranteed in respect of our loans.

If the values of our collateral decrease to a level that is insufficient to cover the outstanding amounts of loans, or if we fail to realise the full value of the collateral on a timely basis, our financial condition and results of operations could be adversely affected.

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Any significant or protracted downturn in, or change in national policies affecting, the real estate market in the PRC may have a material adverse effect on our asset quality as well as our future growth.

We have significant exposure to the real estate market in the PRC through corporate loans to the real estate sector, personal residential mortgage loans and other loans secured by real estate. As of 31 December 2010, 2011 and 2012 and 30 September 2013, our corporate loans in the real estate sector accounted for 2.0%, 2.6%, 4.8% and 2.9%, respectively, of our total corporate loans. Our personal residential mortgage loans accounted for 10.8%, 11.7%, 14.0% and 15.2% of our total personal loans as of 31 December 2010, 2011 and 2012 and 30 September 2013, respectively. The PRC government has imposed and may continue to impose macroeconomic control measures aimed at preventing the real estate market from overheating, such as imposing business taxes on the transfer of residential houses within five years after the purchase of the houses, levying mandatory personal income tax for second-hand residential housing transactions, imposing qualification requirements for homebuyers and personal residential mortgage loan borrowers, and regulating the minimum down payments and mortgage rates for the purchase of residential properties. See “Supervision and Regulation – PRC Banking Supervision and Regulation – Regulation of Principal Commercial Banking Activities”.

These measures may slow down the growth of our loans to, and negatively affect the financial condition, liquidity and repayment capabilities of, our customers in the real estate sector. These measures may also reduce the demand for personal residential mortgage loans in the PRC. In addition, any significant or extended decline in property prices in the PRC may have a material adverse effect on the asset quality of our corporate loan portfolio. If the real estate market in the PRC experiences a significant downturn, the value of the collateral securing our loans may decrease to a level below the outstanding balances of such loans, which could result in a reduction in the amount we could recover on any defaulting loans secured by real estate. We cannot assure you that any measures we take will be effective or sufficient to protect us against the effects of any downturn in the PRC real estate market as a result of macroeconomic conditions, national policies or other factors.

Any deterioration in the ability of local government financing vehicles to repay debt or any change in national policy relating to local government financing vehicles may have an adverse impact on our asset quality, financial condition or results of operations.

We have extended loans to local government financing vehicles and our exposure to local government financing vehicles also includes our investments in bonds issued by local government financing vehicles, fund trust plans and directional asset management plans under which they are ultimate borrowers.

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As of 31 December 2010, 2011 and 2012 and 30 September 2013, our exposure to local government financing vehicles amounted to RMB3,268.9 million, RMB3,780.8 million, RMB4,412.6 million and RMB5,523.0 million, respectively, and accounted for 2.6%, 1.8%, 1.6% and 2.1%, respectively, of our total assets as of the corresponding dates. The following table sets forth a breakdown of our total exposure to local government financing vehicles as of the dates indicated.

	As of 31 December			As of 30 September
	2010	2011	2012	2013
	(in millions of RMB)			
Loans	2,936.1	2,163.0	2,144.0	2,020.0
Bonds investments	332.8	870.8	1,383.6	1,415.0
Investments in fund trust plans and directional asset management plans	0	747.0	885.0	2,088.0
Total exposure to local government financing vehicles	3,268.9	3,780.8	4,412.6	5,523.0

According to the CBRC, local government financing vehicles include three types of entities, namely government organs, public institutions and enterprises, which are funded and established by local governments with joint liability for repayment. These local government financing vehicles are mainly engaged in financing for local financial authorities and assume repayment liabilities or provide guarantees directly or indirectly for all or part of the financing activities. The proceeds from financing are primarily used in the development of infrastructure or quasi non-profit government investment projects. Our loans to local government financing vehicles primarily consist of loans to local government financing vehicles in Heilongjiang and are secured by collateral or guarantees. The principal and returns of all investments under the fund trust plans and directional asset management plans through which we offer loans to local government financing vehicles are also secured by collateral or guarantees.

In recent years, to enhance the risk management of loans to local government financing vehicles, the State Council, the CBRC, the PBOC and certain other regulatory authorities in the PRC have issued various notices, guidelines and other regulatory measures applicable to banks and other financial institutions in the PRC to strengthen risk management measures in connection with loans to local government financing vehicles. See “Supervision and Regulation – Regulation of Principal Commercial Banking Activities – Lending”. In addition, recent media publications have continued to express concerns about the level of debts of local government financing vehicles. We cannot assure you that any measures taken by us are or will be effective or sufficient to protect us from any default by local government financing vehicles. Any unfavourable economic developments, changes in government policies, deterioration of the financial condition of local governments, significant decline of property prices or other factors may undermine the ability of local government financing vehicles to repay debt, which may in turn have an adverse impact on our asset quality, financial condition or results of operations.

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

As of 30 September 2013, our corporate loans in the (i) wholesale and services, (ii) manufacturing, (iii) construction, (iv) rental and commercial services and (v) agriculture, forestry, husbandry and fishery sectors accounted for 36.0%, 21.7%, 9.0%, 6.5% and 5.1%, respectively, of our total corporate loans and the non-performing loans in the above sectors accounted for 59.8%, 33.0%, 4.9%, 0.2% and 0%, respectively, of our total non-performing corporate loans. A downturn in any of the sectors in which we

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have a concentration of loans may cause our non-performing loans to increase and may negatively affect new loans extended to, and the renewal of existing loans by, borrowers in those sectors, and may materially and adversely affect our asset quality, financial condition and results of operations.

As of 30 September 2013, the aggregate amount of our loans to the ten largest single borrowers was RMB5,135.0 million, representing 4.89% of our total loans and 23.83% of our regulatory capital. As of the same date, the balance of our loans to our ten largest group borrowers amounted to RMB7,257.4 million, representing 6.91% of our total loans, and the credit balance to our ten largest group borrowers amounted to RMB7,308.0 million, representing 33.92% of our regulatory capital. Any deterioration in the quality of our loans to our ten largest single or group borrowers may have a material adverse impact on our asset quality, financial condition and results of operations.

Moreover, loans extended to the agricultural industries are generally more vulnerable to natural disasters and macroeconomic fluctuations compared with loans in other industries. Any deterioration in the quality of our new loans to customers in agricultural-related industries due to macroeconomic factors, policies, natural disasters and other factors may have a material adverse impact on our asset quality, financial condition and results of operations.

The high proportion of our short-term loans may adversely affect the reliability and stability of our interest income.

A high portion of our outstanding loans consist of short-term loans. As of 31 December 2010, 2011 and 2012 and 30 September 2013, short-term loans represented 59.6%, 59.0%, 60.3% and 64.4%, respectively, of our total loans and advances to customers. During the Track Record Period, a substantial portion of these loans were rolled over upon maturity, and these loans have been a stable source of interest income. We cannot provide assurance, however, that this will continue to be the case, particularly if competition increases or alternative sources of funding at lower interest rates become available to our customers. The high proportion of short-term loans in our loan portfolio may adversely affect the reliability and stability of our interest income.

RISKS RELATING TO OUR BUSINESS

We cannot provide assurance that we will be able to satisfy the capital adequacy requirements of the CBRC.

We are subject to the Capital Adequacy Measures issued by the CBRC, which require us to maintain a minimum capital adequacy ratio of 8% and a minimum core capital adequacy ratio of 4%. Based on the Capital Adequacy Measures and other related regulations in the PRC, as of 31 December 2010, 2011 and 2012 and 30 September 2013, our capital adequacy ratio was 11.75%, 12.61%, 12.97% and 13.04%, respectively, while our core capital adequacy ratio was 9.04%, 11.37%, 11.94% and 12.04%, respectively.

Our ability to comply with the prevailing capital adequacy requirements may be adversely affected by the deterioration of our financial condition (including an increase in non-performing loans, a deterioration in our asset quality or the worsening of our profitability), which may lead to a decrease in our capital base. If capital demands required for our growth are in excess of what we are able to generate internally or raise in the capital markets or otherwise, we may not be able to obtain additional capital on commercially acceptable terms in a timely manner, or at all. Our ability to obtain additional capital may also be restricted by a number of factors, including our future business, financial condition, results of operations and cash flows, conditions prescribed by PRC law and regulatory approvals, our credit rating, general market conditions for capital-raising activities by commercial banks and other financial institutions, and economic, political and other conditions both within and outside China.

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Furthermore, pursuant to the New Capital Adequacy Measures, since 1 January 2013, commercial banks are required to maintain a minimum core tier 1 capital adequacy ratio of 5%, a minimum tier 1 capital adequacy ratio of 6% and a minimum capital adequacy ratio of 8%. Moreover, commercial banks shall also have a capital conservation buffer until it reaches 2.5% of risk-weighted assets in addition to the minimum capital requirement. Under specific circumstances, commercial banks shall set aside capital as a counter-cyclical capital buffer of up to 2.5% of risk-weighted assets. Commercial banks shall comply with the above capital adequacy requirements by the end of 2018. Based on the New Capital Adequacy Measures, as of 30 September 2013, our core tier 1 capital adequacy ratio, tier 1 capital adequacy ratio and capital adequacy ratio were 11.65%, 11.65% and 13.24%, respectively, and were significantly higher than the minimum capital adequacy requirements of the regulatory authorities. However, we cannot assure you that we will be able to continue to maintain such ratios or meet such applicable capital adequacy requirements in the future. Furthermore, the CBRC may increase the minimum capital adequacy requirements or change the methodology for calculating regulatory capital or capital adequacy ratios, or we may otherwise be subject to new capital adequacy requirements. We also can provide no assurance that our fulfilment of the prevailing capital adequacy requirements will not be affected by any future events, including:

- increases of our risk-weighted assets as a result of the rapid development of our business;
- our failure to replenish or increase our capital in a timely manner;
- declines in our net profit, resulting in decreases in our retained earnings;
- increases in the minimum capital adequacy requirements of the CBRC; and
- changes in accounting principles or guidelines regarding the calculation of capital adequacy ratios of commercial banks.

If we fail to meet applicable capital adequacy requirements, our capacity for further business growth may be constrained. The CBRC may take certain actions, including imposing restrictions on our lending and investment activities thereby restricting the growth of our loans and other assets, declining to approve our application to enter into a new service or restricting our ability to pay dividends. These actions could materially and adversely affect our reputation, financial condition, results of operations and growth prospects.

We are subject to risks in concentrating our business in Northeast China.

Our business and operations are concentrated in Northeast China. As of 30 September 2013, the loans we granted to borrowers in Northeast China accounted for 68.4% of our total loans and advances to customers and deposits from customers in Northeast China accounted for 75.9% of our total deposits from customers. As approved by the regulatory departments, we have established three branches outside Northeast China, namely Tianjin, Chongqing and Chengdu. Nevertheless, subject to regulatory policies, we may not be able to establish any new branches outside the Heilongjiang region in the future and we expect that our future business and operations will continue to concentrate in Northeast China. If economic growth slows down or adverse changes in the economic environment arise or any severe natural disasters or catastrophic events occur in Northeast China, our asset quality, financial condition and results of operations could be materially and adversely affected.

RISK FACTORS

We are subject to risks in our cross-regional operations.

For cross-regional operations, in addition to direct competition with the existing commercial banks in the regions where we operate, we are also exposed to a series of other risks, including:

- failure to satisfy demands of local customers with our existing products or services;
- inability to adapt to the local culture and operational practices rapidly;
- insufficient financial, operational, managerial and human resources to support cross-regional business expansions; and
- failure to enhance the level of our risk management and internal control capability, as well as improve our information technology systems in time to cater for the demands of cross-regional operations.

Furthermore, we may have difficulties in recruiting staff who are familiar with the local economy, communities and customers. Moreover, our further cross-regional business expansion must comply with various regulations imposed by the PRC regulatory authorities. If there is any adverse change in such regulatory requirements applicable to our Bank, we may not be able to successfully expand our business into other regions in the PRC, which could adversely affect our business, financial condition and results of operations.

If we are unable to maintain our growth rate in customer deposits or if there is a significant decrease in our customer deposits, our liquidity, financial condition and results of operations may be adversely affected.

Customer deposits are our primary source of funds. Our total customer deposits grew from RMB112,891.6 million as of 31 December 2010 to RMB186,642.4 million as of 31 December 2012, at a CAGR of 28.6%. As of 30 September 2013, our customer deposits amounted to RMB191,130.0 million. There are many factors affecting the growth of customer deposits, some of which are beyond our control, such as macroeconomic and political conditions, the availability of disposable funds of customers, saving habits of customers and other investment alternatives. See “– Our financial condition and results of operations may be materially and adversely affected if we are unable to maintain our growth successfully, continue to optimise our income structure or acquire sufficient resources to support our growth”. As a result, we cannot assure you that our customer deposits will grow at a pace sufficient to support our expanding business.

In addition, as of 30 September 2013, 90.3% of our total customer deposits had remaining maturities of one year or less, or were demand deposits. In our experience, largely due to the lack of alternative investment products in China, our short-term customer deposits have generally been rolled over upon maturity. However, we cannot assure you that this will continue to be the case, particularly as the domestic capital market in China continues to develop and we face more competition from banks, fund management companies and other financial institutions in terms of customer deposits.

If we are unable to maintain our growth rate in deposits, or if the growth in deposits is not sufficient to satisfy the funding required for our business expansion, or if a substantial portion of our customers withdraw their demand deposits or do not roll over their time deposits upon maturity, we may need to seek more expensive sources of funding to meet our funding requirements. In case of such events, our liquidity, financial condition and results of operations may be adversely affected.

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Our financial condition and results of operations may be materially and adversely affected if we are unable to maintain our growth successfully, continue to optimise our income structure or acquire sufficient resources to support our growth.

From 2010 to 2012, our operating income and net profit increased at a CAGR of 54.1% and 53.0%, respectively. For the years ended 31 December 2010, 2011 and 2012 and the nine months ended 30 September 2013, our net fee and commission income was RMB116.2 million, RMB411.8 million, RMB678.7 million and RMB871.2 million, respectively, representing 3.58%, 7.61%, 8.80% and 14.71%, respectively, of the turnover for the same periods. The proportion of our net fee and commission income relative to our total operating income has increased during the Track Record Period. However, we may not be able to maintain our growth successfully if we fail to optimise our income structure, enhance the proportion of net fee and commission income or strengthen our marketing efforts. Our growth also depends on the macroeconomic factors that affect the PRC or the Heilongjiang region, including the growth of GDP, inflation levels, changes in laws or regulations related to banks and financial products, changes in macroeconomic control policy, market liquidity, changes in credit policies, changes in loan demands as well as progress of financial reform and interest rate liberalisation. We may be unable to maintain our growth rate as a result of an adverse change in any one or more of the above factors or other factors, which could have a material and adverse effect on our financial condition and results of operations.

We have been increasingly focused on the development of wealth management products in recent years, and any adverse developments or changes in regulatory policies relating to these products could materially and adversely affect our business, financial condition, results of operations and prospects.

In recent years, growth of deposits in the PRC banking industry has begun to slow down and competition for deposits among commercial banks has become increasingly intense. In response to such competition, PRC commercial banks, including our Bank, have been increasing the amount and types of wealth management products they offer. As of 30 September 2013, the outstanding balance of our principal-protected wealth management products amounted to RMB1,238 million and the outstanding balance of our non-principal protected wealth management products amounted to RMB28,939 million, representing 0.47% and 11.06%, respectively, of our total assets.

We have invested the funds raised from our wealth management products in, among others, bonds tradable on the PRC interbank market and fund trust plans. As most of the wealth management products issued by us are non-principal protected products, we are not liable for any loss suffered by investors in these products. However, to the extent investors suffer losses on these wealth management products, our reputation may be severely damaged and we may also suffer a loss of business, customer deposits and net income. Furthermore, we may eventually bear losses for non-principal protected products if the investors bring lawsuits against us and the court decides that we are liable for mis-selling such products or otherwise.

In addition, the tenors of wealth management products issued by us are often shorter than those 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 to restrict the scale of PRC commercial banks' investments in non-standard debt-based assets with funds raised from wealth management products. See "Supervision and Regulation – Regulation of Principal Commercial Banking Activities – Personal Wealth Management". If PRC regulatory authorities further restrict the wealth management business of PRC commercial banks, it could materially and adversely affect our business, financial condition, results of operations and prospects.

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

In recent years, we have made substantial investments in receivables, which include fund trust plans issued by trust companies, directional asset management plans managed by securities companies and wealth management products issued by other commercial banks in the PRC. As of 31 December 2010, 2011 and 2012 and 30 September 2013, the balance of our investments in fund trust plans, directional client asset management plans and wealth management products purchased from commercial banks amounted to RMB2,710.8 million, RMB12,642.9 million, RMB22,144.0 million and RMB17,836.9 million, respectively, representing 2.2%, 6.1%, 8.2% and 6.8%, respectively, of our total assets as of those dates. As of 31 December 2013, such balance amounted to RMB43,345.0 million, representing 13.5% of our total assets as of that date. For the years ended 31 December 2010, 2011 and 2012 and the nine months ended 30 September 2013, the interest income from such investments amounted to RMB56.9 million, RMB570.6 million, RMB1,889.5 million and RMB823.9 million, respectively, representing 1.4%, 6.9%, 14.5% and 8.0%, respectively, of our total interest income for those periods.

Fund trust plans are financial instruments that are linked with the beneficiary rights of trust plans sponsored by trust companies. Through investing in fund trust plans, we entrust trust companies with the management of our funds. Trust companies in turn provide financing to borrowers in their own name by using our funds.

Under directional asset management plans, we enter into asset management contracts with securities companies, pursuant to which the securities companies are entrusted to use our funds to provide financing to borrowers through special accounts and in accordance with the terms and conditions of such contracts. Income from such plans is generally fixed. The repayment of principal and interest under the fund trust plans and directional asset management plans is guaranteed by financial institutions in the PRC or secured by collateral provided by borrowers, including properties, land and certificates of deposit. Trust companies, securities companies and the relevant guarantors are generally responsible for the due diligence investigation on the borrowers and financed projects. In order to control risks, we also carry out due diligence investigations on certain projects. Although we review the due diligence investigations conducted by trust companies, securities companies and guarantors before making investments, we are unable to control these investigations and we do not assess the creditworthiness of the borrowers, fund trust plans or directional asset management plans. Our decisions on such investments primarily depend on the choice of borrowers by trust companies, securities companies and guarantors.

Investments in receivables, which typically have predetermined rates of return and fixed terms, carry certain credit risks. We rely on the issuers and ultimate borrowers for such products to make investment decisions to achieve the agreed-upon rates of return. If the agreed-upon rates of return cannot be achieved or the principal of our investments cannot be maintained, we rely on the issuers to reduce our losses and exercise our rights under the related contracts and guarantees to recover losses from the issuers and any guaranteeing entities. In addition, as there has not yet been an active secondary market for investments in receivables, their liquidity is limited. As a result, we generally hold our investments in receivables to maturity.

PRC regulatory authorities have not prohibited commercial banks from investing in receivables. However, there can be no assurance that future changes in regulatory policies will not restrict us or our counterparties with respect to investments in receivables. Any adverse regulatory developments 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.

RISK FACTORS

We will be exposed to various risks as we expand our range of products and services.

We have expanded and will continue to expand our range of products and services offered to our customers. Our expansion of the range of products and services has exposed and will continue to expose us to new and potentially more challenging risks, including the following:

- we may have insufficient experience or expertise in offering certain new products and services, which may, among other things, lead to insufficient disclosure of all risks associated with our products and services to our customers;
- we may be unable to provide customers with sufficient customer service for our new products and services, including the handling of customer complaints;
- our new products and services may not be accepted by our customers or meet our expectations for profitability;
- our competitors may offer similar products and services to those newly introduced to customers by us;
- we may be unable to hire the required additional qualified personnel;
- we may be unable to obtain or maintain regulatory approval for our new products and services; and
- we may not be successful in enhancing our risk management capabilities or information technology systems to support a broader range of products and services.

If we are unable to achieve the expected commercial results with respect to our new products and services, our business, financial condition, results of operations and prospects could be materially and adversely affected. Furthermore, if we are unable to provide sufficient information to our customers in the sales and marketing of our financial products and services, we may be subject to legal proceedings or regulatory sanctions, which in turn could lead to significant financial losses for our Bank and reputational damage.

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

We rely on the continued service and performance of our employees, in particular our senior management and professional staff, as most of our businesses depend on the work quality of our senior management team and professional staff. Therefore, we have devoted considerable resources to the recruitment and training of staff so as to enhance the competitiveness of our Bank in terms of human resources. We have established a stable senior management team as well as a professional microcredit team. However, we face increasing competition for these employees and we cannot assure you that we will be able to recruit and retain such personnel, including senior management and professional staff. In addition, our employees may resign at any time and may seek to divert customer relationships that they have developed at our Bank. The loss of senior management members or key members of our professional staff may have a material adverse effect on the business and results of operations of our Bank.

Our single largest shareholder may be able to exercise significant influence over us.

Harbin Economic Development is expected to own approximately 19.65% of our issued shares immediately following the completion of the Global Offering and assuming no exercise of the Over-allotment Option. Harbin Economic Development is beneficially owned by the Bureau of Finance of Harbin. It is the single largest shareholder of our Bank and owned 29.48% issued shares of our Bank as of

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the Latest Practicable Date. Accordingly, pursuant to the Articles of Association of our Bank and applicable laws and regulations, Harbin Economic Development has significant influence over any major policy decisions that require the approval of our shareholders. The interests of our single largest shareholder may not be in line with those of other shareholders. We cannot assure you that Harbin Economic Development will pursue decisions and actions that are in the best interests of the other shareholders.

Our business is highly dependent on the proper functioning and improvement of our information technology systems.

Our business is highly dependent on the ability of our information technology systems to process a large number of transactions in various and scattered markets and relating to various products accurately on a timely basis. The proper functioning of our financial control, risk management, accounting, customer service and other data processing systems as well as the communication networks between our branches, sub-branches and our database centres is critical to our business and our ability to compete effectively. However, we cannot assure you that our operations will not be materially disrupted due to any system failure caused by error in software and programmes, computer virus attacks, conversion errors resulted from system upgrading or damage of security systems.

In addition, our ability to maintain our competitive strengths will depend in part on our ability to upgrade our information technology systems in a timely and cost-effective manner. The information available to and received by us through our existing IT systems may not be provided in time or be sufficient for our daily business analysis, risk management or the formulation of our plans for and response to market changes and other developments in our current operating environment. If we fail to improve or upgrade our IT systems effectively or in a timely manner, our competitiveness, financial condition and results of operations could be materially and adversely affected.

If our risk management and internal control policies and procedures are not able to fully protect us from risks relating to our business operations, our reputation, business, financial condition and results of operations may be materially and adversely affected.

Our business operations are exposed to a number of risks, including credit risk, market risk, liquidity risk and operational risk and therefore it is important for us to establish and maintain a well-designed risk management and internal control system. During the Track Record Period, we adopted a number of measures to improve our risk management and internal control. See “Risk Management”. There can be no assurance that all of our employees will fully comply with the policies and procedures required by our risk management and internal control systems. In addition, the effectiveness of these policies and procedures may be adversely affected by the malfunction of our information system and other computer systems. As we diversify our business and product portfolios, our business operations may be exposed to additional risks that we are not able to foresee, or may not be effectively addressed by our existing risk management and internal control systems in a timely manner, or at all. If any of the above situations happen, our reputation, business, financial condition and results of operations may be materially and adversely affected.

We may not be able to identify or control the risks relating to our international business in a timely manner or at all.

During the course of our international business operations, we are exposed to various risks. If we fail to identify or control the relevant risks in a timely basis, the results of operations of our international business may be adversely affected. For example, our profits may decrease or we may incur losses due to exchange rate fluctuations resulting from mismatches in the currency denomination of assets and liabilities

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and currency position mismatches caused by foreign currency transactions. Our foreign exchange income may also decrease due to a decline in the demand for loans in foreign currency in the future.

In addition, our international business is affected by international economic and political conditions. Russia is the primary market for our international business development. If there is any fluctuation in the political and economic conditions or any adverse change in the internal policies of Russia (including political and economic uncertainties in Russia arising from recent events in Ukraine), or if there is any adverse change in the diplomatic or economic relationship between the PRC and the Russian government, our international business may be adversely affected. Furthermore, any escalation of military action, public protests, unrest, political instability or sanctions could have an adverse effect on the Russian economy and consequently our Russian financial services and our ability to conduct or increase our cross-border financial business with Russia.

We may not be able to detect and prevent fraud or other misconduct committed by our employees, customers or other third parties.

We are subject to the risks of fraud or other misconduct committed by our employees, customers or third parties, which may lead to financial losses, third-party claims, penalties by the PRC government and our reputation being materially damaged.

There can be no assurance that our employees will fully comply with our risk management and internal control policies. Although we have increased our efforts to detect and prevent employees and third-party fraud or other misconduct, we cannot assure you that we can fully detect and prevent all incidents of fraud and misconduct in a timely manner, or at all. Fraud and other misconduct committed by our employees, whether involving past acts that have gone undetected or future acts, may have an adverse effect on our business, financial condition and results of operations. In addition, improper acts of third parties against us, such as, among other things, fraud, theft of customer data for illegal activities or robbery, may also expose us to certain risks which may adversely affect our business and operations.

We are subject to various PRC regulatory guidelines and requirements, and our past non-compliance could have adverse impact on our reputation, business, financial condition and results of operations.

We are subject to various laws, regulations, regulatory requirements and guidelines promulgated by the PRC regulatory authorities including, without limitation, the CBRC, the PBOC, the CSRC, the SAFE, the MOF, the SAIC, the CIRC, the NAO and the SAT and/or their respective local branches. These laws, regulations, guidelines and regulatory requirements include compliance with the required ratios as provided in the Core Indicators (Provisional) issued by the CBRC, approvals for banking products and services, market entry, opening of new branches or sub-branches, taxation and accounting policy, risk management, internal control and pricing. See “Supervision and Regulation”. The PRC regulatory authorities carry out regular and specific inspections, examinations and inquiries in respect of our compliance with the required ratios as provided in the Core Indicators (Provisional) issued by the CBRC, as well as legal and regulatory requirements and guidelines relating to our business operations, risk management and internal controls. Fines may be imposed on us if non-compliance has been detected and the PRC regulatory authorities may also direct us to make remedial measures. During the Track Record Period, inspections by the PRC regulatory authorities revealed certain deficiencies and non-compliance with certain legal and regulatory requirements and guidelines mainly in relation to our business operations. We also did not comply with the required ratios as provided in the Core Indicators (Provisional) issued by the CBRC in a number of circumstances during the Track Record Period. Incidents of these non-compliances include providing loans that were not in compliance with the general

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rules governing the granting of loans and request of individual credit reports of our customers by our staff without written authorisation of our customers and non-compliance with the lending limit ratio to a single borrower. See “Business – Findings of Regulatory Examinations and Compliance with Core Indicators”.

If we are subject to sanctions, fines or other penalties due to our non-compliance with the applicable regulations or guidelines, our business, financial condition, results of operations and reputation could be materially and adversely affected.

We may not be able to detect money-laundering and other illegal or improper activities fully or on a timely basis.

We are required to comply with the applicable laws and regulations relating to anti-money laundering and anti-terrorism in the PRC and other jurisdictions where we operate. According to the Anti-money Laundering Law of the PRC, financial institutions are required to establish sound internal control policies and procedures with respect to the supervision and reporting of money-laundering activities. Such policies and procedures require us to, among others, establish an independent anti-money laundering department or appoint an internal department to be responsible for anti-money laundering, establish a customer identification system in accordance with relevant rules, set up a system for storing customer personal data and transaction records in accordance with the rules, and report any suspicious transactions to the relevant department in accordance with relevant requirements. See “Supervision and Regulation – PRC Banking Supervision and Regulation – Anti-money Laundering Regulation”.

While we have adopted relevant policies and procedures aimed at monitoring and preventing the use of our banking network for money-laundering activities or by terrorists and terrorist-related organisations and individuals generally, due to the complexity and invisibility of money-laundering and terrorist activities and the subjective factors of our judgements towards the suspicious transactions, we may not completely eliminate instances where our Bank may be used by other parties to engage in money-laundering and other illegal or improper activities. We cannot provide assurance that there will not be future failures in detecting money-laundering or other illegal or improper activities, which may adversely affect our business, reputation and operations or may expose us to additional liabilities.

We are subject to risks associated with off-balance sheet commitments.

In the ordinary course of business, we provide various commitments and guarantees services, including bank acceptances, letters of credit, bank guarantees and loan commitments, which are not reflected in our statement of financial position. As of 30 September 2013, our off-balance sheet commitments amounted to RMB52,949.9 million. See “Financial Information – Off-balance Sheet Commitments”. We are subject to credit risks associated with these credit commitments. If our customers are unable to honour their obligations, our financial condition and results of operations may be adversely affected.

There may be potential disputes involving shareholders of the Bank that we are unable to locate.

As of the Latest Practicable Date, we have been unable to contact five corporate shareholders and 75 individual shareholders among the 3,670 total shareholders of our Bank at that date to confirm their identities. The shares held by such shareholders represented approximately 0.02% of the total issued share capital of our Bank in aggregate as of the Latest Practicable Date.

We have deposited the shares held by all shareholders, including those we are unable to locate, with Harbin Equity Trusteeship Centre. According to Jun He Law Offices Beijing, our PRC legal advisor, the

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existence of the shareholders whom we are unable to locate has no significant adverse impact on the stability of the shareholding structure and good standing of our Bank. However, we cannot guarantee that there will not be any disputes regarding equity interests raised by such shareholders, such as dispute over the dilution of their shareholding. Any of such disputes or objections may result in negative publicity and reputational damage to us.

We may be involved in legal and other disputes in relation to our business operations from time to time, which may lead to potential liabilities and risks.

We may be involved in legal and other disputes relating to our business operations from time to time due to different reasons. Such disputes generally relate to our attempts to recover debts from borrowers or claims made by our customers or other parties against us. Most of the disputes occur in the course of our ordinary operations. Moreover, the registration of the logo of our Bank in the PRC, ~~24~~ (by itself or together with our Chinese and English name), has not yet been completed due to legal proceedings. See “Business – Intellectual Property Rights” and “Business – Compliance and Legal Proceedings”. We cannot assure you that these disputes or proceedings will result in judgements that will be favourable to us. We expect that we will continue to be subject to litigation or other disputes in the future, which may result in additional risks and losses. The litigation or other disputes we are involved in from time to time may damage our reputation and increase our operating costs, and may divert resources and the attention of our management from our core business. Adverse judgements in any of the current or future proceedings we are involved in may have a material adverse impact on our reputation, business, financial condition and results of operations.

We have not obtained the title certificates for some of the properties held by us, and some of the lessors of the properties we lease have not obtained the relevant title certificates, which may materially and adversely affect our rights to use such properties.

As of 31 January 2014, we owned 334 properties in total with a total GFA of approximately 260,357.16 sq.m. We have not obtained the land use rights certificates (but we have obtained the building ownership certificates) in respect of 37 properties (with a GFA of approximately 7,836.08 sq.m representing 3.01% of the total GFA of the properties held by us). We have obtained neither the land use rights certificates nor building ownership certificates in respect of 44 properties (with a GFA of approximately 41,237.12 sq.m representing 15.84% of the total GFA of the properties held by us). We are in the process of applying for the relevant land use rights certificates or building ownership certificates that we do not yet hold and have taken steps to rectify certain title defects. Due to title defects or for other reasons, we cannot ascertain the time when we can obtain such certificates successfully, and we cannot guarantee that we can obtain the land use rights certificates or building ownership certificates for all of the properties held by us. Our rights to transfer, lease, mortgage, sell or otherwise dispose of such properties may be restricted until we obtain the relevant land use right certificates and/or building ownership certificates. We will also need to pay transfer fees and incur other relevant expenses in order to obtain all title certificates for such properties. Our failure to obtain all title certificates for such properties may require us to seek alternative premises for our business operations, which may lead to disruptions of our business operations to varying degrees and may materially and adversely affect our financial condition and results of operations.

As of 31 January 2014, we leased approximately 362 properties in China, among which 75 were leased from lessors who were not able to provide the title certificates, representing approximately 23.94% of the total GFA of the properties we lease. As a result, the validity of our leases may be subject to challenge under relevant laws. 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 were terminated as a result of

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challenges by third parties or if we fail to renew any of them upon expiration, we may be forced to relocate our business outlets and incur additional costs associated therewith, and our business, financial condition and results of operations may be materially and adversely affected. See “Business – Properties”.

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

Our reputation is critical to the successful operation of our Bank. In recent years, negative media coverage and public concerns regarding the poor management of commercial banks or irregularities involving the operations of commercial banks has been increasing. We cannot assure you that we will not become the target of or be included in any negative media coverage, including coverage on the internet, due to the business operations of our Bank or any misconduct of our staff. Any negative coverage of our Bank or our staff, whether or not it is accurate or applicable to us, may materially and adversely affect our reputation. This could have material adverse effects on our business, financial condition, results of operations and prospects, as well as the value of your investment.

RISKS RELATING TO THE PRC BANKING INDUSTRY

Intensifying competition in the PRC banking industry and competition in the capital markets of the PRC in terms of capital could have material adverse effects on our business, financial condition, results of operations and prospects.

At present, we face increasingly intense competition in the PRC banking industry. We face intense competition from Large Commercial Banks, Nationwide Joint-stock Commercial Banks, the Postal Savings Bank of China, other city commercial banks, rural commercial banks and foreign-invested banks. Large Commercial Banks have advantageous positions in the PRC banking industry due to their relatively large scales of assets and customer bases. Other commercial banks have formed differentiated and competitive strategies through strategy adjustment, operational transformation and strengthening innovation of products and services, which has contributed to increases in their market shares. Small to medium rural financial institutions have further strengthened their market positions in the agricultural industry, in rural areas and among farmers and have enhanced the quality of their agricultural-related financial services. The relaxation of restrictions in the PRC on geographic operating regions and customers has fostered business development of foreign-invested banks in China. The above competitors have competitive advantages over us in terms of their capital bases, asset scale, market influence and financial techniques.

In respect of microcredit business, banks are increasingly starting to realise the importance of the microcredit business market and many large-scale banks have been expanding into the microcredit market by leveraging their competitive advantages. Increased competition in the microcredit business market may have adverse impacts on the market development capability and profitability of our microcredit business.

We compete with other banks for substantially the same customers for our loan, deposit and fee- and commission-based businesses. Such competition may materially and adversely affect our business and future prospects by, for example, reducing the market shares of our major products and services, reducing our fee and commission income, adversely affecting the growth of our loan or deposit portfolios and other related products and services, and increasing competition for senior management members and

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qualified professional personnel. If we cannot successfully compete against other banks and financial institutions, our results of operations could be materially and adversely affected.

Moreover, with the development of the capital markets in China, we also face competition from other forms of investment alternatives. In particular, our customers are provided with diversified investment options due to the development of the capital markets. As the stock and bond markets in China continue to develop, our deposit customers may elect to convert their funds into stocks and bonds, which may reduce our deposit base and materially and adversely affect our business, financial condition and results of operations.

Our business and operations are highly regulated, and our business, financial condition, results of operations and prospects may be materially and adversely affected by adverse changes in regulations or other PRC governmental policies (including their interpretation and application).

The PRC banking industry is highly regulated and our business could be directly affected by changes in the regulatory policies, laws and regulations relating to the PRC banking industry, such as those affecting the scope of specific businesses we can engage in, or charge fees for, as well as changes in other governmental policies. The regulatory regime of the PRC banking industry has been undergoing significant changes, some of which are applicable to us and may result in additional compliance costs or restrictions on our activities. Since its establishment in 2003, the CBRC has promulgated a series of banking regulations and guidelines aimed at improving the operations and risk management of the PRC commercial banks, including guidelines on loans and credits granted to specified industries and customers, guidelines on management of various risks and administrative measures on capital adequacy to implement the Basel Accords. See “Supervision and Regulation”.

In addition, other PRC regulatory authorities have also imposed various macroeconomic measures that affect the banking industry. For example, the PBOC adjusts the required deposit reserve ratio from time to time. We cannot assure you that changes in the policies, laws and regulations relating to the PRC banking industry will be favourable for us nor can we assure you that such changes will not happen or changes (if any) will not materially and adversely affect our business, financial condition and results of operations. We cannot assure you that we will be able to adapt to all such changes or new policies on a timely basis, if at all. In addition, there are uncertainties about the interpretation and application of such new policies, laws and regulations. We may be subject to fines and restrictions on our business if we fail to comply with the applicable policies, laws and regulations, and our business, financial condition, results of operations and prospects may be materially and adversely affected.

The growth of China’s banking industry may not be sustainable.

The PRC banking industry has experienced rapid growth, consistent with the economic development of the PRC. Banks have historically been, and are likely to remain, the principal financing channel for enterprises and the primary choice for domestic savings. We expect the banking industry in the PRC to further expand as a result of, among others, the continued growth in the PRC economy, increases in household income, deregulation of interest rates, further liberalisation of exchange restrictions on the Renminbi and further growth of the fee and commission-based business. However, we cannot assure you that the growth and development of the PRC banking industry will be sustainable. The financial crisis in the United States resulted from a subprime mortgage crisis and the European sovereign debt crisis resulted in a global economic downturn. According to data of the NBSC, the GDP of China grew at a rate of 7.8% in 2012. It is uncertain whether the PRC economy and the banking industry can return to previous levels of growth. In addition, the PRC banking industry has historically been burdened with a high level of non-performing loans. Even with the PRC government’s measures to dispose of the non-

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performing loans of the Large Commercial Banks and certain Nationwide Joint-stock Commercial Banks and to recapitalise these banks, we cannot assure you that the PRC banking industry will be free from systemic risks. If the rate of growth of the PRC banking industry slows down, our business, financial condition and results of operations may be materially and adversely affected.

Our types of investment are subject to various limitations according to the PRC regulations, and as a result, our ability to realise higher investment returns and diversify our investment portfolio or hedge relevant risks in our RMB-denominated assets is limited.

As a result of the PRC regulatory restrictions, substantially all of our RMB-denominated investment assets are concentrated in a limited number of investments permitted for city commercial banks in the PRC, such as government bonds issued by the MOF, financial bonds issued by other PRC policy banks, bills issued by the PBOC, bonds, subordinated notes and other debt instruments issued by other PRC commercial banks, short-term commercial papers and derivatives issued by qualified domestic entities, and domestic corporate bonds traded in interbank market. These restrictions on our ability to diversify our investment portfolio limit our ability to seek returns on our investments in a way comparable with those of banks in other countries or our ability to manage our liquidity as banks in other countries. In addition, we are exposed to a certain level of risk as a result of the concentration of our RMB-denominated investments assets and lack of hedging instruments. For example, any deterioration of the financial condition of domestic commercial banks would increase the risks associated with holding their bonds issued by these commercial banks. A decrease in the value of any of these types of investments could have a material adverse effect on our financial condition and results of operations.

We are subject to changes in interest rates and other market risks.

Similar to most of the city commercial banks in the PRC, our results of operations depend, to a significant extent, on our net interest income. For the years ended 31 December 2010, 2011 and 2012 and the nine months ended 30 September 2013, our net interest income represented 91.1%, 89.0%, 86.3% and 83.1%, respectively, of our total operating income. Our net interest income is significantly affected by changes in interest rates. Interest rates applicable to us are sensitive to many factors that are beyond our control, including the regulatory framework of the banking and financial sectors in the PRC, domestic and international economic and political conditions, and competitive pressures. For example, the PBOC increased the benchmark interest rates of RMB-denominated loans and deposits five times from 2010 to 2011. Since 2012, the PBOC has twice cut the benchmark interest rates of RMB-denominated deposits and loans of financial institutions. In addition, the PBOC has been liberalising the overall control over lending rate of financial institutions (except for personal residential mortgage loans) since 20 July 2013. Increasing competition in the banking industry and further liberalisation of the interest rate regime may result in more volatility in market interest rates. The constraints on our ability to set the interest rates we pay on deposits or charge on loans and our relative lack of experience in reflecting interest rates in our pricing decisions may materially and adversely affect our ability to react to changes in market conditions, our lending business, our financial condition and 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 product pricing to enable us to effectively respond to the further liberalisation of interest rates.

We also engage in foreign currency business, and our income from foreign currency related activities is also subject to volatility caused by, among other things, fluctuations in foreign currency exchange rates. As the derivative market has yet to fully develop in China, there are limited risk management tools available to enable us to reduce risks related to interest rates, exchange rates and other market risks. In addition, due to restrictions on the types of investments we may make, our ability to hedge against market risk is limited. See “Business – Treasury Operations – Financial Derivatives Transactions”.

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The liquidity risk of the PRC banking industry may materially and adversely affect our liquidity, business, financial condition and results of operations.

We are subject to liquidity risk of the PRC banking industry. The liquidity of the interbank market has a material impact on our capital needs. As of 31 December 2010, 2011 and 2012 and 30 September 2013, the total amount of deposits and placements from banks and other financial institutions, and financial assets sold under repurchase agreements accounted for 4.5%, 23.6%, 23.4% and 17.9% of the total liabilities. The market interest rate mechanism based on SHIBOR is gradually developing in the PRC interbank market. However, the market interest rate may have significant fluctuations given the relative short history of the mechanism based on SHIBOR in the PRC market. We cannot guarantee that the interest rate based on SHIBOR can be recovered to the normal range in a short period of time after any abnormal fluctuations in the future. Any significant fluctuations of the PRC interbank market may materially and adversely affect our ability to obtain capital and manage liquidity at a reasonable cost through the inter-bank market, which may have a material adverse effect on our business, financial condition and results of operations as we may need to seek other sources of capital with higher cost to satisfy our capital needs.

Moreover, our assets value may be significantly and adversely affected by significant fluctuations of market interest rates. For example, the fair value of bond investments with fixed yield held for trading may decrease significantly as a result of a sharp increase of market interest rate, which will in turn have a material and adverse impact on our liquidity and financial condition.

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

National individual and enterprise credit information databases developed by the PBOC have been put into operation in recent years. China UnionPay Co., Ltd. has also prepared an individual credit blacklist. However, such national credit information systems are generally under-developed due to short operation history, limited availability of information and the insufficient information infrastructure in China, which is currently under development. Therefore, our assessment of the credit risk associated with a particular customer may not be based on complete, accurate or reliable information. Until a comprehensive national credit information system is fully developed, we have to rely on other publicly available information and our internal resources which could not be comparable to a comprehensive national credit information system in terms of the coverage and validity of information sources. In addition, loan contracts in China may not contain financial and other covenants of the same type in other regions which allow our Bank to effectively monitor, timely detect and take action on the credit levels of our customers. In addition, the connected relationships among borrowers are complicated and difficult to clarify in China, which will limit our ability to obtain accurate and complete information or in analysing concentration of borrowers based on such information. As a result, our ability to effectively manage our credit risk may be materially and adversely affected.

Investments in commercial banks in the PRC are subject to ownership restrictions that may materially and adversely affect the value of your investment.

Investments in commercial banks in the PRC 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 the PRC. If a shareholder of a commercial bank in the PRC increases its shareholding above the 5% threshold without obtaining the CBRC's prior approval, the shareholder will be subject to CBRC sanctions, which include, among other things, rescission of the acquisition and disgorgement of profits (if any) and fines. In addition, a

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commercial bank shall not accept its shares as collateral. Pursuant to Guidelines on Corporate Governance of Commercial Banks (商業銀行公司治理指引), any shareholder of a commercial bank who pledges its shares in the bank as collateral of guarantee shall give an advanced written notice to the board of directors of such bank. If a shareholder of a bank has a loan from such bank in excess of the audited net value of its shares in the bank for the preceding year, the shareholder may not use its shares in the bank as collateral for borrowings. Therefore, if one of your investment goals is to acquire a substantial equity interest in us, your goal may not be achieved unless you are able to obtain the prior approval of the CBRC. See “Supervision and Regulation – PRC Banking Supervision and Regulation – Ownership and Shareholder Restrictions – Restrictions on Shareholders”. In addition, future changes in ownership restrictions made by the PRC government may materially and adversely affect the value of your investment.

Our loan classification and provisioning policies may be different in certain aspects from those applicable to banks in certain other countries or regions.

We classify our loans into five categories in accordance with the PRC regulatory guidelines. The PRC guidelines may be different from those applicable in other countries and regions, such as the United States. Our loan classification and provisioning policies may be different in certain aspects from those of banks subject to regulations in certain other countries or regions. As a result, our loan classification and our allowance for impairment losses may differ from those that would be reported if we were subject to regulations in those countries or regions. As such, profits of our Bank may decrease significantly, and our business, financial condition, results of operations and prospects could be materially and adversely affected.

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Our business, financial condition, results of operations and prospects have been and will continue to be affected by the fluctuation in the global economy and the slowdown of China’s economic growth, as well as the changes in the PRC government’s policies.

Our performance has been and will continue to be affected by the economic conditions of China, which in turn is influenced by the global economy. As a result of the prolonged effects of the global financial crisis and Euro-zone sovereign debt crisis, recessionary conditions are present in many economies globally and such conditions may persist over the near to medium term. The deterioration in the global economy has added greater downward pressure on China’s economic growth. According to statistics released by the NBSC, China’s GDP in 2012 grew by 7.8% as compared with that of the previous year. China’s GDP growth rate in 2013 is expected to reduce to 7.5% pursuant to the estimation of the NDRC. According to statistics of the NBSC, the year-on-year growth of China’s GDP for the first nine months of 2013 was 7.7%. Many of our customers and counterparties in the ordinary course of our business are companies operating in industries that have been exposed to the impact of the economic downturns in China and globally, such as the real estate, natural resources and infrastructure facilities-related industries. Our asset quality may deteriorate and our provisions for impaired loans may have to be increased if our major customers or their counterparties fail to or are otherwise unable to meet their obligations. The value of the collateral or guarantees provided to us may be changed adversely and we may be unable to realise the full value of our collateral or guarantees. We may also face difficulties in expanding our businesses due to the lack of confidence in the economic growth and the declines in investments and spending. Any of the above situations may have a material adverse effect on our business, financial condition and results of operations. The precise nature of all the risks and uncertainties that we face as a result of current economic conditions cannot be predicted precisely and many of these risks are beyond our control.

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Moreover, as substantially all of our businesses, assets and operations are in the PRC, our financial condition, results of operations and business prospects are subject, to a significant degree, to the economic, political and legal developments in the PRC. The economy of the PRC differs from the economies of most developed countries in many respects, including, among others, the extent of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. For example, the PRC government also exercises significant control over economic growth by allocating resources, setting fiscal and monetary policy and providing preferential treatment to particular industries or companies. Therefore, any significant change to the political, economic and social environments, as well as government policies of the PRC may materially and adversely affect our business, financial condition, results of operations and prospects.

The interpretation and implementation of the PRC law and regulations could limit the protections available to you.

We are established under the laws of the PRC. The PRC legal system is based on written statutes. Since the late 1970s, the PRC government has promulgated laws and regulations dealing with economic matters such as the issuance and trading of securities, shareholder rights, foreign investment, corporate organisation and governance, commerce, taxation and trade. However, as many of these laws and regulations are relatively new and will continue to evolve, they are subject to different interpretations and may not be uniformly enforced. In addition, there is only a limited volume of published court decisions which may be cited for reference, and such cases have limited precedential value as they are not binding on subsequent cases. These uncertainties relating to the interpretation of PRC laws and regulations can affect the legal remedies and protections that are available to you and can adversely affect the value of your investment.

Our Articles of Association provide that disputes between holders of our H Shares and our Bank, our Directors, Supervisors or senior management, arising out of our Articles of Association, the PRC Company Law and related regulations, concerning the affairs of our Bank, are to be resolved through arbitration by the CIETAC or the HKIAC, rather than by a court of law. Awards made by PRC arbitral authorities recognised under the Hong Kong Arbitration Ordinance can be enforced in Hong Kong. Hong Kong arbitral awards are also enforceable in the PRC, subject to the satisfaction of certain PRC legal requirements. However, we are uncertain whether any action brought in the PRC to enforce an arbitral award made in favour of holders of H Shares would succeed.

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

We are a company incorporated under the laws of the PRC, and substantially all of our assets are located in the PRC. In addition, most of our Directors and all of our senior management reside within the PRC, and substantially all of their assets are located within the PRC. As a result, it may not be possible to effect service of process within the United States or elsewhere outside of the PRC upon us, or respective Directors and senior management, including relevant matters arising under the U.S. federal securities laws or applicable State securities laws. Moreover, although a judgement of a court of another jurisdiction may be reciprocally recognised or enforced subject to the satisfaction of other requirements in the PRC (e.g. if the jurisdiction has a treaty with the PRC or if judgements of PRC courts have been recognised before in that jurisdiction), the PRC does not have treaties providing for the reciprocal enforcement of judgements of courts with foreign countries including the United States. In addition, Hong Kong has no arrangement for the reciprocal enforcement of judgements with the United States. As a result, recognition and enforcement in the PRC or Hong Kong of judgements of a court in the United

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States and any of the other jurisdictions mentioned above in relation to any matter may be difficult or impossible.

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

PRC government controls on currency exchange and the fluctuation of Renminbi may materially and adversely affect our operations and our ability to pay dividends to holders of our H Shares.

Renminbi is currently not a freely convertible currency. Substantially all of the revenue of our Bank is denominated in Renminbi. If we pay any dividends in foreign currencies to the holders of our H Shares, Renminbi must be converted into other currencies in order to meet our foreign currency obligations. Under the existing foreign exchange regulations of the PRC, following the completion of the Global Offering, we will be able to undertake foreign exchange transactions in the current account, including payment of dividends in foreign currencies without prior approval from the SAFE if we comply with the relevant procedural requirements. However, in the future, the PRC government may, at its discretion, take measures to restrict access to foreign currencies for 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 the Renminbi against the U.S. dollar and other currencies fluctuates and is affected by, among other things, changes in Chinese and international political and economic conditions. Since mid-2005, the PRC government has adopted a managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band that is based on market supply and demand and reference to a basket of currencies. The PRC government has since made adjustments to the exchange rate system and may make further adjustments in the future. Any appreciation of the Renminbi against the U.S. dollar or any other foreign currencies may result in a decrease in the value of our foreign currency-denominated assets. Conversely, any devaluation of the Renminbi may adversely affect the value of, and any dividends payable on, our H Shares in foreign currency terms. As of 30 September 2013, approximately 0.6% of our assets and approximately 0.3% of our liabilities were denominated in foreign currencies. We are also currently required to obtain the approval of the SAFE before converting significant amount of foreign currencies into Renminbi under certain circumstances as stipulated by applicable laws. All of these factors could materially and adversely affect our financial condition, results of operations and compliance with capital adequacy ratios and operational ratios.

Holders of H Shares may be subject to PRC taxation.

Under current PRC tax laws, regulations and rules, dividends paid by our Bank to a non-PRC resident individual holder of H Shares (“Non-resident Individual Shareholder”) are subject to individual income tax. According to the Notice Regarding the Collection of Individual Income Tax Following the Repeal of Guo Shui Fa 1993 Document No.45 (關於國稅發1993045號文件廢止後有關個人所得稅徵管問題的通知) issued by SAT on 28 June 2011, our Bank shall withhold such tax at a rate ranging from 5% to 20% (generally 10%) of the dividend paid to the Non-resident Individual Shareholders, and the specific tax rate will be determined by the applicable tax treaties between the PRC and jurisdictions in which the Non-resident Individual Shareholders reside. If the Non-resident Individual Shareholders reside in a jurisdiction which has not entered into any tax treaty with the PRC, income tax shall be withheld at a rate of 20% for the dividend distributed by our Bank. See “Appendix VII – Taxation and Foreign Exchange”. In addition, according to the Individual Income Tax Law of the PRC

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(中華人民共和國個人所得稅法) and its implementation rules, gains realised from the sales or transfer of H shares by other means by Non-resident Individual Shareholders shall be subject to the individual income tax rate of 20%. Nevertheless, pursuant to the Notice Regarding Continuous Exemption from Individual Income Tax for Gains Realised from Share Transfer by an Individual (關於個人轉讓股票所得繼續暫免徵收個人所得稅的通知) issued by the MOF and the SAT on 30 March 1998, gains realised from the transfer of shares of listed companies by an individual is exempted from individual income tax. As of the Latest Practicable Date, there is no regulation which clearly specify whether the gains realised from the sales or transfer of H shares by other means by Non-resident Individual Shareholders shall be subject to individual income tax, and the PRC tax authorities has not imposed relevant individual income tax in practice. If such tax is to be imposed in the future, the investment value in H shares of the Non-resident Individual Shareholders could be materially and adversely affected.

Pursuant to the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法) and its implementation rules, income generated in the PRC by non-resident enterprise is subject to enterprise income tax of 10%, and such income includes dividends received from the PRC companies and gains realised from the disposal of equity in the PRC companies, which may be deductible under the special arrangement or applicable treaties entered into between the PRC and jurisdiction where the relevant non-resident enterprise domiciles. See “Appendix VII – Taxation and Foreign Exchange”. As the Enterprise Income Tax Law of the PRC and its implementation rules are relatively recent and their interpretations and enforcement by the PRC tax authorities are subject to uncertainties, including if and how to collect enterprise income tax for gains realised from the sales or transfer of H shares by other means by non-resident enterprise holders of H Shares or dividends received from our Bank. If such tax is to be imposed in the future, the investment value in H Shares of the non-resident enterprise shareholder could be materially and adversely affected.

Payment of dividends is subject to restrictions under PRC law.

Under the PRC law, dividends may be paid only out of distributable profits. Distributable profits means, as determined under PRC GAAP or IFRS, whichever is lower, the net profits for a period, plus the distributable profits or net of the accumulated losses, if any, at the beginning of such period, less appropriations to statutory surplus reserve (determined under PRC GAAP), general reserve and discretionary surplus reserve (as approved by our shareholders’ general meeting). As a result, we may not have sufficient distributable profits, if any, to make dividend distributions to our shareholders in the future, including with respect to periods where we register an accounting profit. Any distributable profits that are not distributed in a given year are retained for distribution in subsequent years.

In addition, according to the New Capital Adequacy Measures which came into effect on 1 January 2013, for Grade IV commercial banks which fail to meet the minimum capital requirement for any of capital adequacy ratio, tier 1 capital adequacy ratio and core tier 1 capital adequacy ratio, and Grade III commercial banks which meet all of the above minimum capital requirements but fail to meet other capital requirements, the CBRC has the discretionary authority to restrict dividend payments and other distributions by such banks. See “Supervision and Regulation – PRC Banking Supervision and Regulation – Supervision Over Capital Adequacy – Latest CBRC Supervisory Standards Over Capital Adequacy”. Any restriction on the payment of dividends or other distributions by our Bank may have a material adverse effect on holders of H Shares.

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Natural disasters, epidemics, acts of war or terrorism or other factors beyond our control may have a material adverse effect on our business, financial condition and results of operations.

Natural disasters, epidemics, acts of war or terrorism or other factors beyond our control may adversely affect the economy, infrastructure and livelihood of the people in the regions we conduct our business. These regions may be under the threat of flood, earthquake, sandstorm, snowstorm, fire or drought, power shortages or failures, or are susceptible to epidemics, such as Severe Acute Respiratory Syndrome (“SARS”) or “H7N9 avian flu”, potential wars or terrorist attacks. Serious natural disasters may result in a significant loss of lives and injury and destruction of properties and disrupt our business and operations. Severe communicable disease outbreaks could result in a widespread health crisis that could materially and adversely affect the economies and financial markets. Acts of war or terrorism may also injure our employees, cause loss of lives, damage our facilities, disrupt our retail network and destroy our markets. Any of these factors and other factors beyond our control could have an adverse effect on the overall business and environment, cause uncertainties in the regions where we conduct business, result in unpredictable losses and materially and adversely impact our financial condition and results of operations.

We cannot assure you of the accuracy or comparability of facts, forecasts and statistics contained in this prospectus with respect to the PRC, the PRC economy or the PRC and global banking industries.

Facts, forecasts and statistics in this prospectus relating to the PRC, the PRC economy and the PRC and global banking industries, including our market share information, are derived from various official sources and information published by various government authorities and departments, such as the PBOC, the CBRC, the NBSC, the NDRC or other public sources, which are generally believed to be reliable. However, we cannot guarantee the quality, comparability and reliability of such material. In addition, these facts, forecasts and statistics have not been independently verified by us and may not be consistent with information available from other sources, and may not be complete or up to date. We have taken reasonable care in reproducing or extracting the information from such sources. However, because of potentially flawed methodologies, discrepancies in market practice and other reasons, these facts, forecasts and other statistics may be inaccurate or may not be comparable from period to period or to facts, forecasts or statistics offered by other economies. As a result, you should not place undue reliance on such information.

RISKS RELATING TO THE GLOBAL OFFERING

There has been no prior public market for our H Shares, an active trading market for our H Shares may not develop, and their trading price may fluctuate significantly.

Prior to the Global Offering, there was no public market for our H Shares. The initial Offer Price to the public for our H Shares is the result of negotiations between us (on behalf of ourselves and the Selling Shareholders) and the Joint Global Coordinators on behalf of the Underwriters, and the Offer Price may differ significantly from the market price for our H Shares following the Global Offering. Moreover, the trading volume and price of our H Shares may be affected by various factors including the research reports on us prepared by securities or industry analysts, which are yet to be released or a reduction of their ratings on our H Shares. There can be no assurance that an active trading market for our H Shares will develop following the Global Offering or, if it does develop, that it will be sustained or that the market price for our H Shares will not decline below the initial Offer Price.

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Future sales or perceived sales of substantial amount of our H Shares in the public market could have a material adverse effect on the prevailing market price of our H Shares and our ability to raise capital in the future.

The market price of our H Shares could decline as a result of future sales of substantial amount of our H Shares or other securities relating to our H Shares in the public market or the issuance of new shares, or the perception that such sales or issuances may occur. Future sales or perceived sales of a substantial amount of our H Shares may have material and adverse effects on our ability to raise capital at a favourable price at a specific time in the future. In addition, the shareholdings of our Shareholders may be diluted upon future issuance or sales of additional securities. If additional funds are raised through the issuance of new equity or equity-linked securities other than on a *pro rata* basis to existing Shareholders, the shareholdings of such Shareholders may be reduced and the new securities may have rights and privileges senior to those of the H Shares.

The conversion of a significant number of Domestic Shares into H Shares could have a material adverse effect on the prevailing market price of our H Shares.

Our Domestic Shares may be converted into H Shares provided that the conversion and trading of the H Shares so converted shall have duly completed pursuant to any requisite internal approval process and the approval from the relevant PRC regulatory authorities, including the CSRC. In addition, such conversion and trading shall in all respects comply with the regulations prescribed by the State Council securities regulatory authority and the regulations, requirements and procedures prescribed by the relevant overseas stock exchange. If a significant number of Domestic Shares is converted into H Shares, the supply of our H Shares may be substantially increased which may have a material adverse effect on the prevailing market price of our H Shares.

As the Offer Price of our H Shares is higher than our net tangible book value per share, purchasers of our H Shares in the Global Offering will experience immediate dilution upon such purchase.

The Offer Price of our H Shares is higher than our net tangible book value per share of the outstanding shares issued to our existing shareholders as of 30 September 2013. Therefore, purchasers of our H Shares in the Global Offering will experience an immediate dilution in pro forma net tangible book value per H Share and our existing shareholders will receive an increase in the pro forma adjusted consolidated net tangible asset value per share. In addition, holders of our H Shares may experience a further dilution of their interest if the Underwriters exercise the Over-allotment Option or if we obtain additional capital in the future through share offerings.

There will be a four-business-day time gap between pricing and trading of our H Shares offered in the Global Offering, holders of our H Shares are subject to the risk that the trading prices of our H Shares could fall during the period before trading of our H Shares begins.

The initial Offer Price range to the public of our H Shares was determined on the date of this prospectus. However, our H Shares will not commence trading on the Hong Kong Stock Exchange until they are delivered, which is expected to be four Hong Kong business days after the Price Determination Date. As a result, investors may not be able to sell or otherwise deal in our H Shares during that period. Accordingly, holders of our H Shares are subject to the risk that the price of our H Shares could fall before trading begins as a result of adverse market conditions or other adverse developments that could occur between the time of sale and the time trading begins.

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

We declared and paid a bonus share of RMB686.7 million and a cash dividend of RMB171.7 million in 2013, a bonus share of RMB392.4 million and a cash dividend of RMB392.4 million in 2012, and a bonus share of RMB1,890.3 million in 2011 in respect of profits for the years ended 31 December 2012, 2011 and 2010, respectively. Dividends paid in prior periods may not be indicative of future dividend payments. We cannot guarantee when, if and in what form or size dividends will be paid in the future. The declaration of dividends is proposed by the Board and is based on, and limited by, various factors, including, without limitation, our business and financial performance, capital and regulatory requirements, and general business conditions. We may not have sufficient or any profits to enable us to make dividend distributions to our shareholders in the future, even if our IFRS financial statements indicate that our operations have been profitable. See “Financial Information – Dividend Policy”.

You should rely only on this prospectus and not on any information contained in press articles or other media in making your investment decision.

We have not authorised anyone to provide you with information that is not contained in this prospectus and the Application Forms. Any financial information, financial projections, valuations and other information purportedly about us contained in any press articles or other media have not been authorised by us and we make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication, and accordingly do not accept any responsibility for any such press or media coverage or the inaccuracy or incompleteness of any such information. In making your decision as to whether to purchase our H shares, you should rely only on the information included in this prospectus and the Application Forms.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to our Bank. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information in this prospectus is accurate and complete in all material respect and not misleading or deceptive, and there are no other facts the omission of which would make any statement in this prospectus materially misleading.

CSRC AND CBRC APPROVALS

We have obtained approvals from the CSRC and the CBRC on 4 March 2014 and 30 December 2013, respectively, for the Global Offering and the making of the application to list the H Shares on the Hong Kong Stock Exchange. In granting such approval, the CSRC and the CBRC accept no 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.

INFORMATION OF THE GLOBAL OFFERING AND UNDERWRITING

This prospectus is published solely in connection with the Hong Kong Public Offering, which forms part of the Global Offering. Neither the delivery of this prospectus nor any subscription or acquisition made under it shall, under any circumstances, create any implication that there has been no change in our affairs since the date of this prospectus or that the information in it is correct subsequent to the date of such information.

For applicants under the Hong Kong Public Offering, this prospectus and the related Application Forms contain the terms and conditions of the Hong Kong Public Offering.

The listing of our H Shares on the Hong Kong Stock Exchange is sponsored by the Joint Sponsors. The Global Offering is managed by the Joint Global Coordinators. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters listed in “Underwriting”, subject to agreement on the offer price between us and the Joint Global Coordinators (on behalf of the Underwriters). The International Offering is expected to be fully underwritten by the International Underwriters. For further details about the Underwriters and the underwriting arrangements, see “Underwriting”.

The Offer Shares are offered for subscription or sale solely on the basis of the information contained and representations made in this prospectus and related Application Forms, and on the terms and subject to the conditions set out herein and therein. No person is authorised in connection with the Global Offering to give any information, or to make any representation, not contained in this prospectus, and any information or representation not contained in this prospectus must not be relied upon as having been authorised by our Bank, the Selling Shareholders, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors, officers, employees, advisors, agents or representatives or any other persons or parties involved in the Global Offering. For further details of the structure of the Global Offering, including its conditions, and the procedures for applying for Hong Kong Offer Shares, see “Structure of the Global Offering” and “How to Apply for Hong Kong Offer Shares” and the relevant Application Forms.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

RESTRICTIONS ON OFFER AND SALE OF THE OFFER SHARES

Each person acquiring the Hong Kong Offer Shares under the Hong Kong Public Offering will be required to confirm, or by his/her acquisition of Hong Kong Offer Shares be deemed to confirm, that he/she is aware of the restrictions on offers and sales of the Offer Shares described in this prospectus.

No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than in Hong Kong, or the distribution of this prospectus and/or the related Application Forms in any jurisdiction other than Hong Kong. Accordingly, this prospectus and/or the related Application Forms 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 authorised or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and/or the related Application Forms 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 authorisation by the relevant securities regulatory authorities or an exemption therefrom.

SELLING SHAREHOLDERS

Our state-owned shareholders (the “Selling Shareholders”) are required to reduce their shareholding in the Global Offering pursuant to the relevant PRC regulations relating to reduction of state-owned shares. Particulars of the Selling Shareholders are as follows:

Name	Number of Sale Shares (assuming the Over- allotment Option is not exercised)	Number of Sale Shares (assuming the Over- allotment Option is exercised in full)
1 Harbin Economic Development	270,606,446	311,196,922
2 The Finance Bureau of Acheng, Harbin (哈爾濱市阿城區財政局)	837,407	963,016
3 ICBC Heilongjiang Province Branch Banking Department (中國工商銀行股份有限公司黑龍江分行營業部)	352,485	405,357
4 the Finance Bureau of Daoli, Harbin (哈爾濱市道裡區財政局)	348,938	401,278
5 the Finance Bureau of Nangang, Harbin (哈爾濱市南崗區財政局)	340,875	392,005
6 China Guangfa Bank (廣發銀行股份有限公司)	275,968	317,363
7 Harbin Daowai Investment Co. Ltd. (哈爾濱市道外投資有限責任公司)	185,920	213,808
8 Harbin Science and Technology Venture Capital Centre (哈爾濱市科技風險投資中心)	182,403	209,763
9 Tsingtao Brewery (Harbin) Co. Ltd. (青島啤酒 (哈爾濱) 有限公司)	169,493	194,917
10 Heilongjiang Overseas Chinese Remittance Service Company (黑龍江省華僑旅遊僑匯服務公司)	166,378	191,334
11 Heilongjiang Science and Technology Information Centre (黑龍江省科學技術諮詢中心)	123,585	142,122
12 China Cinda Asset Management Co., Ltd. (中國信達資產管理股份有限公司)	115,702	133,057
13 China Life Investment Holding Company Limited (國壽投資控股有限公司)	108,491	124,764

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

Name	Number of Sale Shares (assuming the Over- allotment Option is not exercised)	Number of Sale Shares (assuming the Over- allotment Option is exercised in full)
14 PICC Investment Holding Company Limited (人保投資控股有限公司)	106,500	122,475
15 Family Life Guide Press (家庭生活指南雜誌社)	95,973	110,369
16 Harbin Industry and Commerce Administration Cadre School (哈爾濱市工商行政管理幹部學校)	95,606	109,947
17 China Jianyin Investment Limited (中國建銀投資有限責任公司)	92,020	105,823
18 Agricultural Bank of China Limited (中國農業銀行股份有限公司)	79,909	91,895
19 Heilongjiang Federation of Social Science (黑龍江省社會科學界聯合會)	77,236	88,821
20 Heilongjiang Xingsui Hotel (哈爾濱市興歲賓館)	67,688	77,841
21 Heilongjiang Branch of Bank of China Limited (中國銀行股份有限公司黑龍江省分行)	65,598	75,438
22 Heilongjiang Branch of China Everbright Bank Co., Ltd. (中國光大銀行股份有限公司黑龍江省分行)	61,403	70,614
23 the Finance Bureau of Xiangfang, Harbin (哈爾濱市香坊區財政局)	58,923	67,761
24 Harbin Local Taxation Cadre Training Centre (哈爾濱市地稅幹部培訓中心)	58,406	67,167
25 Harbin Institute of Technology (哈爾濱工業大學)	49,495	56,919
26 Harbin Housing Property Guarantee Co., Ltd. (哈爾濱房屋置業擔保有限公司)	49,427	56,841
27 Harbin Finance University (哈爾濱金融學院)	40,090	46,103
28 Harbin Industrial Investment Group Co., Ltd. (哈爾濱工業投資集團有限公司)	23,150	26,622
29 Harbin New City Integrated Development Company (哈爾濱市新發城市建設綜合開發公司)	21,629	24,874
30 Harbin Pharmaceutical Group Holding Co., Ltd. (哈藥集團有限公司)	12,856	14,784

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

We have applied to the Listing Committee for the granting of listing of, and permission to deal in, (i) our H Shares to be issued pursuant to the Global Offering (including the additional H Shares which may be issued pursuant to the exercise of the Over-allotment Option); and (ii) the H Shares which will be converted from Domestic Shares of the Selling Shareholders and which will be sold for the benefit of the NSSF pursuant to the relevant PRC regulations relating to reduction of State-owned shares.

Save as disclosed in the prospectus, no part of our shares is listed or dealt in on any other stock exchange and no such listing or permission to list is being or is 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, disposing of, or dealing in our H Shares or exercising any rights attached to them, you should consult an expert. It is emphasised that none of us, the Selling Shareholders, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, advisors, agents or representatives 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, disposing of, or dealing in our H Shares or exercising any rights attached to them.

STABILISATION

In connection with the Global Offering, the Stabilising Manager or any person acting for them, on behalf of the Underwriters, may over-allocate or effect short sales or any other stabilising transactions with a view to stabilising or maintaining the market price of the H Shares at a level higher than that which might otherwise prevail in the open market. See “Structure of the Global Offering – The International Offering – Stabilisation”.

PROCEDURE FOR APPLICATION FOR HONG KONG OFFER SHARES

The procedures for applying for the Hong Kong Offer Shares are set out in the section headed “How to Apply for Hong Kong Offer Shares” of this prospectus and in the Application Forms.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

Particulars of the structure of the Global Offering, including its conditions, are set out in the section of this prospectus headed “Structure of the Global Offering.”

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 by our H Share Registrar, Computershare Hong Kong Investor Services Limited. Our principal register of members will be maintained by us at our headquarters in the PRC.

Dealings in the H Shares registered in our H Share register will be subject to Hong Kong stamp duty.

REGISTRATION OF SUBSCRIPTION, PURCHASE AND TRANSFER OF H SHARES

We have instructed Computershare Hong Kong Investor Services Limited, our H Share Registrar, and it has agreed, not to register the subscription, purchase or transfer of any H Shares in the name of any particular holder unless and until the holder delivers a signed form to our H Share Registrar in respect of those H Shares bearing statements to the effect that the holder:

- agrees with us and each of our Shareholders, and we agree with each Shareholder, to observe and comply with the Company Law, the Special Regulations and our Articles of Association;
- 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 agrees with each of our Shareholders to refer all disputes and claims concerning our affairs

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

and arising from any rights or obligations conferred or imposed by the Articles of Association, the Company Law or other relevant laws or other relevant laws and administrative regulations to arbitration in accordance with our Articles of Association, and any reference to arbitration shall be deemed to authorise the arbitration tribunal to conduct hearings in open session and to publish its award. Such arbitration shall be final and conclusive;

- agrees with us and each of our Shareholders that the H Shares are freely transferable by the holders thereof; and
- authorises us to enter into a contract on his or her behalf with each of our Directors, Supervisors, managers and officers whereby such Directors, Supervisors, managers and officers undertake to observe and comply with their obligations to our Shareholders as stipulated in our Articles of Association.

H SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of listing of, and permission to deal in, the H Shares on the Hong Kong Stock Exchange and our compliance with the stock admission requirements of HKSCC, the H 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 H Shares on the Hong Kong Stock Exchange or any other date as determined by HKSCC. Settlement of transactions between participants of the Hong Kong Stock Exchange 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 advisors for the details of the settlement arrangements as such arrangements may affect their rights and interests. All necessary arrangements have been made for the H Shares to be admitted into CCASS.

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\$1.00: RMB0.79004 (the medium rate set by the SAFE for foreign exchange transactions prevailing on 10 March 2014); and

HK\$7.7605: US\$1.00 (the exchange rate in effect on 7 March 2014 set forth in the weekly statistical release of the Federal Reserve Board of the United States on 10 March 2014).

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.

ROUNDING

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

WAIVERS AND EXEMPTION FROM COMPLIANCE WITH THE HONG KONG LISTING RULES

In preparation for the Global Offering, we have sought the following waivers from strict compliance with the relevant provisions of the Hong Kong Listing Rules:

MANAGEMENT PRESENCE IN HONG KONG

Rules 8.12 and 19A.15 of the Hong Kong Listing Rules require that an issuer must have sufficient management presence in Hong Kong and, in normal circumstances, at least two of the issuer's executive directors must be ordinarily resident in Hong Kong. Currently, all of our executive Directors reside in China. As the headquarters and the business operations of the Bank are in China, we do not, and in the foreseeable future, will not, have sufficient management presence in Hong Kong. We have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with Rules 8.12 and 19A.15 of the Hong Kong Listing Rules.

We have proposed the following arrangements for maintaining regular communication with the Hong Kong Stock Exchange for the purpose of Rules 8.12 and 19A.15 of the Hong Kong Listing Rules and the waiver was granted on the basis:

- (i) our Bank will appoint two authorised representatives pursuant to Rule 3.05 of the Hong Kong Listing Rules who will act as our Bank's principal communication channel with the Hong Kong Stock Exchange and will ensure that they comply with the Hong Kong Listing Rules at all times. We have appointed Mr. LIU Zhuo (劉卓先生), an executive Director and secretary to the Board of our Bank, and Ms. SUN Feixia (孫飛霞女士) the joint company secretary of our Bank as the two authorised representatives of our Bank. They are both PRC residents. Each of the two authorised representatives has been duly authorised to communicate on behalf of our Bank with the Hong Kong Stock Exchange and each of them will be readily available to meet with the Hong Kong Stock Exchange in Hong Kong within a reasonable time frame upon request and will be readily contactable by telephone, facsimile or email;
- (ii) both of the authorised representatives have means to contact all members of the Board promptly at all times as and when the Hong Kong Stock Exchange wishes to contact the Board on any matters;
- (iii) our Bank has, in compliance with Rule 3A.19 of the Hong Kong Listing Rules, appointed CMB International Capital Limited as our compliance adviser who will have access at all times to our Bank's authorised representatives, Directors and other officers and will serve as our Bank's additional communication channel with the Hong Kong Stock Exchange. Our compliance adviser will advise our Bank on on-going compliance requirements and other issues arising under the Hong Kong Listing Rules for the period commencing on the Listing Date and ending on the date on which our Bank distributes the annual report for the first full financial year after the Listing Date;
- (iv) all Directors who are not ordinarily residents in Hong Kong have confirmed that they hold valid travel documents to visit Hong Kong and will be able to meet with the Hong Kong Stock Exchange in Hong Kong upon reasonable notice, when required; and
- (v) to enhance communications among the Hong Kong Stock Exchange, the authorised representatives and the Directors, we have implemented a policy whereby (a) all Directors shall provide their respective office phone numbers, mobile phone numbers, facsimile numbers and email addresses to the authorised representatives as well as the Hong Kong Stock Exchange; and (b) in the event that a Director expects to travel and be out of office, he shall provide the phone number of the place of his accommodation to the authorised representatives.

WAIVERS AND EXEMPTION FROM COMPLIANCE WITH THE HONG KONG LISTING RULES

COMPANY SECRETARY

In accordance with Rules 3.28 and 8.17 of the Hong Kong Listing Rules, we must appoint a company secretary, by virtue of his/her academic or professional qualifications or relevant experience, who is, in the opinion of the Hong Kong Stock Exchange, capable of discharging the functions of company secretary. The academic or professional qualifications that are acceptable to the Hong Kong Stock Exchange are as follows:

- (i) a member of The Hong Kong Institute of Chartered Secretaries;
- (ii) a solicitor or barrister (as defined in the Legal Practitioners Ordinance, Chapter 159 of the Laws of Hong Kong); or
- (iii) a certified public accountant (as defined in the Professional Accountants Ordinance, Chapter 50 of the Laws of Hong Kong).

We have appointed Ms. SUN Feixia (孫飛霞女士) as one of our joint company secretaries. Ms. Sun has been the general manager of the Office of the Board since 2008 possessing rich experience in both the Board and corporate governance practices of our Bank and has an extensive knowledge of the operations and business of our Bank. However, Ms. Sun does not satisfy the appointment qualifications strictly set out under Rule 3.28 of the Hong Kong Listing Rules. Therefore, we have appointed Dr. NGAI Wai Fung (魏偉鋒博士), who satisfies the qualifications under Rule 3.28 of the Hong Kong Listing Rules, to be the other joint company secretary. Dr. Ngai will provide assistance to Ms. Sun for an initial period of three years from the Listing Date to fully satisfy the requirements set out under Rules 3.28 and 8.17 of the Hong Kong Listing Rules.

Dr. Ngai will work closely with Ms. Sun in the discharge of their duties and responsibilities as our joint company secretaries and will provide assistance to Ms. Sun to acquire the relevant experience set out under Rule 3.28 of the Hong Kong Listing Rules. In addition, Ms. Sun will participate relevant trainings to improve and promote her knowledge and understanding of the Hong Kong Listing Rules as well as other applicable laws and regulations.

We have submitted our application to the Hong Kong Stock Exchange, and the Hong Kong Stock Exchange has granted a waiver from strict compliance with Rule 8.17 of the Hong Kong Listing Rules, for an initial period of three years from the Listing Date, provided that Dr. Ngai will act as a joint company secretary and provide assistance to Ms. Sun in the discharge of her duties as a joint company secretary and in gaining the relevant experience as required under Rule 3.28 of the Hong Kong Listing Rules during this period. The waiver will be revoked immediately when Dr. Ngai, during this period, ceases to provide assistance to Ms. Sun. At the expiry of the three-year period, we will make a further evaluation of Ms. Sun's qualifications and experience to determine whether the requirements set out under Rule 3.28 of the Hong Kong Listing Rules are satisfied. We and Ms. Sun would then endeavour to demonstrate to Hong Kong Stock Exchange's satisfaction that Ms. Sun, having had the benefit of Dr. Ngai's assistance for three years, will have acquired the relevant experience under Rule 3.28 of the Hong Kong Listing Rules, so that a further waiver will not be necessary.

HONG KONG FINANCIAL DISCLOSURE REQUIREMENTS

In accordance with Rule 4.10 of the Hong Kong Listing Rules, the information to be disclosed in respect of Rules 4.04 to 4.09 of the Hong Kong Listing Rules must be in accordance with best practice which is at least that as required to be disclosed in respect of those specific matters in the accounts of a company under the Companies Ordinance and HKFRS, IFRS or CASBE in the case of a PRC issuer that has adopted CASBE for the preparation of its annual financial statements and, in the case of banking companies, the "Financial Disclosure by Locally Incorporated Authorised Institutions" ("FD-1") from the Supervisory Policy Manual issued by HKMA.

WAIVERS AND EXEMPTION FROM COMPLIANCE WITH THE HONG KONG LISTING RULES

The Banking Disclosure Rules issued by HKMA for the purpose of implementing the requirements of, among other things, the capital adequacy framework based on the reform of Basel Accords, replace, *inter alia*, FD-1 and are applicable to authorised institutions from the beginning of its first financial year commencing on or after 1 January 2007. Our Bank is engaged in banking activities and therefore, pursuant to Rule 4.10 of the Hong Kong Listing Rules, the financial information disclosed in this prospectus should include information that is required to be disclosed in respect of those specific matters under the Banking Disclosure Rules.

We are unable to fully comply with the disclosure requirements under the Banking Disclosure Rules for the reasons as described below. We believe that the financial disclosure requirements that we are unable to comply with are immaterial to potential investors of the Global Offering.

Position of our Bank in relation to disclosures under the Banking Disclosure Rules

Section Number ⁽¹⁾	Disclosure Requirements	Reason for a Waiver in relation to the Specific Disclosure	Proposal for Disclosure	Expected Timing for Full Compliance
47	Sector information	Our Bank maintains a breakdown of loans and advances to customers by industry sectors as set out in the Classification and Codes of National Economic Industries in its loans system for the purpose of filing a return to the CBRC.	For our Bank, all the loans and advances to customers are used in the PRC instead of in Hong Kong. Our Bank is subject to the supervision of the CBRC and maintains a breakdown of loans and advances in industry sector based on the classification system as prescribed by the CBRC, e.g. loans are categorised into corporate loans and personal loans which are further classified into detailed sub-categories by industry/nature. Our Bank has disclosed the loans and advances in industry sectors in accordance with its management reports based on the CBRC classification in Note 45 to the Accountants' Report as set out in Appendix I of this prospectus. Our Bank considers that the current disclosure is sufficient to serve HKMA's disclosure objectives.	N/A

WAIVERS AND EXEMPTION FROM COMPLIANCE WITH THE HONG KONG LISTING RULES

Section Number ⁽¹⁾	Disclosure Requirements	Reason for a Waiver in relation to the Specific Disclosure	Proposal for Disclosure	Expected Timing for Full Compliance
50	An authorised institution shall disclose its non-HK\$ currency exposures which arise from trading, non-trading and structural positions in accordance with the return relating to non-HK\$ currency positions it submitted to HKMA pursuant to section 63 of the Banking Ordinance in respect of the annual reporting period.	Our Bank's accounts are settled in RMB, which means that our Bank only disclosed non-RMB currency exposures instead of non-HK\$ currency exposures.	N/A	N/A
53 – 64	Additional annual disclosure to be made by an authorised institution using STC approach to calculate its credit risk for non-securitisation exposures.	The computation basis for risks is promulgated by the CBRC as set out in the Core Indicators (Provisional).	Our Bank can provide relevant capital structure and adequacy in accordance with the disclosure requirements from the CBRC's requirements. Our Bank believes that such requirements attempt to address similar disclosure purpose as the requirements of the Banking Disclosure Rules.	N/A

Note:

- (1) The relevant sections under the Banking Disclosure Rules for which our Bank is currently unable to provide the required disclosures.

Further to the above, as a financial institution incorporated and based in the PRC, our Bank is required to comply with requirements of the CBRC and the PBOC. Certain provisions of the Banking Disclosure Rules require disclosure in respect of our Bank's capital structure, capital base (in particular, relating to the Bank's level of capital adequacy), cross border claims, liquidity ratios, PRC non-bank exposures and credit risks. Our Bank has maintained and compiled data relating to these matters in accordance with the regulatory requirements of the CBRC and the PBOC. Our Bank believes that the CBRC and the PBOC requirements attempt to address similar disclosure considerations to the requirements of the Banking Disclosure Rules and the differences between the above disclosure requirements under the two regulatory regimes are minimal and immaterial. It will be unduly burdensome for our Bank to attempt to comply with such items under the Banking Disclosure Rules in parallel with the CBRC or the PBOC regulations as our Bank would be required, in our view, to carry out unnecessary additional work to compile similar information already required and maintained in accordance with the CBRC and the PBOC regulations. As a result, our Bank proposes to disclose information which complies with the CBRC and the PBOC regulations in this regard instead of strictly following the disclosure regime provided for under the Banking Disclosure Rules, which will result in the compilation of similar

WAIVERS AND EXEMPTION FROM COMPLIANCE WITH THE HONG KONG LISTING RULES

data. Our Bank is of the view that this prospectus will contain sufficient information for investors to make their investment decision notwithstanding the differences between the CBRC and the PBOC requirements on the one hand, and the requirements of the Banking Disclosure Rules on the other. The Joint Sponsors concur with the view of our Bank based on the reasoning set out above.

Based on the above, we have applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the requirement under Rule 4.10 of the Hong Kong Listing Rules, such that our Bank will not fully comply with the requirements in respect of financial disclosures provided for under the Banking Disclosure Rules and the Companies Ordinance on the condition that the Bank shall comply with the requirements of Rule 4.10 to the extent such information is available to our Bank.

RULE 4.04(1) OF THE HONG KONG LISTING RULES AND PARAGRAPHS 27 AND 31 OF THE THIRD SCHEDULE TO THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE

According to Rule 4.04(1) of the Hong Kong Listing Rules, the Accountants' Report contained in this prospectus must include, *inter alia*, the results of our Bank in respect of each of the three financial years immediately preceding the issue of this prospectus or such shorter period as may be acceptable to the Hong Kong Stock Exchange.

According to paragraph 27 of the Third Schedule to the Companies (Winding up and Miscellaneous Provisions) Ordinance, our Bank is required to include in this prospectus a statement as to the gross trading income or sales turnover (as the case may be) of our Bank during each of the three financial years immediately preceding the issue of this prospectus as well as an explanation of the method used for the computation of such income or turnover and a reasonable breakdown of the more important trading activities.

According to paragraph 31 of the Third Schedule to the Companies (Winding up and Miscellaneous Provisions) Ordinance, our Bank is required to include in this prospectus a report by our auditor with respect to profits and losses and assets and liabilities of our Bank in respect of each of the three financial years immediately preceding the issue of this prospectus.

Pursuant to section 342A of the Companies (Winding up and Miscellaneous Provisions) Ordinance, the SFC may issue, subject to such conditions (if any) as the SFC thinks fit, a certificate of exemption from compliance with the relevant requirements under the Companies (Winding up and Miscellaneous Provisions) Ordinance if, having regard to the circumstances, the SFC considers that the exemption will not prejudice the interests of the investing public and compliance with any or all of such requirements would be irrelevant or unduly burdensome, or is otherwise unnecessary or inappropriate.

The Accountants' Report for each of the years ended 31 December 2010, 2011 and 2012 and the nine months ended 30 September 2013 has been prepared and is set out in Appendix I to this prospectus.

An application was made to the Hong Kong Stock Exchange for a waiver from strict compliance with Rule 4.04(1) of the Hong Kong Listing Rules, and such waiver was granted by the Hong Kong Stock Exchange on the conditions that:

- (i) our Bank lists on the Hong Kong Stock Exchange by 31 March 2014;
- (ii) our Bank obtains a certificate of exemption from the SFC from similar requirements under paragraphs 27 and 31 of the Third Schedule to the Companies (Winding up and Miscellaneous Provisions) Ordinance; and

WAIVERS AND EXEMPTION FROM COMPLIANCE WITH THE HONG KONG LISTING RULES

- (iii) this prospectus must include the financial information for the latest financial year and a commentary on the results for the year. The financial information to be included in the prospectus must (a) follow the same content requirements as for a preliminary results announcements under Rule 13.49 of the Hong Kong Listing Rules; and (b) be agreed with the reporting accountants following their review under Practice Note 730 “Guidance for Auditors Regarding Preliminary Announcements of Annual Results” issued by the Hong Kong Institute of Certified Public Accountants.

An application has also been made to the SFC for a certificate of exemption from strict compliance with paragraphs 27 and 31 of the Third Schedule to the Companies (Winding up and Miscellaneous Provisions) Ordinance on the grounds that it would be unduly burdensome and there would not be sufficient time for our Bank and the reporting accountant to complete the work on the financial statements for the full financial year ended 31 December 2013 for inclusion in the prospectus. A certificate of exemption has been granted by the SFC under section 342A of the Companies (Winding up and Miscellaneous Provisions) Ordinance.

Our Directors confirmed that all information that is necessary for the public to make an informed assessment of the activities, assets and liabilities, financial position, management and prospects of our Bank has been included in this prospectus, as such the waiver granted by the Hong Kong Stock Exchange and the exemption granted by the SFC from strict compliance with Rule 4.04(1) of the Hong Kong Listing Rules and paragraph 27 and paragraph 31 of the Third Schedule to the Companies (Winding up and Miscellaneous Provisions) Ordinance, respectively, will not prejudice the interests of the investing public.

Our Directors and the Joint Sponsors confirmed that they have performed sufficient due diligence to ensure that, up to the date of this prospectus, there has been no material adverse change in our financial position or prospects since 30 September 2013 and there is no event since 30 September 2013 which would materially affect the information shown in the Accountants’ Report set out in Appendix I to this prospectus.

PUBLICATION OF PRELIMINARY RESULTS

Pursuant to Rule 13.49(1) of the Hong Kong Listing Rules, an issuer is required to publish its preliminary results in respect of each financial year as soon as possible, but in any event not later than three months after the end of the financial year.

Our Bank has included in this prospectus the unaudited financial information and a commentary on the results of our Bank for the year ended 31 December 2013, and Jun He Law Offices Beijing, our PRC legal adviser, has confirmed that our Bank is not in breach of our Articles of Association, PRC laws and regulations or other regulatory requirements regarding our obligation to publish annual results announcements if we do not publish our preliminary results announcement for the year ended 31 December 2013 in accordance with Rule 13.49(1) of the Hong Kong Listing Rules. Accordingly, we have applied to the Hong Kong Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with the requirements under Rule 13.49(1) of the Hong Kong Listing Rules in respect of the publication of the preliminary results announcement for the year ended 31 December 2013 on such basis.

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

DIRECTORS

Name	Residential Address	Nationality
Executive Directors		
Mr. GUO Zhiwen (郭志文), Chairman	Room 602, Unit 3, No. 100, Ashihe Street, Nangang District, Harbin, Heilongjiang, PRC	Chinese
Mr. LIU Zhuo (劉卓), Vice chairman	Room 602, Unit 4, Building 47, Hezheng Place, Hezheng Street, Daoli District, Harbin, Heilongjiang, PRC	Chinese
Ms. GAO Shuzhen (高淑珍)	Room 501, Unit 1, Building 12, No. 447, Xuanhua Street, Nangang District, Harbin, Heilongjiang, PRC	Chinese
Non-executive Directors		
Mr. ZHANG Taoxuan (張濤軒)	Room 603, Unit 1, Building 23, Xuanqing Community, No. 3, Haibin Street, Nangang District, Harbin, Heilongjiang, PRC	Chinese
Mr. CHEN Danyang (陳丹陽)	Jianhang Residential Block, Menghuan Place, Shugangyiheng Road, Xiuying District, Haikou, Hainan, PRC	Chinese
Mr. CUI Luanyi (崔鸞懿)	University of International Business and Economics (Post- graduate 07), No. 1, Hui Zhong An, Chaoyang District, Beijing, PRC	Chinese
Mr. QIN Hongfu (覃紅夫)	No. 112, Yuhua West Road, Qiaoxi District, Shijiazhuang, Hebei, PRC	Chinese
Independent Non-executive Directors		
Mr. MA Yongqiang (馬永強)	No. 5045 Shennan East Road, Luohu District, Shenzhen, Guangdong, PRC	Chinese
Mr. ZHANG Shengping (張聖平)	Room 207, Building 312 A, Yan Bei Yuan, Peking University, Haidian District, Beijing, PRC	Chinese
Mr. HE Ping (何平)	Room 307, Building Hong 3, Renmin University, Haidian District, Beijing, PRC	Chinese
Mr. DU Qingchun (杜慶春)	Room 415, Unit 4, Building 8, Cui Wei Dong Li, Haidian District, Beijing, PRC	Chinese

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Mr. KONG Siu Chee (江紹智)	Suite Q, Evergreen Garden, No. 12-50, Ma Lok Path, Kau To Shan, Sha Tin, Hong Kong	Hong Kong

SUPERVISORS

Name	Residential Address	Nationality
Mr. ZHANG Bin (張濱), Chairman	Room 202, Unit 1, Building B, No. 52 Senlin Street, Daoli District, Harbin, Heilongjiang, PRC	Chinese
Ms. CHENG Yun (程雲), Vice chairman	Room 802, Unit 2, Building 1, No. 45 Tongjiang Street, Daoli District, Harbin, Heilongjiang, PRC	Chinese
Ms. WANG Ying (王穎)	Room 303, Unit 1, No. 113 Tongjiang Street, Daoli District, Harbin, Heilongjiang, PRC	Chinese
Mr. CHEN Yutao (陳宇濤)	Room 402, No. 24 Lane 425, Nianjiabang Road, Zhoupu Town, Nanhui District, Shanghai, PRC	Chinese
Ms. LU Yujuan (盧育娟)	Graduate 2010, Communication University of China, No.7 Dingfuzhuangnanli, Chaoyang District, Beijing, PRC	Chinese
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Mr. WANG Jiheng (王吉恒)	No. 39, Shiqi Wei, Zone A, Mudanjiang Nongken Community, Mishan, Heilongjiang, PRC	Chinese
Ms. MENG Rongfang (孟榮芳)	Room 601, No.2 Jia, Jinjiangxinong, Jingan District, Shanghai, PRC	Chinese

See “Directors, Supervisors and Senior Management” for further details of our Directors and Supervisors.

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

	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 Hong Kong
Legal Advisors to the Bank	as to Hong Kong and United States laws: Linklaters 10/F, Alexandra House 18 Chater Road Central Hong Kong as to PRC law: Jun He Law Offices Beijing 20/F, China Resources Building Dongcheng District Beijing PRC
Legal Advisors to the Joint Sponsors and the Underwriters	as to Hong Kong and United States laws: Clifford Chance 28/F, Jardine House 1 Connaught Place Central Hong Kong as to PRC law: Jia Yuan Law Offices Beijing F408 Ocean Plaza 158 Fuxing Men Nei Ave Xicheng District Beijing PRC
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Receiving Banks	Bank of China (Hong Kong) Limited 1 Garden Road Hong Kong Wing Lung Bank Limited 16/F., Wing Lung Bank Building 45 Des Voeux Road Central Hong Kong Bank of Communications Co., Ltd. Hong Kong Branch 20 Pedder Street Central Hong Kong

OUR INFORMATION

Registered Address and Address of Headquarters	No. 160 Shangzhi Street Daoli District Harbin Heilongjiang Province PRC
Principal Place of Business in Hong Kong	18/F, Tesbury Centre 28 Queen's Road East Wanchai Hong Kong
Website Address	www.hrbb.com.cn (The contents of the website do not form a part of this prospectus)
Joint Company Secretaries	Ms. SUN Feixia Room 701, Unit 2, No. 47-9 Minji Street Xiangfang District Harbin Heilongjiang Province PRC Dr. NGAI Wai Fung (FCIS, FCS (PE), CPA, FCCA) 18/F, Tesbury Centre 28 Queen's Road East Wanchai Hong Kong
Authorised Representatives	Mr. LIU Zhuo Room 602, Unit 4, Building 47, Hezheng Place, Hezheng Street, Daoli District, Harbin, Heilongjiang, PRC Ms. SUN Feixia Room 701, Unit 2, No. 47-9 Minji Street Xiangfang District Harbin Heilongjiang, PRC
Board Committees	Nomination and Remuneration Evaluation Committee Mr. DU Qingchun (Chairman) Mr. HE Ping Mr. MA Yongqiang Mr. WAN Kam To Mr. CHEN Danyang Risk Management and Related Transactions Control Committee Mr. ZHANG Shengping (Chairman) Mr. HE Ping Mr. DU Qingchun Mr. LIU Zhuo Mr. CUI Luanyi

OUR INFORMATION

Development Strategy Committee

Mr. GUO Zhiwen (Chairman)

Mr. LIU Zhuo

Ms. GAO Shuzhen

Mr. ZHANG Taoxuan

Mr. KONG Siu Chee

Audit Committee

Mr. MA Yongqiang (Chairman)

Mr. ZHANG Shengping

Mr. QIN Hongfu

Mr. WAN Kam To

Mr. KONG Siu Chee

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INDUSTRY OVERVIEW

This section contains information and statistics on the industry in which our Bank operates. We have extracted and derived such information and statistics, in part, from statistics relating to our Group prepared in accordance with IFRS, and, in part, from various official or publicly available sources where such information and statistics were derived from data prepared in accordance with PRC GAAP or other applicable GAAP or accounting standards that may differ from IFRS in certain significant respects.

We believe that the sources from which this information and statistics are taken are appropriate sources for such information and statistics and we have taken reasonable care in extracting and reproducing such information and statistics. We have no reason to believe that such information and statistics are false or misleading or that any fact has been omitted that would render such information and statistics false or misleading. The information and statistics have not been independently verified by us, the Joint Sponsors, the Underwriters or any other party involved in the Global Offering and no representation is given as to their accuracy. Accordingly, such information and statistics should not be unduly relied on.

OVERVIEW

China's Economy

China's economy has grown significantly over the past three decades as a result of the Chinese government's extensive economic reforms. These reforms originally focused on transforming China from a centrally planned economy to a more market-based economy. More recently, particularly following China's accession to the WTO in 2001, such economic reforms have also aimed, among other things, at enhancing the competitiveness of Chinese enterprises. As a consequence of the various reforms mentioned above, China's nominal GDP grew at a CAGR of 13.4% from RMB31,405 billion to RMB51,947 billion between 2008 and 2012 according to the NBSC, notwithstanding the impact of the global economic recession. The table below sets out China's GDP, fixed asset investments and total import and export value, as well as the respective CAGRs, for each year from 2008 to 2012.

	Year ended 31 December					CAGR (2008-2012)
	2008	2009	2010	2011	2012	
Nominal GDP (in billions of RMB)	31,405	34,090	40,151	47,310	51,947	13.4%
Per capita GDP (in RMB)	23,708	25,608	30,015	35,198	38,420	12.8%
Fixed asset investments (in billions of RMB) . . .	17,283	22,460	25,168	31,149	37,469	21.3%
Total import and export value (in billions of USD)	2,563	2,208	2,974	3,642	3,867	10.8%

Source: NBSC

INDUSTRY OVERVIEW

The rapid growth of China's economy has driven the expansion of the banking industry. From 2008 to 2012, the total RMB-denominated loans and deposits of China's banking institutions increased at CAGRs of 20.0% and 18.4%, respectively. On a year-on-year basis, the total amount of RMB-denominated loans increased by 31.7%, 19.9%, 14.3%, and 15.0%, respectively, from 2009 to 2012. Although the growth of RMB-denominated loans has slowed down over the same period, the total amount of RMB-denominated loans kept growing at a relatively fast rate of more than 14%, which demonstrated the significant financing demand in China and the strength of the PRC economy. The table below sets out the total RMB-denominated loans and deposits and the total foreign currency-denominated loans and deposits, in each case, from 2008 to 2012, for banking institutions in China.

	Year ended 31 December					CAGR (2008-2012)
	2008	2009	2010	2011	2012	
Total RMB-denominated loans (in billions of RMB)	30,347	39,968	47,920	54,794	62,991	20.0%
Total RMB-denominated deposits (in billions of RMB)	46,620	59,774	71,823	80,937	91,737	18.4%
Total foreign currency-denominated loans (in billions of US\$)	244	380	453	539	684	29.4%
Total foreign currency-denominated deposits (in billions of US\$)	179	209	229	275	406	22.7%

Source: PBOC

Economy of Heilongjiang Province

Heilongjiang Province is the northernmost province in Northeast China and adjoins Russia. Benefiting from political support and its geographical environment, Heilongjiang Province has become an important commodity grain base within China. In 2012, its annual grain output ranked first in China, making up one tenth of China's total grain output. Heilongjiang Province is also rich in timber and mineral resources. After decades of development and reform, Heilongjiang Province has gradually established an industrial system which is based around heavy industry and large enterprises, with a particular focus on the petrochemical, food, machinery, coal and forest industries.

The development strategy of revitalising the old industrial bases in Northeast China since 2003, the stable income contribution from agriculture and the strengthened export-oriented economy have resulted in an improved infrastructure and an accelerated economic growth in Heilongjiang Province in recent years. From 2008 to 2012, Heilongjiang Province's nominal GDP grew at a CAGR of 13.3%, which is in line with the rapid growth of China's economy. The table below sets out Heilongjiang Province's GDP, fixed asset investments and total import and export value as well as the respective CAGRs from 2008 to 2012.

	Year ended 31 December					CAGR (2008-2012)
	2008	2009	2010	2011	2012	
Nominal GDP (in billions of RMB)	831	859	1,037	1,258	1,369	13.3%
GDP per capita (in RMB)	21,740	22,447	27,076	32,819	35,711	13.2%
Fixed asset investments (in billions of RMB) ...	366	503	681	748	969	27.6%
Total import and export value (in billions of USD)	23	16	26	39	38	12.9%

Source: NBSC

Alongside the economic development of the region, the banking industry in Heilongjiang Province has also experienced rapid growth. According to the statistics compiled by the Statistics Bureau of

INDUSTRY OVERVIEW

Heilongjiang Province, as of 31 December 2012, the total RMB-denominated deposits of banking institutions in Heilongjiang Province reached RMB1,632.66 billion, representing an increase of 14.0% compared to the beginning of 2012, whilst total RMB-denominated loans in Heilongjiang Province reached RMB990.67 billion, representing an increase of 15.9% compared to the beginning of 2012.

The table below sets out the total RMB-denominated loans and deposits and the total foreign currency-denominated loans and deposits, and the respective CAGRs of banking institutions in Heilongjiang Province from 2008 to 2012.

	Year ended 31 December					CAGR (2008-2012)
	2008	2009	2010	2011	2012	
Total RMB-denominated loans (in billions of RMB)	453.26	598.83	723.05	854.87	990.67	21.6%
Total RMB-denominated deposits (in billions of RMB)	899.38	1,102.28	1,283.57	1,432.84	1,632.66	16.1%
Total foreign currency-denominated loans (in millions of US\$)	1,230	1,380	1,340	1,400	3,410	29.0%
Total foreign currency-denominated deposits (in millions of US\$)	900	2,300	2,420	3,370	5,620	58.1%

Source: 2008 – 2012 Heilongjiang Statistics Year Book and PBOC Harbin Central Sub-branch

CURRENT COMPETITIVE LANDSCAPE OF THE PRC BANKING INDUSTRY AND OUR ADVANTAGES

China's banking institutions are generally categorised into Large Commercial Banks, Nationwide Joint-stock Commercial Banks, city commercial banks, rural financial institutions, foreign financial institutions and other banking institutions. The table below sets out the number of institutions, total assets, shareholders' equity and net profit of the different categories of banking institutions in China as of 31 December 2012.

China	As of 31 December 2012						
	Number of legal entity institutions	Total assets		Shareholders' equity		Net profit	
		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	44.94%	3,952	45.58%	755	49.92%
Nationwide Joint-stock Commercial Banks	12	23,527	17.61%	1,314	15.16%	253	16.71%
City commercial banks	144	12,347	9.24%	808	9.31%	137	9.05%
Rural financial institutions ⁽¹⁾	2,411	15,512	11.61%	996	11.49%	161	10.64%
Foreign financial institutions ⁽²⁾	412	2,380	1.78%	256	2.95%	16	1.08%
Other banking institutions ⁽³⁾	1,133	19,816	14.82%	1,345	15.51%	190	12.59%
Total	3,747	133,622	100.00%	8,671	100.00%	1,512	100.00%

Source: CBRC 2012 Annual Report

Notes:

- (1) Consist of rural credit cooperatives, rural commercial banks and rural cooperative banks.
- (2) Consist of foreign bank branches, foreign-owned banks, Sino-foreign joint-ventured banks and foreign-owned finance companies and their branches and subsidiaries.
- (3) Consist of policy banks, China Development Bank, the Postal Savings Bank of China and other non-bank financial institutions, including banking asset management companies, finance companies affiliated to corporate enterprises, consumer finance companies, trust companies, financial leasing companies, money brokerage firms, auto financing companies, Village and Township Banks, lending companies and rural mutual cooperatives.

INDUSTRY OVERVIEW

The table below sets out, as of 31 December 2012, certain information relating to the total assets, total shareholders' equity, and net profit of different categories of banking institutions in Heilongjiang Province and that of our Bank.

Heilongjiang Province	As of 31 December 2012						
	Number of institutions ⁽¹⁾	Total assets		Shareholders' equity		Net profit	
		Total	Market	Total	Market	Total	Market
		amount	share	amount	share	amount	share
(in billions of RMB, except number of institutions and percentages)							
Large Commercial Banks	5	937	39.87%	12	17.14%	8	30.77%
Nationwide Joint-stock							
Commercial Banks	6	174	7.40%	3	4.29%	2	7.69%
City commercial banks ⁽²⁾	6	473	20.13%	26	37.14%	5	19.23%
Rural financial institutions	89	240	10.21%	14	20.00%	0.3	1.15%
Foreign financial institutions	6	4	0.17%	1	1.43%	0.01	0.04%
Other banking institutions	40	522	22.21%	14	20.00%	10.69	41.12%
Total	152	2,350	100.00%	70	100.00%	26	100.00%

Source: CBRC Heilongjiang Bureau

Notes:

- (1) Including institutions incorporated or have branch established in Heilongjiang Province.
- (2) Our Bank is a city commercial bank, being one of six city commercial banks in Heilongjiang Province.

As of 31 December 2012, our Bank's total assets, total shareholders' equity and net profit were approximately RMB270.1 billion, RMB16.9 billion and RMB2.9 billion, respectively. Based on a confirmation letter issued by the CBRC Heilongjiang Bureau in July 2013, we were the second largest commercial bank in Heilongjiang Province, and the largest commercial bank in Harbin in terms of total assets as of 31 December 2012 and net profit for the year ended 31 December 2012.

We were ranked 4th among the city commercial banks in the PRC according to the "2013 Research Report on Asian Bank Competitiveness Rankings" released by the 21st Century Business Herald, representing an advancement of five places as compared with 2012. The ranking is based on statistics of eight aspects relating to a bank's capabilities to enhance capital value for its shareholders, which include return on capital, market share, asset quality and capital adequacy ratio¹. We were ranked 33rd in terms of total assets among the "Top 50 Banks in China" published by Standard & Poor's in 2012. We were ranked 9th among the city commercial banks with assets scale of over RMB200 billion as published by The Banker, a PRC-based magazine in 2013, and the city commercial banks are ranked by several indicators of financial performance, including total assets, risk profile, capital structure, profitability and liquidity ratio. Our Bank was ranked 313th in the "Top 1000 World Banks 2013" recently announced by The Banker, a UK-based magazine, in terms of total tier 1 capital², representing an advancement of 85 places as compared with our ranking in the same list of the previous year. According to the list, 96 banks in the PRC ranked among the "Top 1000 Word Banks 2013". Among such banks on the list, we were ranked 27th among banks in the PRC, 7th among city commercial banks in the PRC, and first among city commercial banks in Northeast China.

¹ A bank's asset scale, liquidity and efficiency indicators, deposit structure and branch network are also taken into consideration in the calculation.

² The banks are also assessed with other secondary indicators, namely assets, capital asset ratio, pre-tax profits, profit on capital, return on assets, capital adequacy ratio, NPL to total loans, loans to assets, RWA to assets and cost to income.

INDUSTRY TRENDS

Enhanced Industry Fundamentals

Since 2003, the transformation of State-owned commercial banks into joint-stock commercial banks has had a profound effect on the reform and development of the banking industry in China. Since then, the China banking sector has witnessed significant improvement in the areas of corporate governance, risk management, capital base, profitability, branding and market recognition. From 2008 to 2012, according to CBRC 2012 Annual Report, the total assets of banking institutions in China increased by RMB70,471 billion, representing a CAGR of 20.6%, whilst total shareholders' equity increased by RMB4,881 billion, representing a CAGR of 23.0%. The asset quality of commercial banks in China also improved significantly. During the same period, non-performing loans of the banking institutions in China decreased from RMB564 billion to RMB493 billion and their non-performing loan ratio decreased from 2.42% to 0.95%.

Enhanced Regulation and Supervision

China's banking regulators have established, and continue to enhance, a prudent regulatory framework and, at the same time, continue to push forward China's financial reforms in a number of areas such as corporate governance, internal control, compliance and risk management. Furthermore, regulations have been implemented to strengthen information disclosure requirements and coordination and cooperation with domestic and foreign regulators.

Following the global financial crisis in 2008, the CBRC has reinforced its policy objectives towards prudential supervision and counter-cyclical regulation.

Prudent supervision: the CBRC has established rules and regulations to guide commercial banks to further improve their risk management systems and establish prudent measures to prevent excessive exposure to high-risk markets and industries. These regulatory measures cover a wide range of potential risks including credit, market, operational and liquidity risks.

As part of its prudent supervision, the CBRC has established a series of measures and guidelines in accordance with the development of the Basel Accords to strengthen commercial banks' capital management capabilities. These measures and guidelines relate to, among other things, capital adequacy ratio disclosure, capital measurement and risk exposure calculations.

Counter-cyclical regulation: the CBRC has also established guidelines aimed at encouraging commercial banks to better address the borrowing needs generated by the growing economy whilst also effectively managing potential risks. Specific measures include encouraging the extension of merger and acquisition loans and specialised management of lending to small businesses, broadening industry scope for project financing and promoting innovative credit guarantee and consumer loan insurance mechanisms.

Enhanced regulations on certain industries and customers: the CBRC has issued a series of regulations relating to the real estate industry and local government financing vehicles, which have restricted the amount of loans provided to such entities by PRC commercial banks, and have imposed a requirement on PRC commercial banks to enhance risk management with regard to such entities.

Improvement of corporate governance: the CBRC has encouraged banks to establish corporate governance structures, such as a board of directors comprising independent directors, an audit committee, a remuneration and nomination committee and other board committees, as well as a supervisory board.

INDUSTRY OVERVIEW

Moreover, the CBRC also requires PRC banking institutions to establish an independent internal audit function which has clear policies and procedures.

See “Supervision and Regulation – PRC Banking Supervision and Regulation”.

Increasing Role of City Commercial Banks in China’s Banking Industry

City commercial banks are banks with branches at the municipality level or above, and were created under the PRC Company Law and the PRC Commercial Banking Law with the approval of the CBRC. The predecessors of city commercial banks were urban credit cooperatives. In 1995, the State Council decided to restructure urban credit cooperatives into city cooperative banks, which since 1997 were referred to as city commercial banks. According to CBRC 2012 Annual Report, as of 31 December 2012, there were 144 city commercial banks in China. City commercial banks have played an active role in maintaining regional financial stability, promoting market competition, facilitating the development of financial services and easing funding pressures for SMEs.

As opposed to Large Commercial Banks and Nationwide Joint-stock Commercial Banks, city commercial banks are generally focused on providing banking services to institutions and individuals in certain specified geographic areas. From 2004 to 2011, city commercial banks were, subject to CBRC approval, also permitted to expand and establish cross-regional branches operating in other provinces. However, in 2012, the CBRC temporarily suspended the approval of new applications from banks seeking to expand in this way. As of 31 December 2012, our Bank had five branches outside Heilongjiang Province.

Leveraging their understanding of local markets and relationships with local customers, city commercial banks are generally well-positioned to capture opportunities and trends in local areas. From 2008 to 2012, the key financial indicators and performance of city commercial banks have continued to improve and the rapid development of city commercial banks has been a key reason contributing to the overall growth of China’s banking industry. According to the CBRC, the total assets of city commercial banks as a percentage of the total assets of the banking industry in China, increased from 6.5%, or RMB4.1 trillion, as of 31 December 2008, to 9.2%, or RMB12.3 trillion, as of 31 December 2012, representing a CAGR of 35.1%, which is higher than the corresponding CAGR of all other PRC banking institutions. During the same period, whilst the return on total average assets of city commercial banks increased from 1.10% to 1.23%, the overall non-performing loan ratio of city commercial banks decreased from 2.3% to 0.8%. The profitability and asset quality of city commercial banks has improved significantly.

The table below sets out certain information relating to city commercial banks in China for the years indicated:

	For the year ended 31 December				
	2008	2009	2010	2011	2012
	(RMB in billions, except percentage)				
Assets	4,132	5,680	7,853	9,985	12,347
Liabilities	3,865	5,321	7,370	9,320	11,540
Shareholders’ Equity	267	359	482	664	808
Profit after tax	41	50	77	108	137
Non-performance loan ratio	2.3%	1.3%	0.9%	0.8%	0.8%

Source: CBRC 2012 Annual Report; CBRC website

INDUSTRY OVERVIEW

In recent years, PRC city commercial banks have experienced rapid development. Certain city commercial banks have been restructured, have introduced strategic investors or have sought initial public offerings in order to strengthen their capital base. For example, in 2007, Bank of Nanjing and Bank of Beijing were both listed on the Shanghai Stock Exchange, and Bank of Ningbo was listed on the Shenzhen Stock Exchange. In addition, some city commercial banks have, in accordance with regulations issued by the CBRC, begun developing mix operation business models, such as establishing consumer finance companies and financial leasing companies, and investing in equity interests in insurance companies.

New urbanisation is one of the important components of China's 12th Five-Year Plan. If city commercial banks are able to capture the opportunities brought by such new urbanisation and can leverage their strengths and resources to position themselves well in the market, the total assets and total profits of city commercial banks are expected to grow at a higher rate than other PRC banking institutions.

Increasing Focus on Small and Micro Enterprise Banking

With the improvement of China's economic structure, the strategic status of small and micro enterprises is rising, and the small and micro enterprise banking market is becoming increasingly important.

Since 2007, the PBOC and the CBRC have issued a series of policies and measures to promote lending to SMEs, in particular to small and micro enterprises. Set out below is a summary of the key measures that have been issued:

- In May 2011, the CBRC issued the Notice 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 encouraged commercial banks to issue financial bonds for the purpose of funding loans to small enterprises (including what are currently referred to as small and micro enterprises). In addition, it adopted specific assessment procedures for loans made to small enterprises and increased tolerance for the non-performing loans ratio of small enterprises.
- In October 2011, the CBRC issued the Supplementary Notice on Supporting Commercial Banks in Further Improving Financial Services for Small Enterprises and Micro Enterprises (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), which provided more specific regulations and incentive policies such as: (i) giving further encouragement and support to commercial banks to expand their coverage of financial services for small and micro enterprises; (ii) actively supporting the development of small and micro enterprises in technology industries through the creation of innovative systems, products and services; (iii) applying a preferential risk weight of 75% in risk-weighted approach to loans to small and micro enterprises; (iv) applying preferential capital regulatory requirements in respect of loans to small and micro enterprises; and (v) applying a more tolerant non-performing loans ratio to loans to small and micro enterprises. In addition, commercial banks were no longer allowed to charge small and micro enterprises any commitment fee or fund management fee in connection with loans or products offered to them, whilst stringent restrictions were imposed on the charging of financial advisory fees and consultation fees to small and micro enterprises.
- In March 2013, the CBRC issued the Notice on Advancing the Financial Services for Small Enterprises and Micro Enterprises (關於深化小微企業金融服務的意見), which further encouraged and incentivised commercial banks to improve their standard of service, innovate financial products, expand channels of financing, provide integrated financial services to small and

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micro enterprises and expand their financial service network coverage to less developed towns, as well as wholesale markets and trade fairs where small and micro enterprises concentrate. This notice also reinforced the policy that permitted commercial banks to apply to establish several sub-branches in the same city and removed the restriction that banks need a minimum half-year period between two consecutive applications, provided that the number of small and micro enterprises loan customers of such bank and the average balance of loans granted to such customers at the end of each of the previous six months reached certain levels as a proportion of all customers of that bank and the bank's total loan balance (in principle, the relevant levels were set at 70% for eastern coastal provinces and municipalities with independent planning status and 60% for other provinces).

- In August 2013, the CBRC issued the Guiding Opinions on Further Enhancing the Financial Service Work for Small Enterprises and Micro Enterprises (關於進一步做好小微企業金融服務工作的指導意見), which required banking institutions to ensure that (i) the growth rate of loans made to small enterprises and micro enterprises was not lower than the average growth rate for any other type of loans; and (ii) the volume of growth of loans made to small enterprises and micro enterprises was not lower than the corresponding growth rate of the previous year. In addition, the regulations stated that banking institutions would only be entitled to benefit from preferential policies in the following year if they met the above targets and, in particular, granted loans to small enterprises and micro enterprises at a higher rate than the previous year.

In addition, the growing bargaining power of large corporate borrowers, as a result of the gradual liberalisation of interest rates and the increasing availability of alternative financing sources, has partially caused the banking industry to reinforce its focus on small and micro enterprise banking.

As a result of the above, small and micro enterprise banking has grown rapidly in recent years. Loans issued to small and micro enterprises reached RMB14,770 billion as of 31 December 2012, representing an increase of 19.73% from 31 December 2011, and accounted for 21.95% of all corporate loans in China.

Increasing Demand for Personal Finance

There have been significant growth opportunities in the PRC personal finance market due to the increasing consumer demand for more diversified banking products and services, such as residential mortgage loans, credit cards, wealth management services, personal consumption loans and other consumer finance products. The table below sets out the total amount of domestic personal loans and their percentage of total domestic loans for the periods indicated:

	For the year ended 31 December					CAGR
	2008	2009	2010	2011	2012	(2008-2012)
(in billions of RMB, except percentages)						
Total domestic personal loans	5,706	8,179	11,254	13,601	16,131	29.7%
As a percentage of total domestic loans	18.8%	20.5%	23.5%	24.8%	25.6%	

Source: PBOC

In addition to the traditional personal finance business, a prosperous market for wealth management services has emerged over the past few years as a result of the rapid increase in household disposable income and an expanding class of wealthy individuals. In particular, commercial banks in the PRC have

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started to offer customised and professional services, such as asset management and wealth management services, to mid- to high-end customers.

Following the establishment of private banking businesses in the PRC by some foreign-owned banks, PRC commercial banks have also started to set up their own private banking departments in an attempt to increase their market penetration in private banking services to high-net-worth individuals in the PRC.

Further Expansion of Fee- and Commission-based Business

As the domestic Chinese economy becomes increasingly sophisticated, PRC commercial banks have increased their efforts to provide diversified financial products and services, especially fee- and commission-based products and services.

Historically, commercial banks in China were restricted in their ability to provide fee- and commission-based products and services. Since 2001, however, the Chinese government has issued regulations permitting banks to charge for certain fee- and commission-based products and services. See “Supervision and Regulation – PRC Banking Supervision and Regulation – Pricing of Products and Services”. The contribution from net fee and commission income has increased from 9.7% in 2008 to 13.7% in 2012. It is expected to further increase as domestic banks continue to expand their fee- and commission-based product and service offerings to meet the demand of increasingly sophisticated corporate and personal customers.

Deepening of Interest Rate Liberalisation

Interest rate liberalisation is one of the core parts of economic reform. China has already realised the marketisation of commodities. However, interest rate liberalisation is still lagging behind in terms of reform. Whilst the PBOC has gradually liberalised its regulation of interest rates since 2004, no significant policies of reform were issued between 2004 and 2011. For details on the supervision over interest rates, see “Supervision and Regulation – PRC Banking Supervision and Regulation – Pricing of Products and Services”.

In 2012, the statement by Mr. ZHOU Xiaochuan, president of the PBOC, that “the basic conditions for promoting interest rate liberalisation have been satisfied” indicated that another round of interest rates reform may have been approaching. In April 2012, the PBOC established a working group to analyse interest rate liberalisation (利率市場化改革研究工作小組), which focused on the study of the impact of interest rate reform on, and the development strategy of, the PRC banking industry. On 8 June 2012 and 6 July 2012, the benchmark interest rates for RMB-denominated loans and deposits and the corresponding permitted floating range of interest rates were adjusted twice. The changes allowed banking institutions in China to set minimum interest rates for RMB-denominated loans at 70% of the PBOC benchmark rate and the maximum interest rates for RMB-denominated deposits at 110% of the PBOC benchmark rate. To deepen the interest rate liberalisation, the PBOC further liberalised the control over the lending rate. From 20 July 2013, banking institutions in China are no longer bound by the minimum interest rate threshold for RMB-denominated loans of 70% of the PBOC benchmark rate when setting interest rates on loans they offer. Instead, each banking institution can set the interest rate level at its own discretion (the permitted range of interest rates for personal residential mortgage loans is not adjusted, which still applies the existing housing credit policy). See “Supervision and Regulation – PRC Banking Supervision and Regulation – Pricing of Products and Services”.

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On 25 October 2013, the PBOC announced the introduction of the Loan Prime Rate (“LPR”), which was a new mechanism for the centralisation and publication of LPR quotes. This operates such that on each business day, the first batch of nine quoting banks, which includes the Large Commercial Banks, provide LPR quotes based on the lending rate they offer to their premium clients. The National Interbank Funding Centre, as the designated publisher of the LPR, then excludes the highest and lowest quotes, and calculates a weighted average of the remaining quotes provided by the quoting banks so as to establish an average lending rate which is then published as the LPR rate for that day.

To begin with, only the LPR for loans of one-year maturity will be published. The new LPR mechanism is expected to promote the smooth transition from a pricing mechanism which is determined by the PBOC to a market-based one, thus laying the foundation for further interest rate liberalisation reform.

The on-going interest rate liberalisation may increase pricing competition in the PRC banking industry, but it is also expected to encourage PRC commercial banks to develop more innovative products and services and to adopt risk-based pricing.

PRC BANKING SUPERVISION AND REGULATION

Overview

The banking industry in the PRC 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. The principal laws and regulations relating to the PRC banking industry are the PRC Commercial Banking Law, the PRC PBOC Law and the PRC Banking Supervision and Regulatory Law, and the rules and regulations established thereunder.

History and Development of the Regulatory Framework

Established on 1 December 1948, the PBOC was initially the primary regulator of the financial industry in the PRC. In January 1986, the State Council issued the Interim Regulations 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 when the PRC PBOC Law and the PRC Commercial Banking Law were issued. The PRC PBOC Law, which was issued in March 1995, provided for the scope of responsibilities and the organisational structure of the PBOC, and authorised the PBOC to administer the Renminbi, implement monetary policies and regulate and supervise the PRC financial industry. The PRC Commercial Banking Law was enacted in May 1995 and set out 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, minimise overall risks, promote stability and development and enhance the international competitiveness of the PRC banking industry. In December 2003, the PRC Commercial Banking Law and the PRC PBOC Law were amended and, on 1 February 2004, the PRC Banking Supervision and Regulatory Law came into effect. The PRC Banking Supervision and Regulatory Law sets out the regulatory functions and responsibilities of the CBRC.

Principal Regulators

CBRC

Functions and Powers

The CBRC is the principal regulatory authority in the PRC responsible for the supervision and regulation of banking institutions operating within the PRC, including commercial banks, urban credit cooperatives, rural credit cooperatives, other deposit-taking financial institutions and policy banks, as well as certain non-bank financial institutions, such as asset management companies, trust and investment companies, finance companies, financial leasing companies and other financial institutions which can only be set up with 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 such institutions. According to the PRC Banking Supervision and Regulatory Law and relevant regulations, the CBRC's primary regulatory responsibilities include:

- formulating and issuing rules and regulations governing banking institutions and their activities;

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- examining and approving the establishment, change and termination of banking institutions and their scope of business, as well as granting banking licences to commercial banks and their branches;
- regulating the business activities of banking institutions, including their products and services offered;
- 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 headquarters in Beijing and its bureaus throughout the PRC, monitors the operations of banks and their branches through on-site examinations and off-site surveillance. On-site examinations generally include inspecting a bank's business premises, interviewing its employees, senior management and directors for an explanation of significant issues relating to its operations and risk management, as well as reviewing relevant documents and materials kept by the bank. Off-site surveillance generally includes reviewing 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 authorised to impose corrective and punitive measures, including imposing fines, ordering the suspension of certain business activities, imposing restrictions on dividends and other forms of distributions and asset transfers, and suspending the opening of new branches. In extreme cases or when a commercial bank fails to take corrective action within the time period specified by the CBRC, the CBRC may order the banking institution to suspend operations and may revoke its operating-business licence. In the event of a crisis or failure within a banking institution, the CBRC may assume management control over, or arrange for the restructuring 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 PBOC Law and relevant regulations, the PBOC is empowered to:

- issue and implement orders and regulations in relation to its duties;
- formulate and implement monetary policy in accordance with 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 15 August 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

The MOF, a ministry under the State Council, is responsible for state finance, taxation, accounting and the management of state-owned financial assets. The MOF regulates the performance review and remuneration mechanism of senior management of state-owned banks, and overseas banks' compliance with the China Accounting Standards for Business Enterprises (企業會計準則—基本準則) and the Financial Rules for Financial Enterprise (金融企業財務規則), which both came into effect on 1 January 2007. The MOF's primary responsibilities include:

- issuing and implementing financial and taxation strategies, plans, policies and reform measures;
- drafting laws, rules and regulations concerning fiscal, financial and accounting management;
- organising international negotiations concerning foreign-related finance and debt agreements;
- managing state-owned financial assets, administering the appraisal of state-owned assets and participating in drafting rules governing state-owned financial assets management; and
- supervising the implementation of financial and tax rules and policies, reporting critical issues in the management of fiscal revenue and expenditure and managing the financial supervision commissioners' office.

Other Regulatory Authorities

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

Licensing Requirements

Basic Requirements

The PRC Commercial Banking Law and the Measures of the CBRC for the Implementation of Administrative Licensing Matters Concerning Chinese-funded Commercial Banks (中國銀行業監管委員會中資商業銀行行政許可事項實施辦法), effective from 1 February 2006 and amended on 28 December 2006, respectively, and the Measures for the 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 15 October 2013, set out the permitted scope of business, licensing standards and other requirements in respect of city commercial banks. The establishment of a city commercial bank requires the CBRC's approval and issuance of an operating license. In general, the CBRC will not approve an application to establish a city commercial bank unless certain conditions are satisfied, including, amongst others, that:

- the articles of association of the proposed commercial bank are in compliance with the relevant requirements of the PRC Company Law and the PRC Commercial Banking Law;
- in accordance with the minimum requirement of registered capital under the PRC Commercial Banking Law, which is RMB100 million for a city commercial bank which amount is required to be fully paid up;
- the directors and senior management of the proposed commercial bank possess the requisite qualifications and the proposed city commercial bank has qualified practitioners who are familiar with the banking business;
- the organisational structure and management system of the proposed commercial bank is sound and effective;
- the business premises, safety and security measures and other facilities of the proposed commercial bank is commensurate with its business operation; 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

City commercial banks are required to obtain the CBRC or its branches' approval to undertake significant changes, including:

- change of name;
- change of registered capital;
- change of location of headquarters;
- change of business scope;
- change of form of organisation;
- purchase of any equity interest in the city commercial bank that results in the purchaser becoming a holder of 5% or more of the city commercial bank's shares, and any change of shareholders holding 5% or more of the city commercial bank's total capital or shares;

- investment in a city commercial bank by an enterprise located outside the province, autonomous region or directly administrated municipality where the city commercial bank is registered;
- amendment to the articles of association;
- merger or division; and
- dissolution and liquidation.

Establishment of Branches

Branches in the province (autonomous regions, directly administered municipalities) where their headquarters is located

To establish a local branch, a city commercial bank must apply to the relevant local offices of the CBRC in the province (autonomous regions, directly administered municipalities) where it is registered for approval and issuance of a finance license.

On 16 April 2009, the CBRC issued the Notice on Adjusting the Licensing Policies for the Establishment of Branch Outlets by Small- and Medium-Sized Commercial Banks (for Trial Implementation). According to this notice:

- the establishment of branches and sub-branches by city commercial banks is no longer subject to a working capital requirement. Instead, each city commercial bank may establish branches and sub-branches in accordance with its business development and capital management needs; and
- the number of branches and sub-branches of a city commercial bank within the province, (autonomous region or directly administered municipality) where its business is located is no longer subject to a cap.

Branches outside the province (autonomous regions, directly administered municipalities) where their headquarters is located

With regard to the establishment of branches by a city commercial bank in provinces (autonomous regions, directly administered municipalities) other than where its business is located, the approval from the CBRC is needed. The notice provides for a “Three-Step” principle: i.e., establishment within the province where the business is located before other provinces, establishment within the local economic region before other economic regions, and, finally, expansion throughout the entire country.

Scope of Business

Under the PRC Commercial Banking Law, commercial banks in the PRC are permitted to engage in the following activities:

- taking deposits from the public;
- extending short-term, medium-term and long-term loans;
- effecting domestic and overseas payment settlements;
- accepting and discounting instruments;
- issuing financial bonds;

- acting as the issuing agent, cashing agent and underwriter of government bonds;
- trading government bonds and financial institution bonds;
- engaging in interbank lending;
- trading foreign exchange as principal or agent;
- 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 service; 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 or its branches 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 the extension of credit, PRC banking regulations require that commercial banks should, among other things: (i) establish a strict and unified credit risk management system; (ii) establish standard operation procedures for each step in the extension of credit process, 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 control 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”.

The CBRC and other relevant authorities have issued a number of regulations and rules concerning loans and credit granted which are applicable to all industries. Set out below is a summary of some of these rules and regulations:

- under 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) issued by the CBRC on 6 December 2008, commercial banks are required to establish business processes and internal control systems and enforce them after reporting to the CBRC. A commercial bank cannot finance mergers and acquisitions unless it has, amongst others: (i) a sound risk management mechanism and an effective internal control mechanism; (ii) specific allowance adequacy ratio for loan impairment loss of no less than 100%; (iii) a capital adequacy ratio of no less than 10%; (iv) a general reserve balance of no less than 1% of the loan balance for the same period; and (v) a professional team responsible for due diligence and risk assessment of merger and acquisition loans. These guidelines also set out requirements in relation to assessment and control of risk associated with mergers and acquisitions, such as overall strategic risk, legal and compliance risk, consolidation, operational risk and financial risk;

- on 23 July 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), which covered areas such as ensuring that loans flow to efficient real economy and major projects, preventing credit risk, optimising lending structure, improving lending management quality of banking institutions, avoiding systematic risk in the banking industry and promoting risk management capabilities of banking institutions; and
- the Interim Measures for the Administration of Working Capital Loans (流動資金貸款管理暫行辦法), implemented by the CBRC on 12 February 2010, requires commercial banks to establish effective internal control and risk management systems in order to monitor the use of working capital loans and to collect customer information. Commercial banks are required to take reasonable and prudent measures to compute the actual borrowing demand of clients for operating demands and to make sure amounts of loans do not exceed a client's actual capital demand for its business operations. Commercial banks are also required to set out written rules to ensure that working capital loans are used for legitimate purposes. In particular, these loans may not be used for investments into fixed assets and equity investments or for areas or purposes prohibited by applicable laws.

In addition, the CBRC and other relevant authorities have issued a number of regulations and rules concerning loans and credit granted to certain specific industries and customers in an effort to control the credit risk of PRC commercial banks and/or to realise the objectives of macroeconomic control. Set out below is a summary of some of the rules and regulations applicable to our Bank:

- the Guidelines on the Risk Management of Risks of Credits 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 require commercial banks to establish a risk management system to control the credit granted to group borrowers, which needs to be filed with the CBRC. If the credit balance to a single group borrower of a commercial bank exceeds 15% of its net capital, the commercial bank is required to adopt measures, including syndicated loans, joint loans and transfer of loans, to diversify risks. In line with its prudential supervision requirement, the CBRC may lower such credit balance ratio;
- the Interim Measures for the Administration of Personal Loans (個人貸款管理暫行辦法), which require commercial banks to establish an effective full process management mechanism and risk limit management system in connection with the provision of personal loans. These regulations also set out certain conditions in connection with the application for personal loans, such as the requirement that the use of personal loans should comply with relevant laws and policies and that commercial banks are required to specify the purpose for such personal loans;
- the Guidelines on Project Financing Business (項目融資業務指引), which require banking institutions to establish a sound operation flow and risk management mechanism. Banking institutions are required to fully identify and evaluate risks in association with the project construction 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 are also required to focus on borrowers' repayment capability so that they can evaluate risks associated with technical and financial feasibility as well as repayment sources. In addition, banking institutions are required to ensure that borrowers set up a designated account to receive all revenues from projects and to monitor the account and take actions in case of unusual movements;
- the Measures for the Administration of Peasant Household Loans (農戶貸款管理辦法), which clarifies the scope of peasant household loans and encourages banking institutions to develop

the business of peasant household loans, formulate relevant operational strategies and enhance risk management capabilities in relation to such loans;

- the Automobile Loan Measures (汽車貸款管理辦法), which require commercial banks to establish a credit rating system and monitoring system in connection with automobile loans. These regulations also set out certain conditions in relation to applications for such automobile loans. In addition, the regulations state that the amount of automobile loans shall not, in each case, 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 are also required to ensure that borrowers provide security over their vehicles or other types of security for automobile loans;
- the Guidelines on the Management of Risks of Real Estate Loans Granted by Commercial banks (商業銀行房地產貸款風險管理指引), which require commercial banks to establish standards for the review and approval of real estate loans (including land reservation loans, estate development loans, residential housing loans, and commercial housing loans) and to develop systems of risk management and internal control for the analysis of market risk, legal risk, and operational risk in the real estate loan market. Commercial banks are not allowed to issue real estate development loans to borrowers without land use right certificates and relevant permissions. The CBRC conducts a periodic inspection of the implementation of the guidelines;
- the Notice of the State Council on Firmly Curbing Excessive Rise of Housing Prices in Some Cities (國務院關於堅決遏制部分城市房價過快上漲的通知), which, among other things, requires commercial banks to strengthen the pre-lending examination and post-lending management of loans to real estate development enterprises, and prohibits commercial banks from granting new development loans to real estate developers which have land lying idle or which are involved in land speculation activities. The Notice of the General Office of the State Council on Further Working on the Market Regulation and Control of Real Estate Market (國務院辦公廳關於繼續做好房地產市場調控工作的通知) further prohibits commercial banks from making loans to land developers which are engaged in illegal activities such as land-hoarding and price speculation;
- the Notice of the PBOC and the 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 implements the Notice of the State Council on Firmly Curbing Excessive Rise of Housing Prices in Some Cities in respect of housing loans. These regulations require all commercial banks not to grant housing loans to families who are purchasing a third or more residential property or to non-PRC residents who are unable to provide evidence of one or more years' payments of local tax or social security. With respect to a first-time purchase of any commercial residential property, the minimum down payment ratio is set at 30%, whilst the minimum down payment for a second-time home buyer is 50% whilst the regulations state that the interest rate shall be no less than 110% of the PBOC loan benchmark interest rate as set out in the Notice of the State Council on Firmly Curbing Excessive Rise of Housing Prices in Some Cities. In addition, 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), provides that the minimum down payment for a second-time home buyer will be raised to 60% for housing loans granted after 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);

- 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臺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臺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年地方政府融資平臺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年地方政府融資平臺貸款風險監管的指導意見), which require that banking financial institutions strictly implement pre-lending investigation, examination at lending and post-lending inspection systems for loans to Local Government Financing Vehicles (the “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 are also required to consider the debt burdens of local governments and the potential risks and expected losses of loans to LGFVs. The various regulations provide that the allowance for impairment losses is to be provided reasonably and the risk weighting in calculating capital adequacy is to be determined by full coverage, basic coverage, semi-coverage and non-coverage of such loans. In addition, 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年地方政府融資平臺貸款風險監管的指導意見), require each bank to impose aggregate loan limits on LGFVs and not to expand the scale of LGFVs, and also provides that, for the LGFVs with a cash flow coverage ratio lower than 100% or an asset-liability ratio higher than 80%, the proportion of their loans to total bank credit should not exceed that of the previous year;
- the Guiding Opinions on Further Supporting the Restructuring and Revitalisation of Key Industries and Curbing Over-capacity in Certain Industries through Financial Services (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 provide that banking financial institutions should, in compliance with the Notice of the State Council on Ratifying and Forwarding the Several Opinions of the National Development and Reform Commission and Other Ministries on Curbing Over-capacity and Redundant Construction in Certain Industries and Guiding the 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), actively cooperate with the national industrial policy and financial control requirements, and should extend credit in compliance with the principle of differential treatment. For enterprises and projects that revitalise key industries, meet market access requirements, and comply with the bank’s lending policy, the regulations provide that credit extension is to be made in a timely and efficient manner. For those that fail to satisfy these conditions, the regulations provide that credit is not to be extended. For projects in industries with over-capacity, the regulations provide that credit extension is to be strictly examined prior to approval; and
- the Guidelines of Green Credit (綠色信貸指引), which require banking financial institutions to support energy saving, emission reduction and environment protection by guarding against the environmental and social risks of their customers. Under the Guidelines, banking financial institutions are required to effectively identify, measure, monitor and control environmental and social risks in their credit business activities, and to establish relevant risk management systems. Banks are also required to explicitly support green credit, formulate targeted guidelines for credit extensions to restricted industries and those with substantial environmental and social risks, carry out differential and dynamic credit extension policies, and implement risk exposure management systems. Specifically, banking financial institutions are required to carry out more thorough due diligence investigations on environmental and

social risk by taking into account the characteristics of their customers and are prohibited from granting credit to customers that fail to comply with relevant standards on environmental and social performance. Customers with substantial environmental and social risks are required to submit environmental and social risk reports and the banking financial institutions are required to include specific terms to address those risks in loan agreements. Also, banking financial institutions are required to implement tailor-made post-lending management measures for customers with potentially substantial environmental and social risks, adopt proper mitigating measures in a timely manner and report to regulatory authorities whenever an incident with substantial environmental and social risk occurs.

We have adopted certain rules and measures to comply with the above regulations. We have also further 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 the business of foreign exchange. Under the PRC's anti-money laundering laws and regulations, PRC financial institutions are required to report to the Anti-money Laundering Monitoring and Analysis Centre and SAFE on a timely basis any large or suspicious foreign exchange transactions which they encounter.

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 Chinese 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 Chinese 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 and bankruptcy reorganisations; and
- act as custodians for funds, including securities investment funds and corporate annuity funds.

Under the Administrative Measures on the Custodian Business for Securities Investment Fund (證券投資基金託管業務管理辦法) issued by the CSRC on 2 April 2013 and effective on the same day (which replaced the Administrative Measures on Qualifications for Securities Investment Fund (證券投資基金託管資格管理辦法), a commercial bank is permitted to apply for the right to engage in the custodian business for securities investment funds, if, amongst other requirements, such commercial bank had year-end net assets of not less than RMB2 billion for each of the previous three fiscal years and if its capital adequacy ratio fulfils the relevant regulatory requirements. The fund custodian must ensure the separation of its custodian business from its other businesses, as well as the segregation of its fund assets. The CSRC and the CBRC are jointly responsible for examining and approving the qualifications and supervising the activities of fund custodians. According to the Measures for the Administration of Enterprise Annuity Funds (企業年金基金管理辦法) issued jointly by the Ministry of Human Resources and Social Security, the CBRC and other authorities on 12 February 2011 and effective on 1 May 2011 (which replaced the Interim Measures for the Administration of Enterprise Annuity Funds (企業年金基金

管理試行辦法), commercial banks are required to report to the relevant regulatory bodies and establish a specialised funds custodian department.

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. In principle, each outlet of a commercial bank may cooperate with no more than three insurance companies to sell their insurance products. If the outlet cooperates with more than three insurance companies, the outlet must report to the local branch of the CBRC. Pursuant to the Supervisory Guidance on the Insurance Agency Business of Commercial Banks (商業銀行代理保險業務監管指引) jointly issued by the CIRC and the CBRC on 7 March 2011, if a commercial bank operates a bank assurance business, each of its business outlets is required to obtain the requisite license issued by the CIRC and authorisation from the tier one branch of the commercial bank before operating such business.

Wealth Management

In September 2005, the CBRC issued the Interim Measures on Administration of the Personal Wealth Management Services of Commercial Banks (商業銀行個人理財業務管理暫行辦法), which requires commercial banks to obtain the CBRC's approval in order to provide certain wealth management services such as return-guaranteed wealth management plans. For other personal wealth management services, commercial banks only need to file a report with the CBRC. Commercial banks are also subject to certain restrictions on personal wealth management products. In addition, under the Guidelines for the Risk Management of the 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 in September 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 issues to the relevant authorities. Since then, the CBRC has issued a series of regulations in an effort to further improve the reporting mechanism and risk control of personal wealth management services provided by commercial banks. To further standardise and regulate the sales of wealth management products, 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) in August 2011, which requires commercial banks to prudently operate and disclose in a timely manner their wealth management business to fully protect the interests of consumers.

In addition to domestic personal wealth management, the PBOC, the CBRC and the SAFE jointly issued the Interim Administrative Measures for Commercial Banks to Provide Overseas Financial Management Services (商業銀行開辦代客境外理財業務管理暫行辦法), effective on 17 April 2006, which 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.

On 25 March 2013, the CBRC issued the Notice on the Regulation of the Investment and Operation of Wealth Management Business by Commercial Banks (關於規範商業銀行理財業務投資運作有關問題的通知), to enhance the regulation of the wealth management business of commercial banks. This notice requires commercial banks to clearly link each wealth management product with its underlying investment asset. Moreover, the balance of wealth management funds invested by a commercial bank in non-standard debt-based assets cannot exceed the lower of (i) 35% of the balance of the commercial bank's wealth management products, and (ii) 4% of the commercial bank's total assets as disclosed in its annual audit report for the prior fiscal year.

Electronic Banking

In January 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 e-banking business are required to have sound internal control and risk management systems and are not permitted to have any major accidents relating to their primary information management and operations processing systems in the year immediately prior to the application to establish the e-banking business. In addition, all banking institutions conducting e-banking business must adopt security measures to ensure the confidentiality of information and to prevent the unauthorised use of e-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 Chinese government and financial institutions, short-term commercial paper, medium-term notes and corporate bonds issued by qualified non-financial institutions, and certain derivative products. Unless approved by the Chinese 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 non-banking financial institutions and enterprises.

Derivatives

The Provisional Administrative Measures on Derivative Business of Financial Institutions (金融機構衍生產品交易業務管理暫行辦法) issued by the CBRC on 4 February 2004 set out, among other things, detailed regulations on market access and risk management for the derivative business conducted by financial institutions. In accordance with these measures, commercial banks in the PRC seeking to conduct a derivative business must meet the relevant qualification requirements and obtain prior approval from the CBRC. In addition there have been a number of additional regulations aimed to further strengthen the risk management of derivative businesses conducted by commercial banks in the PRC: on 22 March 2005, the CBRC issued the Circular on Risk Alert Regarding Trading of Derivative Products by Domestic Banks (關於對中資銀行衍生產品交易業務進行風險提示的通知) (repealed on 3 July 2007); on 3 July 2007 and again on 5 January 2011 the CBRC amended the Provisional Administrative Measures on Derivative Business of Financial Institutions (金融機構衍生產品交易業務管理暫行辦法); and on 31 July 2009 the CBRC issued the Notice to Further Strengthen Risk Management of Derivative Product Transactions between Banking Institutions and Institutional Customers (關於進一步加強銀行業金融機構與機構客戶交易衍生產品風險管理的通知).

Financial Innovation

In December 2006, the CBRC issued 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 prudently engage in financial innovation-related activities, including developing new businesses and products and improving existing businesses and products, expanding their scope of business, improving cost efficiency and profitability, and reducing their reliance on lending business for profits. To facilitate financial innovation by PRC commercial banks, the CBRC has indicated that it will streamline and increase the efficiency of the examination and approval procedures for new products.

Pricing of Products and Services

Interest Rates for Loans and Deposits

Interest rates for RMB-denominated loans and deposits were historically set by the PBOC. In accordance with the PRC Commercial Banking Law, each commercial bank is required to determine both its loan rate in accordance with a minimum loan rate limit and its deposit rate in accordance with a maximum deposit rate limit, in each case, as set by the PBOC. In recent years, the PBOC has gradually liberalised its regulation of interest rates, allowing banks more discretion to determine the interest rates for RMB-denominated loans and deposits. According to the current PBOC requirements, a commercial bank in China may set its interest rate for RMB-denominated deposit at no higher than 110% of the relevant PBOC benchmark rates, whilst the interest rate for RMB-denominated loans (except for commercial residential housing loans) can be determined by a commercial bank at its own discretion. The table below sets out, for the periods indicated, the permitted range of interest rates for RMB-denominated loans and deposits.

	Loans Since 20 July 2013⁽¹⁾	Deposits Since 8 June 2012⁽²⁾
Maximum interest rates	No Cap	Up to 110% of the PBOC benchmark rate, except for negotiated deposits
Minimum interest rates	No minimum	No minimum

Source: PBOC

Notes:

- (1) From 17 March 2005 to 18 August 2006, interest rates for personal residential mortgage loans were regulated in the same way as most other types of loans. Since 19 August 2006, the minimum interest rate for personal residential mortgage loans has been adjusted to 85% of the PBOC benchmark lending rate. Since 27 October 2008, the minimum interest rate for personal residential mortgage loans has been adjusted to 70% of the PBOC benchmark lending rate. Since 17 April 2010, the minimum interest rates for the loans to second-time home buyer have been adjusted to 110% of the PBOC benchmark lending rate. On 20 July 2013, the PBOC removed the minimum interest rate requirement for new loans provided by commercial banks, whereas the minimum interest rates for new personal residential mortgage loans remained at 70% of the PBOC benchmark lending rates.
- (2) Beginning on 29 October 2004, commercial banks in the PRC have been permitted to set their own interest rates on Renminbi-denominated deposits so long as such interest rates were not higher than the relevant PBOC benchmark rates. Since 8 June 2012, commercial banks in the PRC have been allowed to set their own interest rates on Renminbi-denominated deposits up to 110% of the relevant PBOC benchmark 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 social security funds in amounts of RMB50 million or more, in each case with a term longer than five years, or deposits by the Postal Savings Bank of China in amounts of RMB30 million or more with a term longer than three years.

In recent years (from 2008 to the Latest Practicable Date), the PBOC has adjusted the benchmark rate for RMB-denominated loans 12 times and the benchmark rate for RMB-denominated deposits 11 times.

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The table below sets out the PBOC benchmark rates for RMB loans since 2008.

Date of adjustment	Six months or less	Six months to one year	One to three years	Three to five years	More than five years	Housing Fund Loan	
		(inclusive of one year)	(inclusive of three years)	(inclusive of five years)		Five years or less	More than five years
(Interest rate per annum %)							
16 September 2008	6.21	7.20	7.29	7.56	7.74	4.59	5.13
9 October 2008	6.12	6.93	7.02	7.29	7.47	4.32	4.86
30 October 2008	6.03	6.66	6.75	7.02	7.20	4.05	4.59
27 November 2008	5.04	5.58	5.67	5.94	6.12	3.51	4.05
23 December 2008	4.86	5.31	5.40	5.76	5.94	3.33	3.87
20 October 2010	5.10	5.56	5.60	5.96	6.14	3.50	4.05
26 December 2010	5.35	5.81	5.85	6.22	6.40	3.75	4.30
9 February 2011	5.60	6.06	6.10	6.45	6.60	4.00	4.50
6 April 2011	5.85	6.31	6.40	6.65	6.80	4.20	4.70
7 July 2011	6.10	6.56	6.65	6.90	7.05	4.45	4.90
8 June 2012	5.85	6.31	6.40	6.65	6.80	4.20	4.70
6 July 2012	5.60	6.00	6.15	6.40	6.55	4.00	4.50

Source: PBOC

The table below sets out the PBOC benchmark rates for Renminbi deposits since 2008.

Date of adjustment	Demand deposits	Time deposits					
		Three months	Six months	One year	Two years	Three years	Five years
		(Interest rate per annum %)					
9 October 2008	0.72	3.15	3.51	3.87	4.41	5.13	5.58
30 October 2008	0.72	2.88	3.24	3.60	4.14	4.77	5.13
27 November 2008	0.36	1.98	2.25	2.52	3.06	3.60	3.87
23 December 2008	0.36	1.71	1.98	2.25	2.79	3.33	3.60
20 October 2010	0.36	1.91	2.20	2.50	3.25	3.85	4.20
26 December 2010	0.36	2.25	2.50	2.75	3.55	4.15	4.55
9 February 2011	0.40	2.60	2.80	3.00	3.90	4.50	5.00
6 April 2011	0.50	2.85	3.05	3.25	4.15	4.75	5.25
7 July 2011	0.50	3.10	3.30	3.50	4.40	5.00	5.50
8 June 2012	0.40	2.85	3.05	3.25	4.10	4.65	5.10
6 July 2012	0.35	2.60	2.80	3.00	3.75	4.25	4.75

Source: PBOC

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, the maximum interest rates on which may not exceed the PBOC benchmark rates for small amount of short-term foreign currency deposits.

Historically, commercial banks may determine the discount rate based on the rediscount rate set by the PBOC. On 27 November 2008, the PBOC set the rediscount rate to commercial banks at 2.97% per annum, which was lowered to 1.80% on 23 December 2008 and then raised to 2.25% on 26 December 2010. According to the Notice of the People's Bank of China on Further Promoting the Liberalisation of Interest Rate (中國人民銀行關於進一步推進利率市場化改革的通知) announced by the PBOC in July 2013, since 20 July 2013, commercial banks are permitted to determine the discount rate at their own discretion.

Pricing for Fee- and Commission-based Products and Services

Under the Interim Administrative Measures on Pricing of Commercial Banking Services (商業銀行服務價格管理暫行辦法) jointly issued by the CBRC and the NDRC on 26 June 2003 and effective on 1 October 2003¹, 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 fifteen (15) business days prior to the setting of any prices for bank services and to post such prices at their business premises at least ten (10) business days prior to such implementation. In addition, commercial banks are prohibited from charging service fees for the opening and cancellation of RMB savings accounts, as well as the deposit and withdrawal of large amounts of RMB that occur from the same bank of the same city. To improve the service standards of the banking industry and enhance the industry's social responsibilities under the principle of market orientation, the CBRC, the PBOC and the NDRC jointly issued the Notice on the Waiver of Some Service Charges of Banking Institutions (關於銀行業金融機構免除部分服務收費的通知) on 9 March 2011, which requires banking institutions to waive 34 charging items in relation to RMB personal accounts starting from 1 July 2011. In an effort to further regulate banking institutions' charging items, on 20 January 2012, the CBRC issued the Notice on Rectifying the Irregular Operations of Banking Financial Institutions (關於整治銀行業金融機構不規範經營的通知), which sets out certain prohibited operations in relation to charging items for banking institutions' credit business and enhanced the transparency of pricing.

Required Deposit Reserve and Surplus 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. Currently, city commercial banks are required to maintain a deposit reserve equal to 18% of their total outstanding Renminbi deposits according to the relevant requirements of the PBOC.

¹ The CBRC and the NDRC jointly issued the Administrative Measures on Pricing of Commercial Banking Services (商業銀行服務價格管理辦法) on 14 February 2014. However, such measures will become effective on 1 August 2014, upon which the Interim Administrative Measures on Pricing of Commercial Banking Services will be abolished.

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The following table sets forth the historical values of the RMB statutory reserve ratios applicable to our Bank since 2008. Throughout the Track Record Period, we have complied with the relevant requirements of the PBOC. There has been no further adjustment to the statutory reserve ratio from 18 May 2012 up to the Latest Practicable Date.

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

Source: PBOC

Supervision Over Capital Adequacy

Latest CBRC Supervisory Standards Over Capital Adequacy

Prior to 1 March 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 formulae in accordance with the CBRC requirements:

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

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

On 23 February 2004, the CBRC issued the Capital Adequacy Measures which became effective on 1 March 2004 and was amended on 3 July 2007. The Capital Adequacy Measures have been superseded by the New Capital Adequacy Measures which became effective on 1 January 2013. We were subject to the Capital Adequacy Measures prior to 1 January 2013. While the Capital Adequacy Measures did not change the pre-existing requirements of an minimum 8% capital adequacy ratio and a minimum 4% core capital adequacy ratio, it amended the risk weighting for various assets and adjusted the components of

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capital. In addition, the Capital Adequacy Measures required 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 Measures, capital adequacy ratios were calculated based on the following formulae in accordance with the CBRC requirements:

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

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

On 7 June 2012, the CBRC announced the New Capital Adequacy Measures, setting up a new capital adequacy regulatory system by reference to Basel III to replace the Capital Adequacy Measures. The New Capital Adequacy Measures have been in effect since 1 January 2013. In particular, the New Capital Adequacy Measures establish a unified and comprehensive capital adequacy regulatory system, redefine the meaning of capital, enlarge the scope of risks to be covered by capital, stress on the scientific classification and differentiated supervision of the capital adequacy levels of commercial banks and give commercial banks a transitional period for meeting the new capital adequacy requirements.

Under the New Capital Adequacy Measures, capital adequacy ratios are calculated according to the following formulae in accordance with the CBRC requirements:

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

$$\text{Tier 1 capital adequacy ratio} = \frac{\text{Tier 1 capital} - \text{corresponding capital deductions}}{\text{Risk-weighted assets}} \times 100\%$$

$$\text{Core tier 1 capital adequacy ratio} = \frac{\text{Core tier 1 capital} - \text{corresponding capital deductions}}{\text{Risk-weighted assets}} \times 100\%$$

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In the preceding formula:

Capital	Includes both core capital and supplementary capital.
Core Capital	Includes paid-in capital or common shares, capital reserve, surplus reserve, general reserve, retained earnings and minority interests.
Supplementary Capital	Includes up to 70% of the reserve for revaluation, general provisions, preference shares, qualifying convertible bonds, qualifying long-term subordinated debt, qualifying hybrid capital bonds and changes in fair value. (any positive change of no more than 50% to the fair value of available-for-sale bonds that have been included as part of the owners' equity interests may be calculated as supplementary capital; and any negative change to the fair value shall be deducted from supplementary capital in full. When a commercial bank calculates its capital adequacy ratio, it shall transfer the fair value of available-for-sale bonds that have been included in the capital reserves from the core capital into the supplementary capital).
Capital deductions.	Include goodwill, capital investments in non-consolidated financial institutions, and equity investments in non-banking financial institutions and enterprises and capital investment in real estate not for self-use.
Core capital deductions	Include goodwill, 50% of capital investments in non-consolidated financial institutions, and 50% of equity investments in non-banking financial institutions and enterprises and capital investment in real estate not for self-use.
Risk-weighted assets	Refer to the assets calculated by multiplying the value of on- and off-balance-sheet assets by their corresponding risk weightings, after taking into account risk-mitigating factors.
Market risk capital	Refers to the capital reserve that a bank is required to maintain for the market risks relating to its assets. 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 over RMB8,500 million are required to make provisions for market risk capital.

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The following table sets forth risk weightings for different assets.

Items	Risk weightings
a. Cash	
i. Cash in vault	0%
ii. Gold	0%
iii. Deposits at the PBOC	0%
b. Claims on central government and central bank	
i. Claims on the PRC central government	0%
ii. Claims on the PBOC	0%
iii. Claims on the governments or central banks of other countries or jurisdictions where the credit ratings for such countries or jurisdictions are AA- (including AA-) or higher ⁽¹⁾	0%
iv. Claims on the governments or central banks of other countries or jurisdictions where the credit ratings for such countries or jurisdictions are between AA- and A- (including A-) ⁽¹⁾	20%
v. Claims on the governments or central banks of other countries or jurisdictions where the credit ratings for such countries or jurisdictions are between A- and BBB- (including BBB-) ⁽¹⁾	50%
vi. Claims on the governments or central banks of other countries or jurisdictions where the credit ratings for such countries or jurisdictions are between BBB- and B- (including B-) ⁽¹⁾	100%
vii. Claims on the governments or central banks of other countries or jurisdictions where the credit ratings for such countries or jurisdictions are below B- ⁽¹⁾	150%
viii. Claims on the governments or central banks of other countries or jurisdictions without ratings	100%
c. Claims on public-sector entities	20%
d. Claims on domestically incorporated financial institutions	
i. Claims on policy banks (not including subordinated bonds)	0%
ii. Claims on asset management companies invested by the PRC central government	
1. Claims on debts issued by asset management companies by way of private placements for purposes of acquiring non-performing loans of state-owned banks	0%
2. Other claims on asset management companies	100%
iii. Claims on domestically incorporated commercial banks (not including subordinated bonds)	
1. With an original maturity of three months or shorter	20%
2. With an original maturity over three months	25%
iv. Claims on subordinated bonds issued by domestically incorporated commercial banks (part not deducted)	100%
v. Claims on other domestically incorporated financial institutions	100%
e. Claims on financial institutions and public-sector entities incorporated in other countries or jurisdictions	
i. Claims on commercial banks or public-sector entities where the credit ratings for such countries or jurisdictions are AA- (including AA-) or higher ⁽¹⁾	25%
ii. Claims on commercial banks or public-sector entities where the credit ratings for such countries or jurisdictions are between AA- and A- (including A-) ⁽¹⁾	50%
iii. Claims on commercial banks or public-sector entities where the credit ratings for such countries or jurisdictions are between A- and B- (including B-) ⁽¹⁾	100%
iv. Claims on commercial banks or public-sector entities where the credit ratings for such countries or jurisdictions are below B- ⁽¹⁾	150%
v. Claims on commercial banks or public-sector entities without credit ratings for such countries or jurisdictions	100%
vi. Claims on multilateral development banks, the Bank of International Settlement and the International Monetary Fund	0%
vii. Claims on other financial institutions	100%
f. Claims on ordinary enterprises	100%
g. Claims on qualified small and micro enterprises	75%

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Items	Risk weightings
h. Claims on individuals	
i. Residential mortgage loans	50%
ii. The supplementary part of a supplementary financial facility secured by the re-evaluated net value of a mortgaged residence before the purchaser has paid up all the loans	150%
iii. Other claims on individuals	75%
i. The balance of rental assets	100%
j. Equity	
i. Equity investments in financial institutions (part not deducted)	250%
ii. Passive equity investments in business enterprises	400%
iii. Equity investment in business enterprises for policy reasons upon the extraordinary approval of the State Council	400%
iv. Other equity investments in business enterprises	1250%
k. Real estate not for own use	
i. Real estate not for own use, obtained by practicing mortgage rights within the lawful disposition period	100%
ii. Other real estate not for own use	1250%
l. Other assets	
i. Net deferred tax assets in reliance on the bank's future profit (part not deducted)	250%
ii. Other assets on balance sheet	100%

Note:

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

Regulatory Requirements in respect of Capital Adequacy Ratios

Regulatory requirements in respect of the capital adequacy ratios of commercial banks include the minimum capital requirement, capital conservation buffer requirement, countercyclical capital buffer requirement, additional capital requirement for systematically important banks and capital requirement under the second pillar.

The capital adequacy ratio of commercial banks at each tier must meet the following minimum requirements:

- capital adequacy ratio shall not be lower than 8%;
- tier 1 capital adequacy ratio shall not be lower than 6%; and
- core tier 1 capital adequacy ratio shall not be lower than 5%.

Commercial banks are required to calculate and set aside their capital conservation buffer after meeting the minimum capital requirements. The capital conservation buffer is required to be equal to 2.5% of risk-weighted assets and is to be fulfilled by core tier 1 capital. Under certain circumstances, commercial banks are required to calculate and set aside capital for meeting countercyclical capital buffer requirements in addition to meeting the minimum capital requirements and the capital conservation buffer requirements. The countercyclical capital buffer is required to be in the range of 0% to 2.5% of risk-weighted assets and to be fulfilled by core tier 1 capital.

In addition, the systematically important banks in the PRC are required to calculate and set aside additional capital in an amount equal to 1% of their risk-weighted assets, which is to be fulfilled by core Tier 1 capital. If a Chinese bank is recognised as a globally systematically important bank, the additional capital requirement applicable to it cannot be less strict than those requirements generally provided for by the Basel Committee on Banking Supervision. As of the Latest Practicable Date, the Chinese regulator had issued no standards for determining, and no list of, such systematically important banks.

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Furthermore, the CBRC has the right to impose more prudent capital requirements under the second pillar framework in order to ensure adequate risk coverage, including:

- specific capital requirements imposed in respect of some asset portfolios on the basis of risk judgments; and
- specific capital requirements imposed in respect of an individual bank according to the results of supervisory inspections.

Time Limit for Meeting the Requirements

The New Capital Adequacy Measures provide that commercial banks are required to meet the regulatory requirements on capital adequacy ratios as set forth in those measures before the end of 2018, and where conditions permit, commercial banks are encouraged to meet the requirements ahead of schedule.

To ensure the smooth implementation of the New Capital Adequacy Measures, on 30 November 2012 the CBRC issued the Notice on Relevant Matters in Relation to Transitional Period Arrangements for the Implementation of the Measures for Administration on Capital 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). This notice provides that commercial banks must meet the minimum capital requirements and also provides that the systematically important banks in the PRC are required to meet the additional capital requirements before 1 January 2013. During the transitional period, the capital reservation buffer requirement (2.5%) will be gradually introduced and commercial banks are required to meet the annual capital adequacy ratio requirement as follows:

Type of Bank	Item	As of 31 December					
		2013	2014	2015	2016	2017	2018
Systematically Important Banks	Core tier 1 capital adequacy ratio	6.5%	6.9%	7.3%	7.7%	8.1%	8.5%
	Tier 1 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 1 capital adequacy ratio	5.5%	5.9%	6.3%	6.7%	7.1%	7.5%
	Tier 1 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%

In addition, if the regulatory authorities require that commercial banks must set up countercyclical capital buff requirements or imposes on a single bank capital requirements under the second pillar, the regulatory authorities will prescribe a time limit for meeting the requirements. Commercial banks subject to such additional requirements are required to endeavour to meet the relevant deadlines.

Issuance of Subordinated Debt, Subordinated Bonds, Hybrid Capital Bonds and Innovative Capital Instruments

Since 17 June 2004, PRC commercial banks have been permitted to issue bonds which are subordinated to the banks' other liabilities but are 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. Upon approval by the CBRC, PRC commercial banks may include such subordinated bonds in their 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 bonds issued by other banks in excess of 20% of their core capital. The issuance of subordinated bonds by PRC commercial banks is subject to the approval of the CBRC. The PBOC regulates the issuance and trading of subordinated bonds in the inter-bank bond market.

On 12 December 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 has opened a new channel for commercial banks to replenish their supplementary capital and improve their capital adequacy ratio. On 5 September 2006, the PBOC issued the Notice of the PBOC 2006 No.11, which clarified the definition of hybrid capital bonds and specified the relevant issuance requirements.

On 18 October 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 required major commercial banks and other banks to maintain a core capital adequacy ratio of not less than 7% and 5%, respectively, if they sought to issue long-term subordinated debt for the replenishment of supplementary capital. It further required that the major commercial banks and other banks should not issue long-term subordinated debt which constituted more than 25% and 30% of their respective core capital. In the calculation of the capital adequacy ratio, after 18 October 2009, banks are required to fully deduct any long-term subordinated debt issued by other banks which they acquired after 1 July 2009.

On 7 June 2012, the CBRC issued the New Capital Adequacy Measures which redefined the capital of a commercial bank from core capital and supplementary capital under the Capital Adequacy Measures to core tier 1 capital, additional tier 1 capital and tier 2 capital. Also, the New Capital Adequacy Measures proposed the concept and criteria for inclusion of tier 2 capital instruments, which differ from that of subordinated debt, subordinated bonds and hybrid capital bonds. Pursuant to the New Capital Adequacy Measures, unqualified tier 2 capital instruments issued by a commercial bank before 12 September 2010 may be included in regulatory capital before 1 January 2013, but, from 1 January 2013, such instruments are to be decreased by 10% each year and, from 1 January 2022, such instruments are no longer allowed to be included in regulatory capital. For a tier 2 capital instrument issued by a commercial bank between 12 September 2010 and 1 January 2013, if the instrument has no write-down or share conversion clause but meets the other criteria for inclusion, it may be included in regulatory capital before 1 January 2013, but, from 1 January 2013, such instruments are to be decreased by 10% each year and, from 1 January 2022, such instruments are no longer allowed to be included in regulatory capital.

The Guiding Opinions on Capital Instrument Innovation of Commercial Banks (關於商業銀行資本工具創新的指導意見) issued by the CBRC on 29 November 2012 allow and encourage commercial banks to innovate capital instruments (including tier 2 capital instruments) which comply with the New Capital Adequacy Measures. Pursuant to the guiding opinions, Additional tier 1 capital and tier 2 capital instruments issued by a commercial bank after 1 January 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. A triggering event for additional tier 1 capital instruments occurs when the core tier 1 capital adequacy ratio of the commercial bank falls to 5.125% or below. A triggering event for tier 2 capital instruments occurs upon the earlier of: (i) a decision that a write-down or share conversion, without which the commercial bank would become non-viable, as determined by the CBRC; or (ii) the decision to make a public sector injection of capital, or equivalent support, without which the commercial bank would have become non-viable, as determined by relevant authorities.

CBRC's Supervision of Capital Adequacy

The CBRC is responsible for supervising the capital adequacy of banking institutions in the PRC. It reviews and evaluates banking institutions' capital adequacy through both on-site examination and off-site surveillance. Commercial banks are required to report to the CBRC their unconsolidated capital adequacy ratios on a quarterly basis and their consolidated capital adequacy ratios on a semi-annual basis. Under the New Capital Adequacy Measures, commercial banks are classified into four categories based on their capital adequacy ratios as follows:

- Grade I commercial banks: commercial banks which meet all the capital requirements for capital adequacy ratio, tier 1 capital adequacy ratio and core tier 1 capital adequacy ratio in these Measures;
- Grade II commercial banks: commercial banks which fail to meet the second pillar capital requirements but meet all other capital requirements for capital adequacy ratio, tier 1 capital adequacy ratio and core tier 1 capital adequacy ratio.;
- Grade III commercial banks: commercial banks which meet all the minimum capital requirements but fail to meet other capital requirements for capital adequacy ratio, tier 1 capital adequacy ratio and core tier 1 capital adequacy ratio; and
- Grade IV commercial banks: commercial banks which fail to meet the minimum capital requirement for any of capital adequacy ratio, tier 1 capital adequacy ratio and core tier 1 capital adequacy ratio.

In respect of a Grade I commercial bank, the CBRC will support the steady development of its businesses. To prevent any rapid decrease of its capital adequacy ratios, the CBRC may take the following precautionary regulatory measures:

- to require the commercial bank to improve the analysis and forecast of the reasons for the decrease of its capital adequacy ratios;
- to require the commercial bank to formulate a practicable capital adequacy ratio management plan; and
- to require the commercial bank to improve its risk control capability.

In respect of a Grade II commercial bank, in addition to the regulatory measures for Grade I commercial banks, the CBRC may take the following regulatory measures:

- to hold talks on prudent practice with the board of directors and the senior management of the commercial bank;
- to issue a regulatory opinion, which must include the problems identified with the capital management of the commercial bank, the proposed measures for rectification and the opinion on meeting the requirements within the prescribed time limit;
- to require the commercial bank to formulate a practicable capital supplement plan and the plan for meeting the requirements within the prescribed time limit;
- to increase the frequency of supervision and inspection of the capital adequacy of the commercial bank; and
- to require the commercial bank to take risk buffer measures for specific risk areas.

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In respect of a Grade III commercial bank, in addition to the regulatory measures for Grade I and Grade II commercial banks, the CBRC may take the following regulatory measures:

- to restrict the commercial bank from distributing dividends and other income;
- to restrict the commercial bank from granting any form of incentives to directors and senior managers;
- to restrict the commercial bank from making equity investments or repurchasing capital instruments;
- to restrict the commercial bank from incurring major capital expenditure; and
- to require the commercial bank to control the growth of risky assets.

In respect of a Grade IV commercial bank, in addition to the regulatory measures for Grade I, Grade II and Grade III commercial banks, the CBRC may take the following regulatory measures:

- to require the commercial bank to significantly downsize risky assets;
- to order the commercial bank to suspend all high-risk asset businesses;
- to restrict or prohibit the commercial bank from establishing new institutions or launching new businesses;
- to require the commercial bank to write down tier 2 capital instruments or convert them into ordinary shares;
- to order the commercial bank to change its directors or senior management or restrict their rights;
- to take over the commercial bank or procure the institutional reorganisation of, or even dissolve, the commercial bank; and
- to consider other external factors and take other necessary measures in order to solve the problems faced by Grade IV commercial banks.

Introduction of the New Leverage Requirements

In an effort to supplement the effect of risk-based capital adequacy requirements, on 1 June 2011, the CBRC issued the Administrative Measures on the Leverage Ratio of Commercial Banks (商業銀行杠杆率管理辦法), which came into effect on 1 January 2012 and which introduced new leverage requirements.

Pursuant to these measures, commercial banks are required to maintain a leverage ratio not lower than 4%, notwithstanding the consolidation of statements. The formula for calculating the leverage ratio is as follows:

$$\text{Leverage ratio} = \frac{\text{Tier 1 capital} - \text{tier 1 capital deductions}}{\text{Balance of adjusted on-balance sheet assets} + \text{balance of adjusted off-balance sheet assets} - \text{tier 1 capital deductions}} \times 100\%$$

Commercial banks are required to report to the CBRC their consolidated leverage ratios on a semi-annual basis and their unconsolidated leverage ratios on a quarterly basis. For a commercial bank which fails to meet the minimum leverage ratio, the CBRC may take regulatory measures including requiring the commercial bank to: (i) supplement its tier 1 capital within a specified period; (ii) control the growth of its on-and-off balance sheet assets; and (iii) reduce the size of its on-and off-balance sheet assets. If

the commercial bank fails to rectify its non-compliance within the specified period, or its behaviour has seriously endangered its sound and sustainable operation or damaged the legitimate interests of depositors or other clients, the CBRC may take relevant regulatory measures pursuant to the PRC Banking Supervision and Regulatory Law. In addition to the above-mentioned measures, the CBRC may also impose an administrative penalty upon the commercial bank.

The above measures also provide that systematically important banks are required to meet the regulatory requirements on leverage ratio before the end of 2013 whilst non-systematically important banks are required to meet such requirements before the end of 2016.

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 a capital measurement system for banks that provides for the implementation of a credit risk measurement framework with a minimum capital standard of 8%. Since 1998, the Basel Committee has issued certain proposals for Basel II, to replace Basel I. Basel II retained 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, but sought to improve the capital framework in various key respects, including: (i) establishment of the “three pillars” framework, namely the first pillar “minimum capital standard,” the second pillar “supervision and regulation by regulatory authorities” and the third pillar “information disclosure”; and (ii) introducing material changes to the calculation of capital adequacy. In response to the deficiencies in financial regulation revealed by the 2008 financial crisis, the Basel Committee on Banking Supervision started to advance the global financial regulatory reform in an effort to further strengthen the regulation, supervision and risk management of the banking industry. In such circumstances, Basel III was drafted and then endorsed by G20 Leaders at their November 2010 Seoul summit. On 16 December 2010, Basel III was officially issued by the Basel Committee on Banking Supervision. Basel III enhances micro-prudential regulation and supervision and adds a macro-prudential overlay. These two approaches to supervision are complementary as greater resilience at the individual bank level reduces the risk of system wide shocks. In summary, Basel III: (i) strengthens capital adequacy in capital resources, risk-weighted assets and capital ratios by requiring banks to hold more higher-quality capital against more conservatively calculated risk-weighted assets; (ii) introduces a new leverage ratio as a backstop to the risk-based requirement, which is aimed at promoting the build up of capital that can be drawn down in periods of stress; and (iii) introduces two new global liquidity standards, which aim to ensure that adequate funding is maintained in case of crisis.

The CBRC promulgated and amended the Capital Adequacy Measures on 23 February 2004 and 3 July 2007, respectively. The CBRC has advised that the Capital Adequacy Measures are based on Basel I, whilst also taking into consideration certain aspects of Basel II. On 28 February 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 required large commercial banks, which 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 with the CBRC’s approval, no later than the end of 2013. 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.

In line with the reform of Basel Accords and the implementation of Basel III, on 27 April 2011, the CBRC promulgated the Guiding Opinions on the Implementation of New Regulatory Standards in China’s Banking Industry (中國銀行業監督管理委員會關於中國銀行業實施新監管標準的指導意見), which set out the key targets and principles for the reform of China’s capital regulatory framework. On 1 June 2011, the CBRC

issued the Administrative Measures on the Leverage Ratio of Commercial banks. On 7 June 2012, the CBRC issued the New Capital Adequacy Measures was issued. The New Capital Adequacy Measures came into effect on 1 January 2013 and superseded the Capital Adequacy Measures and the various guidelines mentioned above. In an effort to enhance the effectiveness of capital supervision, improve the risk management capability of commercial banks and strengthen the constraint function of the market, on 19 July 2013, the PBOC issued the following four policy documents to complement the New Capital Adequacy Measures: the Measurement Rules for Risk Exposure Capital of Central Counterparties (中央交易對手風險暴露資本計量規則); the Supervisory Requirements Concerning Information Disclosure on the Capital Composition of Commercial Banks (關於商業銀行資本構成信息披露的監管要求); the Supplemental Supervisory Requirements Concerning the Implementation of Internal Ratings-based Approach by Commercial Banks (關於商業銀行實施內部評級法的補充監管要求); and the Questions and Answers Regarding the Capital Supervisory Policy (資本監管政策問答).

Loan Classification, Allowances and Write-offs

Loan Classification

Banks in the PRC are currently required to classify loans under a five-category loan classification system to estimate the likelihood of full repayment of principal and interest by debtors on time, in accordance with the Guidelines of Risk-based Classification of Loans (貸款風險分類指引). The five categories are “pass”, “special mention”, “substandard”, “doubtful” and “loss”. The primary factors for evaluating the likelihood of repayment include the borrower’s cash flow, financial conditions and other non-financial conditions affecting the ability of repayment.

Loan Loss Allowance

According to the Guidelines of Risk-based Classification of Loans, a loan classified as substandard, doubtful or loss is considered to be non-performing, and commercial banks are required to make allowance based on a reasonable estimate of the probable loss on a prudent and timely basis. According to the Guidelines on Loan Loss Allowance (貸款損失準備計提指引), the allowance for impairment losses consists of a general allowance, a specific allowance and a 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 categorisation under the Guidelines of Risk-based Classification of Loans; and special allowance refers to the allowance made for the risks specifically related to certain countries, regions, industries, or certain types of loans.

Under the Guidelines on Loan Loss Allowance, commercial banks are required to make a general loan loss allowance on a quarterly basis and to have a general allowance of not less than 1% of the total loans outstanding as of the end of any year. The guidelines provide additional guidance on the level of specific allowance as a percentage of the outstanding amount of loans for each loan category: 2% for special mention loans; 25% for substandard loans; 50% for doubtful loans and 100% for loss loans. Allowance for losses of substandard and doubtful loans may be set aside within a range of 20%. Commercial banks may make special allowance in accordance with special risk factors (including risks in association with certain industries and countries), probability of losses and historical experience.

In accordance with the Administrative Measures for Loan Loss Allowance of Commercial Banks (商業銀行貸款損失準備管理辦法), which became effective on 1 January 2012, the adequacy ratio of loan loss allowance of commercial banks is assessed based on its loan provision ratio and its provision coverage ratio, the benchmarks of which are 2.5% and 150%, respectively. The higher of the two ratios

will be taken to be the supervisory standard. The boards of directors of commercial banks are required to assume ultimate responsibility for the management of loan loss allowance. Systematically important banks are required to reach the standard before the end of 2013. Non-systematically important banks are required to reach such standard before the end of 2016 and those failing to reach the standard before the end of 2016 are required to formulate a plan on how to reach such standard, submit the same to the CBRC and reach such standard before the end of 2018 at the latest.

CBRC's Supervision of Loan Classification and Loan Loss 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, beginning in 2002, commercial banks have been required to report to the CBRC information regarding loan classification and loan loss allowance on a regular basis via quarterly report and annual report. Based on a review of these reports, the CBRC has the power to require commercial banks to explain significant changes in loan classification and loan loss allowance levels, or to carry out further inspections. Upon the effectiveness of the Administrative Measures for Loan Loss Allowance of Commercial banks on 1 January 2012, the CBRC has the power to issue a risk notice to a commercial bank and to require rectifications accordingly if the commercial bank fails to meet the relevant minimum loan loss allowance standards for a continuing period of three months; the CBRC has the power to take further regulatory actions pursuant to the PRC Banking Supervision and Regulatory Law if such non-compliance lasts for a continuing period of six months.

Loan Write-offs

Under the regulations issued by the CBRC and the MOF, commercial banks are required to establish a strict audit 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 realised when 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 written off in compliance with the MOF's standards.

Allowance and Statutory General Reserve for Impairment Losses

Pursuant to the Administrative Measures for the Provisioning for Non-performing Assets of Financial Institutions (金融企業呆賬準備提取管理辦法) and the subsequent Notice on Relevant Issues Concerning the Provisioning for Non-performing Assets (關於呆賬準備提取有關問題的通知), both issued by the MOF, financial institutions in the PRC are required to maintain adequate allowance for impairment losses. In addition, financial institutions are also required to set up a statutory general reserve to cover potential impairment losses that have yet to be identified. Financial institutions are required to assess the risk profile of their assets in determining the statutory general reserve level. In principle, such level should not be less than 1% of the aggregate amount of each financial institution's risk-bearing assets before allowance for impairment losses at the balance sheet date. Financial institutions are not allowed to make profit distributions to shareholders until adequate allowance for impairment losses and statutory general reserve have been made. On 30 March 2012, the MOF issued the Administrative Measures for the Provisioning for Reserves of Financial Institutions (金融企業準備金計提管理辦法). These measures became effective on 1 July 2012, and repealed the Administrative Measures for the Provisioning for Non-performing Assets of Financial Institutions. Under the Administrative Measures for the Provisioning for Reserves of Financial Institutions, the minimum general statutory reserve level was raised to 1.5% of the aggregate amount of risk-bearing assets at the balance sheet date. Financial Institutions may choose between an internal model approach and a standardised approach to determine the estimated value of potential risks for the provision of statutory general reserve.

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Other Operational and Risk Management Ratios

The Core Indicators (Provisional) issued by the CBRC became effective on 1 January 2006.

The table below sets out the required ratios as provided in the Core Indicators (Provisional) and our Bank's ratios as of 31 December 2010, 2011 and 2012 and 30 September 2013, calculated in accordance with PRC GAAP.

				Ratios of our Bank (%)			
				as of 31 December			as of 30 September
Risk level	Primary indicators	Secondary Indicators	Requirement (%)	2010	2011	2012	2013
Risk Level							
Liquidity risk	Liquidity ratio ⁽¹⁾	RMB	≥ 25	47.48%	42.62%	40.22%	40.68%
		Foreign Currency		177.20%	307.11%	145.93%	232.97%
	Core liabilities ratio ⁽²⁾		≥ 60	60.25%	60.02%	55.35%	61.40%
	Liquidity gap ratio ⁽³⁾		≥ -10	47.10%	20.37%	27.32%	2.72%
Credit risk	Non-performing asset ratio ⁽⁴⁾		≤ 4	0.34%	0.20%	0.21%	0.34%
		Non-performing loan ratio ⁽⁵⁾	≤ 5	0.79%	0.62%	0.64%	0.86%
	Credit exposure to a single group customer ⁽⁶⁾		≤ 15	11.75%	6.31%	4.86%	5.90%
		Loan exposure to a single customer ⁽⁷⁾	≤ 10	8.20%	4.67%	3.11%	4.64%
	Overall credit exposure to related parties ⁽⁸⁾		≤ 50	2.76%	1.53%	1.17%	1.40%
	Market risk . . .	Cumulative foreign currency exposure ratio ⁽⁹⁾	≤ 20	0.14%	0.17%	0.07%	0.25%
Risk Cushion							
Profitability . . .	Cost to income ratio ⁽¹⁰⁾		≤ 35	39.11%	33.80%	34.51%	34.23%
	Return on average total assets ⁽¹¹⁾		≥ 0.6	1.17%	1.12%	1.20%	1.19%
	Return on average equity ⁽¹²⁾		≥ 11	27.64%	22.57%	20.35%	17.67%
Allowance adequacy . . .	Allowance adequacy ratio for asset impairment ⁽¹³⁾		> 100	99.35%	311.66%	449.30%	292.72%
		Allowance adequacy ratio for loan ⁽¹⁴⁾	> 100	99.33%	313.07%	450.75%	293.14%
Capital adequacy . . .	Capital adequacy ratio ⁽¹⁵⁾		≥8	11.75%	12.61%	12.97%	13.04%
		Core capital adequacy ratio	≥4	9.04%	11.37%	11.94%	12.04%

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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 other 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 other financial institutions due within one month, issued debt securities with maturities of one month or less, interest payable and all kinds of 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 with maturities of 90 days or less.
- (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 categorised as non-performing. The categorisation of non-loan credit risk assets is in accordance with relevant CBRC regulations.
- (5) Non-performing loan 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 the CBRC's five category loan classification system.
- (6) Credit exposure to a single group borrower = Total credit granted to the largest 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 borrower/Net capital x 100%. Largest 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 Administrative Measures on Connected Transactions with Insiders and Shareholders of Commercial Banks (商業銀行與內部人和股東關聯交易管理辦法). 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 Chinese 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%.
- (11) Return on average total assets = Net profit for a period/average balance of total assets at the beginning and the end of the period x 100%.
- (12) Return on average equity = Net profit attributable to the equity shareholders of our Bank for a period/average balance of total equity attributable to equity holders of the parent company at the beginning and the end of 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%.
- (15) Capital adequacy ratio = (Capital – capital deductions)/(Risk-weighted assets + 12.5 x capital charge for market risk). Core capital adequacy ratio = (Core capital – core capital deductions)/(Risk-weighted assets + 12.5 x capital charge for market risk). Since 2013, we calculate and disclose the capital adequacy ratio according to the new regulations of capital adequacy ratio management. Capital adequacy ratio = (Total capital – corresponding capital deduction)/ risk-weighted assets; tier 1 capital adequacy ratio = (tier 1 capital – corresponding capital deduction)/ risk-weighted assets; core tier 1 capital adequacy ratio = (core tier 1 capital – corresponding capital deduction)/ risk-weighted assets. According to the new regulations of calculation, as of 30 September 2013, our bank's capital adequacy ratio, tier 1 capital adequacy ratio, and core tier 1 capital adequacy ratio were 13.24% , 11.65% and 11.65%, respectively.

According to the Core Indicators (Provisional), the CBRC may issue risk alerts to banks based on their analysis of data submitted by commercial banks. In addition, the Core Indicators (Provisional) defined certain other ratios without providing the regulatory requirement for those ratios, including ratios relating to interest rate risk sensitivity, operational risk and loan migration. The CBRC may provide the regulatory requirement for those ratios in the future.

Corporate Governance and Internal Controls

Corporate Governance

The PRC Company Law, the PRC Commercial Banking Law and other laws, regulations and regulatory documents provided for specific requirements for corporate governance. Among them, the Guidelines on Corporate Governance of Commercial Banks (商業銀行公司治理指引) require commercial banks to establish a sound corporate governance system and a clear organisational structure, with management and supervisory powers, functions and responsibilities being clearly divided among the board, the supervisory board and the senior management. The guidelines also require commercial banks to abide by the principles of ensuring independent operation of each governing body and maintaining effective checks and balances and mutual cooperation and coordination among them, establish reasonable incentive and restraint mechanisms in order to achieve efficiency in decision-making, execution and supervision.

As for the composition of the board of directors, according to Guidelines on the Duties of the Board of Directors of Joint Stock Commercial Banks (Provisional) (股份制商業銀行董事會盡職指引 (試行)) issued by the CBRC, a commercial bank with a registered capital exceeding RMB 1 billion is required to have at least three independent directors. As for the composition of supervisory board, according to the Guidelines on the Functioning of Supervisory Board of Commercial Banks (商業銀行監事會工作指引) issued by the CBRC, the proportion of employees representative supervisors or that of external supervisors cannot be less than one third of the supervisory board. In addition, the Guidelines on Independent Directors and External Supervisors of Joint Stock Commercial Banks (股份制商業銀行獨立董事及外部監事指引) recommend that the board of directors of a commercial bank should have at least two independent directors, senior management should constitute at least one quarter but not more than a third of the board of directors and the supervisory board should have at least two external supervisors.

Internal Controls

Under the Internal Control Guidelines for Commercial Banks (商業銀行內部控制指引) issued by the PBOC and the CBRC in 2002 and 2007 respectively, commercial banks are required to establish internal controls 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 27 June 2006, the CBRC issued the Guidelines on Internal Audit for Banking Financial Institutions (銀行業金融機構內部審計指引) which became effective on 1 July 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, which shall in principle represent 1% of the bank's total number of employees. The guidelines set forth the required scope of the Internal Audit Department. Banks are required to evaluate the risk of each business unit at least once per year and conduct internal audit of each business unit at least once every two years. The number of employees responsible for our internal auditing function is based on our risk management demand. As of 30 September 2013, we had 78 internal audit employees, representing 1.1% of our total number of employees.

On 22 May 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 1 July 2009. The rules require enterprises to establish and implement internal control systems, utilise information technology to strengthen internal control and establish information systems addressing their operational and management needs, among other matters.

In accordance with the Guidelines on the Corporate Governance of Commercial Banks issued by the CBRC on 19 July 2013, commercial banks are required to establish an accountability system for a sound internal control environment. Under this system, the board of directors and senior management are required to maintain differentiated accountability for the effectiveness of internal control and are required to be liable for material losses caused by a breakdown in internal control. In addition, the supervisory board is required to perform its supervisory obligations by supervising directors and senior management, and refining the system and rules of internal control. Commercial banks are required to establish a relatively independent department for effectively supervising and evaluating internal control, which reports directly to the board of directors, supervisory board and senior management on the progress of developing the internal control system and its enforcement.

Information Disclosure Requirements

On 3 July 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 these measures, a PRC commercial bank is required to publish an audited annual report within four months of the end of each financial year disclosing its financial position and operational results.

Transactions with Related Parties

The CBRC issued the Administrative Measures on Connected Transactions with Insiders and Shareholders of Commercial Banks (商業銀行與內部人和股東關聯交易管理辦法) in April 2004, which provided more stringent and detailed requirements on the related party transactions of PRC commercial banks. These 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. Under PRC laws and regulations, related party transactions of commercial banks are required to be based on normal commercial principles and on terms no more favourable than similar transactions with non-related parties.

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

Pursuant to these measures, commercial banks must submit to the CBRC, on a quarterly basis, status reports regarding their related party transactions, and must 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 to monitor and approve such transactions annually at shareholder meetings. The CBRC has the power to request the rectification of transactions that violate these measures and to impose sanctions on the bank and/or the related parties.

We have established the Risk Management and Related Transactions Control Committee under our Board and have adopted approval procedures for related party transactions in accordance with the measures and other applicable laws and regulations. In addition, we have adopted a tiered system for the approval of related party transactions by setting out in our Administrative Measures on Connected Transactions the relevant approval requirements in accordance with the applicable laws and regulations.

Risk Management

Since its inception, the CBRC has published, in addition to guidelines concerning loan and credit to certain specific industries and customers and measures in respect of the implementation of Basel Accords, numerous risk management guidelines and rules in an effort to improve the risk management of PRC commercial banks, including credit risk management, operational risk management, market risk management, compliance risk management and a supervisory rating system. For the guidelines concerning loans and credit to certain specific industries and customers and measures in respect of the implementation of Basel Accords, see “ – PRC Banking Supervision and Regulation – Regulation of Principal Commercial Banking Activities – Lending” and “ – PRC Banking Supervision and Regulation – Supervision Over Capital Adequacy – Basel Accords”. The CBRC also issued the Core Indicators (Provisional) 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 in the Core Indicators (Provisional) 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 analyse such indicators and evaluate and issue early warnings of the risks on a timely basis.

Operational Risk Management

On 22 March 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, as well as on-going reviews and examinations for business areas involving a greater degree of operational risks. Moreover, a commercial bank’s headquarter 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 officers at primary level responsible for business operations are required to rotate on a regular basis; establishing a system to encourage employees to fully comply with applicable 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, specimen signatures and evidential vouchers.

Furthermore, on 14 May 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, among other things, the supervision and controls of the board of directors, responsibilities of senior management, proper organisational structure, and policies, approaches and procedures for operational risk management. Those policies and procedures are required to be submitted to the CBRC for filing. If a significant operational risk occurs and the commercial bank fails to adopt effective corrective measures within a specified period, the CBRC has the power to take relevant regulatory measures.

Market Risk Management

On 29 December 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 1 March 2005, to strengthen the market risk management of PRC commercial banks. These guidelines mainly address, among other things: (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 conducting external audits.

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 20 October 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, standardised the organisational structure for compliance risk management and set out the regulatory mechanisms for a bank's risk management.

Liquidity Risk Management

In order to strengthen the liquidity risk management and maintain the safe and stable operation of PRC commercial banks, the CBRC issued the Notice on Further Strengthening the Supervision of Liquidity Risk of Commercial Banks by the General Office of the CBRC (中國銀監會辦公廳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 indices, such as liquidity coverage ratio and new stable funding ratio, and required that PRC commercial banks should strengthen the measurement and management of liquidity risk, optimise the asset-liability allocation, reduce the maturity mismatch and decrease the possibility and impact of liquidity shortfalls.

In addition, the CBRC issued the Administrative Measures on the Liquidity Risk of Commercial Banks (Trial) (商業銀行流動性風險管理辦法 (試行)) on 17 January 2014, which became effective on 1 March 2014, which mainly address, among other things: (1) the liquidity risk management responsibilities of a commercial bank's board of directors, senior management, board of supervisors and specialised internal department in charge of liquidity risk management; (2) the strategy, policy and procedure of liquidity risk management; (3) the identification, measurement, supervision and control of liquidity risk; and (4) the calculation methods of liquidity coverage ratio, deposit ratio and liquidity ratio. It is also stated that the PRC commercial banks' liquidity coverage ratios must reach 100% by 2018.

Management of Other Risks

In addition to the above, the CBRC has issued guidelines in relation to several other risks, including the Guidelines on Reputational Risk Management of Commercial Banks (商業銀行聲譽風險管理指引), the Guidelines on Bank Account Interest Risk Management of Commercial Banks (商業銀行銀行賬戶利率風險管理指引), the Guidelines on Information Technology Risk Management of Commercial Banks (商業銀行信息科技風險管理指引), the Guidelines on Country Risk Management of Banking Financial Institutions (銀行業金融機構國別風險管理指引), all in an effort to strengthen commercial banks' risk management capacity in relevant fields.

Supervisory Rating System

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

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 city commercial bank is required to obtain prior approval by the local offices of the CBRC. All legal persons outside the province where a city commercial bank is registered intending to acquire equity interest of such bank are required to obtain prior approvals by the CBRC or its branches. If any existing shareholder of a commercial bank increases its shareholding in excess of the 5% threshold or any legal person from outside the bank's residence province becomes the bank's shareholder without obtaining the CBRC's prior approval, that shareholder will be subject to the sanctions of the CBRC or its branches, which include, among others, rescission of the acquisition and disgorgement of profits by that shareholder, if any, 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 that meets certain conditions can make investment or hold shares in PRC commercial banks, subject to the CBRC's approval. However, no single foreign financial institution may own 20% or more of the equity of such a bank. In addition, if foreign investment in the aggregate exceeds 25% of the total equity interest in a non-listed PRC commercial bank, such bank will be regulated as a foreign-invested bank. Listed PRC commercial banks are regulated as a PRC bank even if foreign investment in the aggregate exceeds 25% of its total equity interest.

Restrictions on Shareholders

The Guidelines on Corporate Governance of Commercial Banks impose certain additional requirements on shareholders of commercial banks. For example, shareholders, especially substantial shareholders, are required to support the capital planning formulated by the board of directors of the commercial bank so that the capital of the bank can meet the regulatory requirements on an on-going basis. If a commercial bank fails to meet the regulatory requirements, it is required to develop a capital replenishment plan to increase capital adequacy ratio to meet regulatory requirements within a specified period of time. If the requirements are not met within the timeframe, dividends are required to be decreased or even suspended from distribution, and capital is required to be replenished by means of increasing core capital. Under such circumstances, substantial shareholders cannot obstruct the capital injection moves by other shareholders or the participation of new qualified shareholders. If shareholders of a PRC commercial bank fail to repay outstanding loans when due, their voting rights will be restricted for the period during which the relevant loan is overdue.

In addition, the PRC Company Law 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 commercial bank may not accept its own shares as collateral. According to the Guidelines on Corporate Governance of Commercial Banks: (i) any shareholder of a commercial bank must give prior notice to the board of directors of the bank if it wishes to pledge its shares as collateral; and (ii) where the balance of loans extended by a commercial bank to its shareholder exceeds the audited net value of his or her equity stake for the preceding year, the shareholder cannot use his or her stake in the bank as pledge.

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 1 January 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 which 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, the PBOC issued the Anti-money Laundering Regulations for Financial Institutions (金融機構反洗錢規定) which became effective on 1 January 2007. In accordance with those regulations, commercial banks are required to establish an internal anti-money laundering procedure 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 the Financial Institutions' Report of Large-sum Transactions and Doubtful Transactions (金融機構大額交易和可疑交易報告管理辦法) issued by the PBOC which became effective on 1 March 2007, upon the detection of any suspicious transactions or transactions involving large amounts, PRC commercial banks are required to report the transactions to the Anti-money Laundering Information Centre. Where necessary and pursuant to appropriate judicial proceedings, PRC commercial banks are required to cooperate with government authorities in preventing money laundering activities and in freezing assets. The PBOC supervises and conducts on-site examinations of commercial banks' compliance with its anti-money laundering regulations and may impose penalties for any violations thereof in accordance with the PRC Anti-money Laundering Law. Commercial banks are required to establish a customer identification system in accordance with the Measures on the Administration of Client 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 1 August 2007. Commercial banks are also required to record the identities of all customers and the information relating to each transaction, and keep personal transaction records and documents.

Other Requirements

Use of Funds

Under the PRC Commercial Banking Law, commercial banks are not permitted to engage in trust investment or securities investment business, or 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;
- interbank loans;
- trading of government bonds;

SUPERVISION AND REGULATION

- trading of bonds from financial institutions;
- investment in banking institutions; and
- other uses as may be approved by the relevant government authorities.

Periodic Reporting Requirements

In accordance with the Notice of China Banking Regulatory Commission on the Official Operation of Off-site Regulatory Information System in 2007 (關於非現場監管信息系統2007年正式運行的通知) issued by the CBRC, banking institutions are required to regularly submit to the banking regulatory authorities relevant statements, including basic financial information, credit risk, liquidity risk, capital adequacy ratio and such other information as is required under such notice. In the statements required to be submitted by our Bank: the statistical statement of balance sheet items, the supervisory checklist of liquidity ratio and other similar information are required to be submitted monthly; the table of financial derivative business, the profit statement and other similar information, quarterly; the table of interest rate re-pricing risk, semi-annually; the statement of profit distribution and the table of credit quality migration and other similar information, annually.

Although the Bank will continue to submit such periodic reports to relevant regulatory bodies, given the fact that: (i) the financial information contained in such reports will not be shared with the public; and (ii) such financial information would be unaudited, the Bank does not plan to disclose the information contained in the reports by way of announcement after the Global Offering.

Regulatory and Shareholder's Approvals

We have obtained our shareholder's approval for the proposed listing. Please refer to Paragraph 1C "Resolution of Our Shareholders" of "Appendix VIII – Statutory and General Information".

We have also obtained all necessary PRC regulatory approvals for the proposed listing, including the CBRC approval on 30 December 2013 and the CSRC approval on 4 March 2014.

OUR HISTORY AND OPERATIONAL REFORM

OUR HISTORY

At an inauguration meeting held on 16 January 1997, our Bank was promoted and established jointly by the shareholders of Harbin Urban Credit Cooperatives Union (哈爾濱城市信用合作社聯社), 53 urban credit cooperatives in Harbin and Harbin Economic Development. Harbin Economic Development contributed RMB60,000,000 in cash and other promoters contributed certain net assets. Our registered capital was RMB221,932,900. Upon our establishment, Harbin Economic Development, 153 corporate shareholders and 4,756 individual shareholders of the 53 former urban credit cooperatives and the former Harbin Urban Credit Cooperatives Union held 27%, 49% and 24% equity interests in our Bank, respectively. In February 1997, our Bank was issued its financial licence by the PBOC to engage in financial business. On 25 July 1997, our Bank obtained its business licence as an incorporated entity. On establishment, our Bank was named as Harbin Urban Cooperative Bank (哈爾濱城市合作銀行), and was subsequently renamed Harbin Commercial Bank Co., Ltd. (哈爾濱市商業銀行股份有限公司) on 30 April 1998 and then renamed Harbin Bank Co., Ltd. (哈爾濱銀行股份有限公司) on 18 December 2007.

From 2000 to 2001, our Bank merged with a credit cooperative, received capital contributions from seven corporate investors, acquired the share capital of the securities trading outlet of another credit cooperative and carried out capital verification and share conversions in respect of the assets which were contributed. Since then, the registered capital of our Bank has been increased as a result of various capital contributions from new investors, capitalisation of undistributed profits and capitalisation of surplus reserve. Our registered capital has been increased to RMB8,246,899,553 from RMB221,932,900 upon establishment. As of the Latest Practicable Date, our Bank had issued a total of 8,246,899,553 shares with a nominal value of RMB1.00 each. The changes in our registered capital and our shareholders are summarised below:

2000-2001	Our registered capital was increased by RMB126,008,800 through the merger with a credit cooperative, the capital contribution from seven corporate shareholders and acquisition of the share capital of a securities trading outlet of another credit cooperative and was subsequently decreased by RMB3,116,400 as a result of a share clearance and revocation of a sub-branch. Our registered capital was decreased by RMB136,601,900 as a result of share conversion. Our registered capital was RMB208,223,400 after the abovementioned changes to our registered capital.
2003	Our registered capital was increased to RMB225,137,400 due to a capital injection by Harbin Economic Development using business tax paid by our Bank as refunded and approved by Harbin Municipal Finance Bureau. Our registered capital was increased to RMB550,341,700 due to an additional capital injection from eight corporate shareholders for a total amount of RMB325,204,300.
2005	Our registered capital was increased to RMB572,321,945 due to a capitalisation of surplus reserves in the amount of RMB21,980,245.
2007	Harbin Economic Development together with six other corporate and institutional shareholders increased their capital contributions by RMB1,043,318,800. As a result, our registered capital was increased to RMB1,615,640,745.
2009	Our registered capital was increased to RMB2,100,333,042 due to a capitalisation of undistributed profits of RMB484,692,297.

OUR HISTORY AND OPERATIONAL REFORM

- 2011 Our registered capital was increased to RMB5,187,822,991 due to a capitalisation of undistributed profits of RMB1,890,299,916 and a placing of new shares of RMB1,197,190,033 to then existing shareholders of our Bank.
- Our registered capital was increased by RMB1,000,000,000 to RMB6,187,822,991 due to a placing of new shares to then existing shareholders of our Bank.
- 2012 Our registered capital was increased to RMB7,560,198,243 due to a capital injection of RMB980,000,000 by ten corporate shareholders and a capitalisation of undistributed profits of RMB392,375,252.
- 2013 Our registered capital was increased to RMB8,246,899,553 due to a capitalisation of undistributed profits of RMB686,701,310.

KEY MILESTONES IN OUR BUSINESS

From our establishment to 31 January 2014, our Bank had established 15 branches across Harbin, Shuangyashan, Dalian, Tianjin, Jixi, Chengdu, Hegang, Shenyang, Suihua, Daqing, Chongqing, Mudanjiang, Qitaihe, Jiamusi and Qiqihar, under which there are 245 sub-branches. From 2009 to 31 January 2014, our Bank had initiated the establishment of 24 Village and Township Banks in Heilongjiang, Gansu, Beijing, Jilin, Guangdong, Chongqing, Sichuan, Henan, Jiangxi, Hunan, Jiangsu, Hubei, Hainan and Hebei. Key milestones in our business development are set out below:

- 1997 Obtained our financial licence.
- 2000 Launched our “Smart Card (一卡通)” service.
- 2001 Launched our microcredit business.⁽¹⁾
- 2002 Launched our foreign exchange business.
- 2003 Became a primary dealer in the PBOC open market.
- 2005 Launched a rural financial service.
- 2007 Launched a Ruble cash exchange business.
- 2008 Launched a credit card business.
- 2010 Launched a nationwide customer service hotline, 95537.
- Became a market maker of Renminbi-Ruble trades.
- Launched our investment banking business.
- 2011 Began to export microcredit know-how and technology to other banking institutions.
- 2012 Launched the cross-border transportation of Ruble cash.
- Launched our financial derivatives trading business.
- 2014 Obtained CBRC’s approval for the setting up of a financial leasing company

Note:

- (1) At that time, we only classified small amount secured loans as our microcredit business.

OUR HISTORY AND OPERATIONAL REFORM

MILESTONES IN BOND ISSUANCE AND EXTERNAL INVESTMENT OF OUR BANK

Since our establishment, we have carried out several bond issuance and several rounds of external investment in order to maintain a relatively high capital adequacy ratio, to optimise our capital structure and to establish a capital replenishment mechanism for business development and to further expand our business scope. The relevant key milestones are set out below:

2009	Following receipt of consents from the CBRC and the PBOC, our Bank issued ten-year subordinated bonds with an aggregate principal amount of RMB1 billion in the interbank bond market with a callable option at the end of the fifth year since issuance. The issuance further improved our capital adequacy ratio.
2011	Following the approval from the CBRC, we subscribed for 800,000,000 new shares in Guangdong Huaxing Bank Co., Ltd. (廣東華興銀行股份有限公司) as a strategic investor at a price of RMB1.25 per share, representing 16% of its then issued shares. Guangdong Huaxing Bank Co., Ltd. is a joint stock commercial bank with a registered capital of RMB5 billion and was reorganised from Shantou Commercial Bank Co., Ltd. Its registered address is in the Shantou Special Economic Zone and its operational headquarters is located in Guangzhou. As a result of the subscription, our Bank indirectly expanded into the Pearl River Delta, a developed region in China in terms of the scale of its private economy, so as to broaden our development horizon and enhance our influence in the market.
2012	Following receipt of approvals from the CBRC and the PBOC, we issued five-year financial bonds with an aggregate principal amount of RMB2.5 billion in the interbank bond market. The proceeds from this issuance were used specifically for extending loans to small and micro enterprises. The issuance of such financial bonds facilitated the development of our credit business for Small Enterprise Customers.

OUR SHAREHOLDING AND CORPORATE STRUCTURE

Shareholding Structure

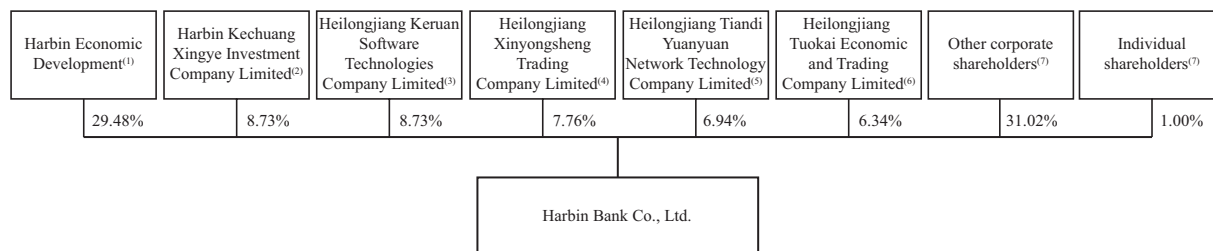
As of the Latest Practicable Date, we had 89 corporate shareholders and 3,581 individual shareholders who in aggregate held approximately 99.00% and 1.00% of our shares, respectively. Harbin Economic Development (100% of the equity interests of which are held by Harbin Municipal Finance Bureau) is our largest single Shareholder, holding 29.48% of our Shares immediately prior to the Global Offering. The aggregate shareholding of our top 20 shareholders, all being corporate shareholders, amounts to approximately 96.35%. These 20 shareholders are independent of each other and our Bank, except that the 17th and 18th shareholders were controlled by the same beneficial owner (who is an independent third party). The aggregate shareholding of these two shareholders is approximately 2.17%.

As of the Latest Practicable Date, of the 3,670 shareholders of our Bank, we have been unable to contact 5 corporate shareholders and 75 individual shareholders, who in aggregate hold less than 0.02% of our Shares. The Shares of such Shareholders whom we have been unable to contact have been put under the custody of Harbin Equity Trusteeship Centre. The existence of the Shareholders whom we are unable to contact does not affect our Bank's ability to carry out corporate activities including holding shareholders' general meetings and paying dividends.

OUR HISTORY AND OPERATIONAL REFORM

Immediately Before the Global Offering

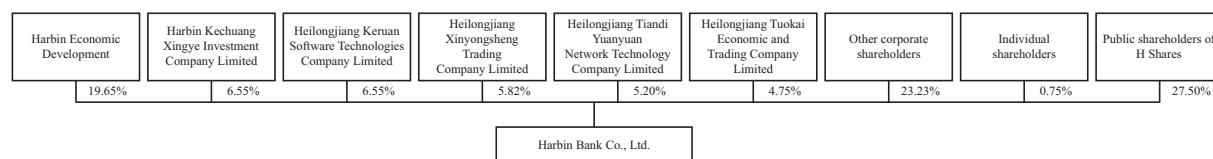
The diagram below sets out our shareholding structure and our shareholders individually holding 5% or more of our total issued shares immediately before the Global Offering:



As confirmed by our Directors and pursuant to our Articles of Association, there is no corporate shareholder holding special rights that are superior to our other shareholders' rights. As far as our Directors are aware, the six corporate shareholders with individual shareholding exceeding 5% of our total issued shares as shown in the above diagram are independent from each other.

Immediately After the Completion of the Global Offering

The diagram below sets out our shareholding structure and our shareholders individually interested in 5% or more of each class of our total issued shares immediately after the completion of the Global Offering, assuming no exercise of the Over-allotment Option and no change in shareholding by each of the Shareholders listed below after the Latest Practicable Date:



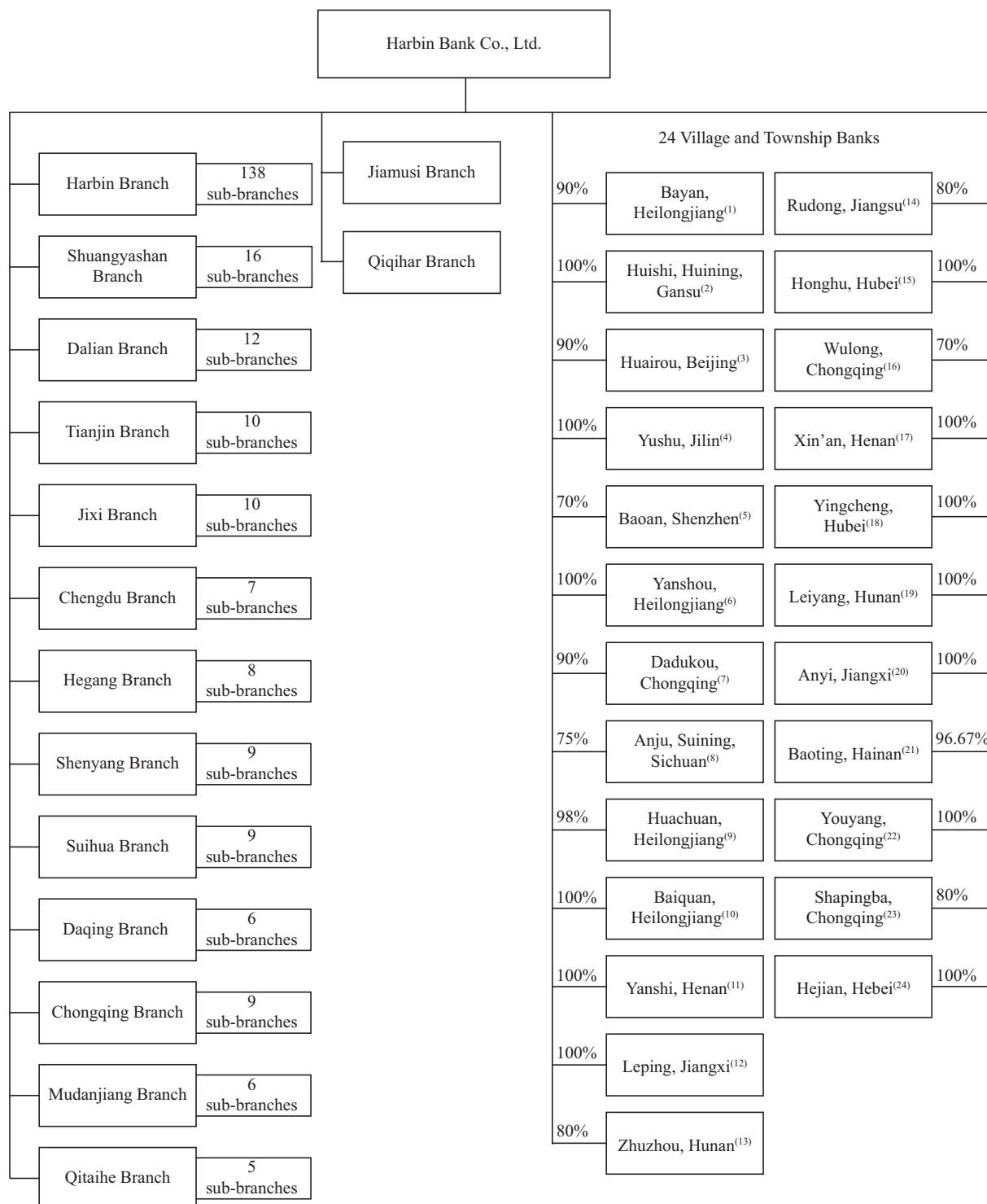
Notes:

- (1) Harbin Economic Development is wholly owned by Harbin Municipal Finance Bureau and is our only substantial shareholder (as defined under the Hong Kong Listing Rules).
- (2) Harbin Kechuang Xingye Investment Company Limited is owned as to 93.92% by Tianjin Wenhua Tianhai Industrial Company Limited (天津文華天海實業有限公司), which is owned as to 50% and 47.3% by Batou Ronghui Trading Company Limited (包頭市榮慧貿易有限責任公司) and Hangzhou Jiela Trading Company Limited (杭州杰拉貿易有限公司), respectively. Batou Ronghui Trading Company Limited (包頭市榮慧貿易有限責任公司) is owned as to 98.22% by Jinan Kangze Commercial and Trading Company Limited (濟南康澤商貿有限公司), which is in turn owned as to 62.5% and 37.5% by two individuals, Tan Ran (譚然) and Zhang Yanyong (張衍勇), respectively.
- (3) Heilongjiang Keruan Software Technologies Company Limited is owned as to 95.83% by Dalian Yujiixin Technology Company Limited (大連宇嘉信科技有限公司), which in turn is owned as to 60% and 40% by two individuals, Liang Yifeng (梁乙峰) and Diao Xiaoxi (刁小熙), respectively.
- (4) Heilongjiang Xinyongsheng Trading Company Limited is owned as to 95.4% by Beijing Chengxinfenghui Technology and Trading Company Limited (北京誠信豐滙科貿有限公司), which in turn is owned as to 60% and 40% by two individuals, Liu Kun (劉坤) and Zhao Yonghe (趙永和), respectively.
- (5) Heilongjiang Tiandi Yuanyuan Network Technology Company Limited is owned as to 93.61% by Beijing Huifutong International Investment Company Limited (北京滙富通國際投資有限公司), which in turn is owned as to 80% by an individual, Dong Yan (董雁).
- (6) Heilongjiang Tuokai Economic and Trading Company Limited is owned as to 95.27% by Beijing Tailonghuasheng Technology Company Limited (北京泰隆華勝科技有限公司), which in turn is owned as to 87.5% by Beijing Jieshengtiancheng Trading Company Limited (北京杰勝天成貿易有限公司). Beijing Jieshengtiancheng Trading Company Limited (北京杰勝天成貿易有限公司) is owned as to 70% and 30% by two individuals, Guan Wu (管武) and Han Yong (韓永), respectively.
- (7) Other 83 corporate shareholders in aggregate held 31.02% of our total issued shares. We have in aggregate 89 corporate shareholders, with the top 20 shareholders, who are all corporate shareholders, holding in aggregate 96.35% of our total issued shares immediately before the Global Offering. The remaining 69 corporate shareholders, in aggregate, hold approximately 2.65% of our total issued shares, with the remaining 1.00% being held by 3,581 individual shareholders.

OUR HISTORY AND OPERATIONAL REFORM

Corporate Structure

The diagram below sets out our corporate structure as of 31 January 2014:



OUR HISTORY AND OPERATIONAL REFORM

Notes:

- (1) Heilongjiang Bayan Rongxing was established on 6 January 2009. Its registered address is Bayan Town, Bayan County, Heilongjiang Province. Its registered capital is RMB50 million, 90% and 10% of which are contributed by our Bank and International Finance Corporation (“IFC”), respectively. IFC is an independent third party of our Bank. The business scope of this Village and Township Bank includes: taking deposits from the public; extending short-term, medium-term and long-term loans; effecting domestic payment settlements; accepting and discounting instruments; engaging in interbank lending; engaging in bank card business; acting as the issuance agent, the cashing agent or the underwriter of government bonds; collecting and making payment as agent and acting as insurance agent; and engaging in other businesses approved by the banking regulatory authorities in the PRC.

This Village and Township Bank has two sub-branches, namely Bayan Rongxing Xinglong sub-branch and Bayan Rongxing Sucheng sub-branch.

- (2) Gansu Huining Huishi was established on 19 May 2009. Its registered address is Huishi Town, Huining County, Gansu Province. Its registered capital is RMB30 million. The business scope of this Village and Township Bank includes taking deposits from the public; extending short-term, medium-term and long-term loans; effecting domestic payment settlements; accepting and discounting instruments; engaging in interbank lending; engaging in bank card business; acting as the issuance agent, the cashing agent or the underwriter of government bonds; collecting and making payment as agent and acting as insurance agent; and engaging in other businesses approved by the banking regulatory authorities in the PRC (subject to licensing requirements).

- (3) Beijing Huairou Rongxing was established on 4 January 2010. Its registered address is Huairou District, Beijing. Its registered capital is RMB100 million, 90% and 10% of which are contributed by our Bank and Beijing Yuntong Boshi Automobile Sales & Service Co., Ltd. (北京運通博世汽車銷售服務有限公司), respectively. Beijing Yuntong Boshi Automobile Sales & Service Co., Ltd. is an independent third party of our Bank. The business scope of this Village and Township Bank includes taking deposits from the public; extending short-term, medium-term and long-term loans; effecting domestic payment settlements; accepting and discounting instruments; engaging in interbank lending; engaging in bank card business; acting as the issuance agent, the cashing agent or the underwriter of government bonds; collecting and making payment as agent and acting as insurance agent; and engaging in other businesses approved by the banking regulatory authorities in the PRC.

This Village and Township Bank has two sub-branches, namely Beijing Huairou Rongxing Tangzikou sub-branch and Beijing Huairou Rongxing Qiaozi sub-branch.

- (4) Jilin Yushu Rongxing was established on 21 January 2010. Its registered address is Yushu, Jilin Province. Its registered capital is RMB30 million. The business scope of this Village and Township Bank includes taking deposits from the public; extending short-term, medium-term and long-term loans; effecting domestic payment settlements; accepting and discounting instruments; engaging in interbank lending; engaging in bank card business; acting as the issuance agent, the cashing agent or the underwriter of government bonds; collecting and making payment as agent and acting as insurance agent; and engaging in other businesses approved by the banking regulatory authorities in the PRC.

This Village and Township Bank has one sub-branch, namely Jilin Yushu Rongxing Jiankang Road sub-branch.

- (5) Shenzhen Baoan Rongxing was established on 11 June 2010. Its registered address is Baoan District, Shenzhen. Its registered capital is RMB200 million. Our Bank, Huilian Asset Management Co., Ltd. (匯聯資產管理有限公司), China Baoan Group Co., Ltd. (中國寶安集團股份有限公司) and Shenzhen Ningjia Investment and Development Co., Ltd. (深圳市寧佳投資發展有限公司) contributed 70%, 10%, 10% and 10% of its registered share capital, respectively. Huilian Asset Management Co., Ltd., China Baoan Group Co., Ltd. and Shenzhen Ningjia Investment and Development Co., Ltd. are all independent third parties of our Bank. The business scope of this Village and Township Bank includes taking deposits from the public; extending short-term, medium-term and long-term loans; effecting domestic payment settlements; accepting and discounting instruments; acting as the issuance agent, the cashing agent or the underwriter of government bonds; engaging in interbank lending; engaging in bank card business; collecting and making payment as agent; and engaging in other businesses approved by the banking regulatory authorities (subject to licensing requirements) in the PRC.

This Village and Township Bank has three sub-branches, namely Shenzhen Baoan Rongxing Chegongmiao sub-branch, Shenzhen Baoan Rongxing Guanlan sub-branch, and Shenzhen Baoan Rongxing Longgang sub-branch.

- (6) Heilongjiang Yanshou Rongxing was established on 10 August 2010. Its registered address is Yanshou Town, Yanshou County, Heilongjiang Province. Its registered capital is RMB30 million. The business scope of this Village and Township Bank includes undertaking financial business subject to the scope permitted by the financial licence.

This Village and Township Bank has one sub-branch, namely Heilongjiang Yanshou Rongxing Jisheng sub-branch.

- (7) Chongqing Dadukou Rongxing was established on 15 December 2010. Its registered address is Dadukou District, Chongqing. Its registered capital is RMB60 million. Our Bank and Chongqing Tiantai Green Agriculture Development (Group) Co., Ltd. (重慶天泰綠色農業開發(集團)有限公司) contributed 90% and 10% of its registered share capital, respectively. Chongqing Tiantai Green Agricultural Development (Group) Co., Ltd. is an independent third party of our Bank. The business scope of this Village and Township Bank includes taking deposits from the public; extending short-term, medium-term and long-term loans; effecting domestic payment settlements; accepting and discounting instruments; engaging in interbank lending; engaging in bank card business; acting as the issuance agent, the cashing agent or the underwriter of government bonds; collecting and making payment as agent; and engaging in other businesses approved by the banking regulatory authorities in the PRC.

This Village and Township Bank has two sub-branches, namely Chongqing Dadukou Rongxing Jiansheng sub-branch and Chongqing Dadukou Rongxing Ganghualu sub-branch.

OUR HISTORY AND OPERATIONAL REFORM

- (8) Sichuan Suining Anju Rongxing was established on 22 December 2010. Its registered address is Anju District, Suining. Its registered capital is RMB80 million. Our Bank, Suining Rougang Investment Co., Ltd. (遂寧柔剛投資有限責任公司), Sichuan Zhuotong Industrial Co., Ltd. (四川卓筒實業有限公司), Sichuan Xinghe Real Estate Development Co., Ltd. (四川興和房地產開發有限公司) and Suining Kaiming Food Co., Ltd. (遂寧市開明食品有限公司) contributed 75%, 10%, 5%, 5% and 5% of its registered share capital, respectively. Suining Rougang Investment Co., Ltd., Sichuan Zhuotong Industrial Co., Ltd., Sichuan Xinghe Real Estate Development Co., Ltd. and Suining Kaiming Food Co., Ltd. are all independent third parties of our Bank. The business scope of this Village and Township Bank includes taking deposits from the public; extending short-term, medium-term and long-term loans; effecting domestic payment settlements; accepting and discounting instruments; acting as the issuance agent, the cashing agent or the underwriter of government bonds; engaging in interbank lending; engaging in bank card business; collecting and making payment as agent and acting as insurance agent; and engaging in other businesses approved by the banking regulatory authorities in the PRC.

This Village and Township Bank has two sub-branches, namely Sichuan Suining Anju Rongxing Qiongjiang sub-branch and Sichuan Suining Anju Rongxing Wuliugang sub-branch.

- (9) Heilongjiang Huachuan Rongxing was established on 27 January 2011. Its registered address is Yuelai Town, Huachuan County, Jiamusi, Heilongjiang Province. Its registered capital is RMB50 million. Our Bank and Huachuan Xinying City Construction Investment Co., Ltd. (樺川縣信贏城市建設投資有限公司) contributed 98% and 2% of its registered capital, respectively. Huachuan Xinying City Construction Investment Co., Ltd. is an independent third party of our Bank. The business scope of this Village and Township Bank includes businesses approved by the CBRC in accordance with applicable laws and regulations and those listed in the relevant approval documents.
- (10) Heilongjiang Baiquan Rongxing was established on 7 April 2011. Its registered address is Baiquan Town, Baiquan County, Heilongjiang Province. Its registered capital is RMB30 million. The business scope of this Village and Township Bank includes taking deposits from the public; extending short-term, medium-term and long-term loans; effecting domestic payment settlements; accepting and discounting instruments; engaging in interbank lending; engaging in bank card business; acting as the issuance agent, the cashing agent or the underwriter of government bonds; collecting and making payment as agent and acting as insurance agent; and engaging in other businesses approved by the banking regulatory authorities in the PRC.
- (11) Henan Yanshi Rongxing was established on 19 April 2011. Its registered address is Chengguan Town, Yanshi County, Henan Province. Its registered capital is RMB30 million. The business scope of this Village and Township Bank includes taking deposits from the public; extending short-term, medium-term and long-term loans; effecting domestic payment settlements; accepting and discounting instruments; engaging in interbank lending; engaging in bank card business; acting as the issuance agent, the cashing agent or the underwriter of government bonds; collecting and making payment as agent and acting as insurance agent; and engaging in other businesses approved by the banking regulatory authorities in the PRC.

This Village and Township Bank has one sub-branch, namely Henan Yanshi Rongxing Gaolong sub-branch.

- (12) Jiangxi Leping Rongxing was established on 25 April 2011. Its registered address is Leping County, Jiangxi Province. Its registered capital is RMB30 million. The business scope of this Village and Township Bank includes taking deposits from the public; extending short-term, medium-term and long-term loans; effecting domestic payment settlements; accepting and discounting instruments; engaging in interbank lending; engaging in bank card business; acting as the issuance agent, the cashing agent or the underwriter of government bonds; collecting and making payment as agent and acting as insurance agent; and engaging in other businesses approved by the banking regulatory authorities in the PRC.
- (13) Hunan Zhuzhou County Rongxing was established on 4 May 2011. Its registered address is Lukou Town, Zhuzhou County, Hunan Province. Its registered capital is RMB50 million. Our Bank, Zhuzhou Hongda Electronics Co., Ltd. (株洲宏達電子有限公司) and Zhuzhou Huachen Real Estate Development Co., Ltd. (株洲華晨房地產開發有限責任公司) contributed 80%, 10% and 10% of its registered capital, respectively. Zhuzhou Hongda Electronics Co., Ltd. and Zhuzhou Huachen Real Estate Development Co., Ltd. are independent third parties of our Bank. The business scope of this Village and Township Bank includes taking deposits from the public; extending short-term, medium-term and long-term loans; effecting domestic payment settlements; accepting and discounting instruments; engaging in interbank lending; engaging in bank card business; acting as the issuance agent, the cashing agent or the underwriter of government bonds; collecting and making payment as agent; and engaging in other businesses approved by the banking regulatory authorities in the PRC.

This Village and Township Bank has one sub-branch, namely Hunan Zhuzhou County Rongxing Litang sub-branch.

- (14) Jiangsu Rudong Rongxing was established on 9 May 2011. Its registered address is Rudong County, Jiangsu Province. Its registered capital is RMB100 million. Our Bank, Rudong Textile Rubber Co., Ltd. (如東紡織橡膠有限公司) and Nantong Xiangfeng Electronics Co., Ltd. (南通祥峰電子有限公司) contributed 80%, 10% and 10% of its registered capital, respectively. Rudong Textile Rubber Co., Ltd. and Nantong Xiangfeng Electronics Co., Ltd. are independent third parties of our Bank. The business scope of this Village and Township Bank includes taking deposits from the public; extending short-term, medium-term and long-term loans; effecting domestic payment settlements; accepting and discounting instruments; engaging in interbank lending; engaging in debit card business; acting as the issuance agent, the cashing agent or the underwriter of government bonds; collecting and making payment as agent and acting as insurance agent; and engaging in other businesses approved by the banking regulatory authorities. It is not subject to a general operating licensing requirement.
- (15) Hubei Honghu Rongxing was established on 16 May 2011. Its registered address is Honghu, Hubei Province. Its registered capital is RMB30 million. Its business scope includes taking deposits from the public; making short-term, medium-term and long-term loans; effecting domestic payment settlements; accepting and discounting instruments; engaging in interbank lending; engaging in bank card business; and acting as the issuance agent, the cashing agent or the underwriter of government bonds.

OUR HISTORY AND OPERATIONAL REFORM

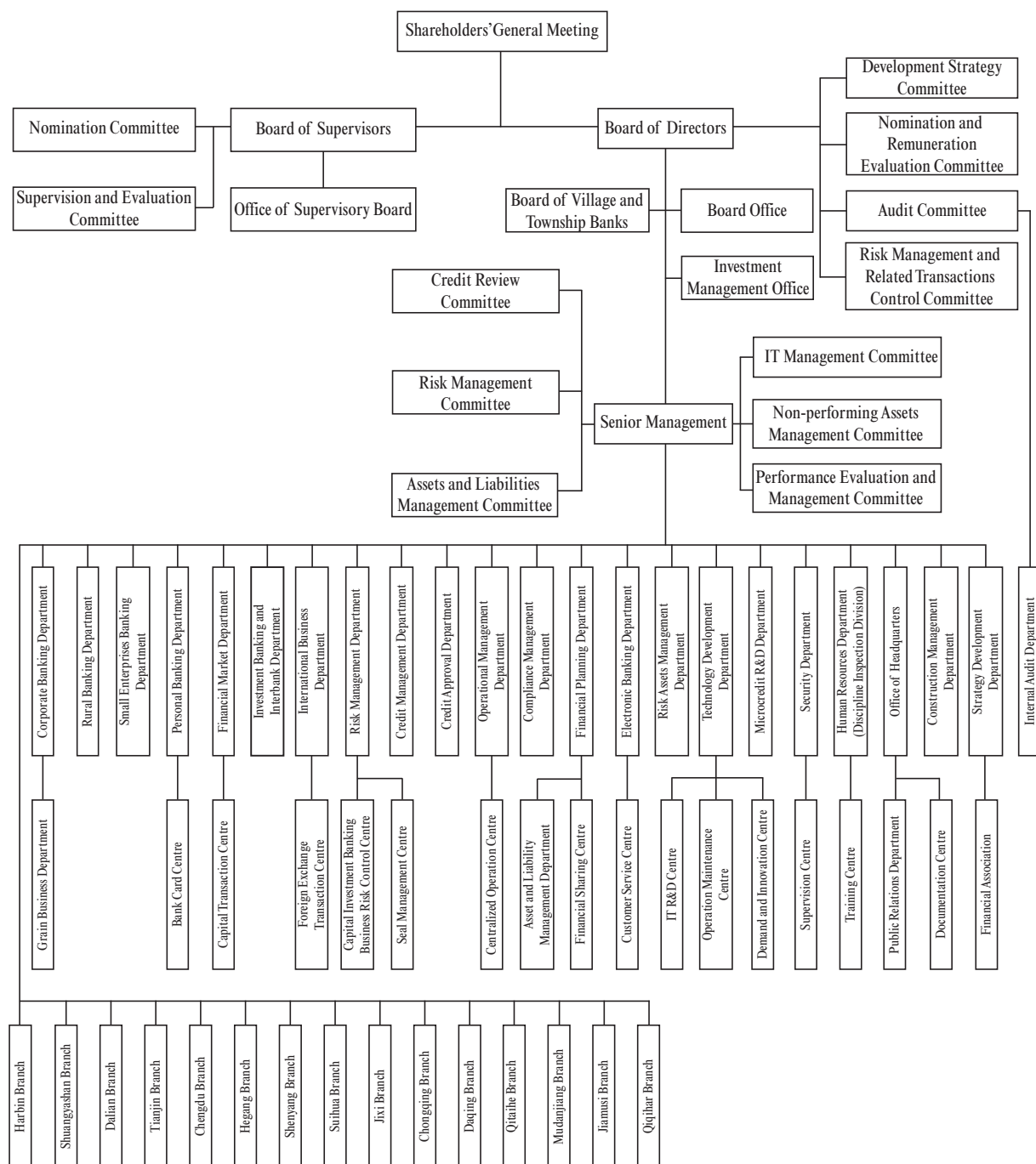
- (16) Chongqing Wulong Rongxing was established on 1 June 2011. Its registered address is Wulong County, Chongqing. Its registered capital is RMB50 million. Our Bank, Chongqing Wulong Water Co., Ltd. (重慶市武隆縣自來水有限責任公司), Chongqing Sanxing Industrial Company (重慶三興實業公司), Pengshui Shengda Hydropower Co., Ltd. (彭水縣盛達水電有限責任公司) and Chongqing Tianlu Concrete Co., Ltd. (重慶天祿混凝土有限公司) contributed 70%, 10%, 10%, 5% and 5% of its registered capital, respectively. Chongqing Wulong Water Co., Ltd., Chongqing Sanxing Industrial Company, Pengshui Shengda Hydropower Co., Ltd. and Chongqing Tianlu Concrete Co., Ltd. are all independent third parties of our Bank. The business scope of this Village and Township Bank includes taking deposits from the public; extending short-term, medium-term and long-term loans; effecting domestic payment settlements; accepting and discounting instruments; engaging in interbank lending; engaging in bank card business; acting as the issuance agent, the cashing agent or the underwriter of government bonds; collecting and making payment as agent and acting as insurance agent; and engaging in other businesses approved by the banking regulatory authorities in the PRC.
- This Village and Township Bank has one sub-branch, namely Chongqing Wulong Rongxing Longcheng sub-branch.
- (17) Henan Xin'an Rongxing was established on 8 June 2011. Its registered address is Xin'an County, Henan Province. Its registered capital is RMB30 million. The business scope of this Village and Township Bank includes taking deposits from the public; extending short-term, medium-term and long-term loans; effecting domestic payment settlements; accepting and discounting instruments; engaging in interbank lending; engaging in bank card business; acting as issuance agent, the cashing agent or the underwriter of government bonds; collecting and making payment as agent and acting as insurance agent; and engaging in other businesses approved by the banking regulatory authorities in the PRC.
- This Village and Township Bank has one sub-branch, namely Henan Xin'an Rongxing Luoxin sub-branch.
- (18) Hubei Yingcheng Rongxing was established on 16 June 2011. Its registered address is Yingcheng County, Hubei Province. Its registered capital is RMB30 million. The business scope of this Village and Township Bank includes taking deposits from the public; extending short-term, medium-term and long-term loans; effecting domestic payment settlements; accepting and discounting instruments; engaging in interbank lending; engaging in bank card business; acting as the issuance agent, the cashing agent or the underwriter of government bonds; collecting and making payment as agent and acting as insurance agent; and engaging in other businesses approved by the banking regulatory authorities in the PRC.
- This Village and Township Bank has one sub-branch, namely Hubei Yingcheng Rongxing Hanyi sub-branch.
- (19) Hunan Leiyang Rongxing was established on 20 June 2011. Its registered address is Leiyang County, Hunan Province. Its registered capital is RMB50 million. The business scope of this Village and Township Bank includes undertaking financial business subject to the scope permitted by its financial licence.
- (20) Jiangxi Anyi Rongxing was established on 20 June 2011. Its registered address is Anyi County, Jiangxi Province. Its registered capital is RMB30 million. The business scope of this Village and Township Bank includes taking deposits from the public; extending short-term, medium-term and long-term loans; effecting domestic payment settlements; accepting and discounting instruments; acting as the issuance agent, the cashing agent or the underwriter of government bonds; engaging in interbank lending; engaging in bank card business; collecting and making payment as agent and acting as insurance agent; and engaging in other businesses approved by the banking regulatory authorities in the PRC.
- (21) Hainan Baoting Rongxing was established on 6 July 2011. Its registered address is Baoting County, Hainan Province. Its registered capital is RMB30 million. Our Bank and HNA Property Holdings (Group) Co., Ltd. (海航置業控股 (集團) 有限公司) contributed 96.67% and 3.33% of its registered capital, respectively. HNA Property Holdings (Group) Co., Ltd. is an independent third party of our Bank. The business scope of this Village and Township Bank includes taking deposits from the public; extending short-term, medium-term and long-term loans; effecting domestic payment settlements; accepting and discounting instruments; engaging in interbank lending; engaging in bank card business; acting as the issuance agent, the cashing agent or the underwriter of government bonds; collecting and making payment as agent and acting as insurance agent; and engaging in other businesses approved by the banking regulatory authorities.
- (22) Chongqing Youyang Rongxing was established on 24 May 2012. Its registered address is Youyang County, Chongqing. Its registered capital is RMB60 million. The business scope of this Village and Township Bank includes undertaking financial business subject to the scope permitted by its financial licence.
- (23) Chongqing Shapingba Rongxing was established on 28 May 2012. Its registered address is Shapingba District, Chongqing. Its registered capital is RMB100 million. Our Bank, Chongqing Caizhi Business Management Co., Ltd. (重慶財智商業經營管理有限公司) and Chongqing Aksis Hospitality Investment & Management Co., Ltd. (重慶阿卡斯酒店投資管理有限公司) contributed 80%, 10% and 10% of its registered capital, respectively. Chongqing Caizhi Business Management Co., Ltd. and Chongqing Aksis Hospitality Investment & Management Co., Ltd. are independent third parties of our Bank. The business scope of this Village and Township Bank includes taking deposits from the public; extending short-term, medium-term and long-term loans; effecting domestic payment settlements; accepting and discounting instruments; engaging in interbank lending; engaging in debit card business; acting as the issuance agent, the cashing agent or the underwriter of government bonds; collecting and making payment as agent and acting as insurance agent; and engaging in other businesses approved by the banking regulatory authorities in the PRC.
- This Village and Township Bank has one sub-branch, namely Chongqing Shapingba Rongxing Huilongba sub-branch.
- (24) Hebei Hejian Ronghui was established on 25 June 2012. Its registered address is Hejian, Hebei Province. Its registered capital is RMB30 million. The business scope of this Village and Township Bank includes taking deposits from the public; extending short-term, medium-term and long-term loans; effecting domestic payment settlements; accepting and discounting instruments; engaging in interbank lending; engaging in bank card business (debit card); acting as the issuance agent, the cashing agent or the underwriter of government bonds; collecting and making payment as agent; and engaging in other businesses approved by the banking regulatory authorities in the PRC.
- This Village and Township Bank has one sub-branch, namely Hebei Hejian Ronghui Migezhuang sub-branch.

OUR HISTORY AND OPERATIONAL REFORM

ORGANISATIONAL STRUCTURE AND OPERATIONAL REFORM

The diagram below sets out the existing principal organisational and management structure of our Bank as of the Latest Practicable Date:

Organisation Chart of Harbin Bank



OUR HISTORY AND OPERATIONAL REFORM

GOVERNANCE STRUCTURE

We have set up a corporate governance structure, mainly comprising the shareholders' general meeting, the Board, the Board of Supervisors and the senior management.

The Board

The Board is the decision making body of our Bank. There are four special committees under the Board, including the Audit Committee, the Risk Management and Related Transactions Control Committee, the Nomination and Remuneration Evaluation Committee and the Development Strategy Committee. Each special committee reports to the Board.

There is also a Board of Village and Township Banks under the Board, which provides services and support to the Village and Township Banks promoted by our Bank.

The Board of Supervisors

The Board of Supervisors is responsible for supervising our compliance with laws and regulations, supervising the performance of the duties of the Board and the senior management as well as investigating and supervising the risk management and internal control risk of our Bank. Two special committees have been established under the Board of Supervisors, including the Nomination Committee and the Supervision and Evaluation Committee. Each special committee reports to the Board of Supervisors.

Senior Management

The senior management holds the highest executive authority of our Bank. The senior management has established various special committees, including the Risk Management Committee, the Credit Review Committee, the Assets and Liabilities Management Committee, the Non-performing Assets Management Committee, the IT Management Committee and the Performance Evaluation and Management Committee, so as to enhance the business management of our Bank. Our Bank has also appointed a chief risk officer, chief credit approval officer, chief financial officer and chief information officer. The Internal Audit Department of our Bank is independent from the departments being audited.

RISK MANAGEMENT AND INTERNAL CONTROL REFORM

We are devoted to the establishment of our risk management structure and system as well as to refining our internal control system, in each case, so as to enhance our risk control and our ability to prevent risks. A summary of the key reform measures in relation to our risk management and internal control taken since 2004 is set out below:

2004	We established a risk management department responsible for the overall risk management of our Bank.
2006	We established an operational risk supervision and management committee, adjusted the responsibilities of the risk management department to be responsible specifically for analysing, monitoring and reporting the various risks faced by our Bank. Our credit approval department was also established for approving credit, so as to achieve the separation of credit approving and granting.
2010	We reformed the mechanism of internal audit and established a vertical management model, which consisted of the Audit Committee of the Board composing of an Internal Audit Department and regional audit divisions.
2011	We appointed a chief risk officer who was responsible for the implementation of the risk management strategies of our Bank and the formulation of comprehensive risk management policies and systems.

OUR HISTORY AND OPERATIONAL REFORM

We commenced comprehensive risk management planning, including consultation projects for the establishment of an internal control system as well as the implementation of the Basel Accords, so as to assess the internal control system for identifying and managing the risks of our Bank, refine our risk management and internal control systems and formulate key risk management policies and systems.

2012 We established a compliance management department. A risk control centre for capital investment banking business and a seal management centre were also established under the risk management department. Mechanisms for risk-based credit granting and centralised credit approval were also set up.

Our loan migration model was developed and an integrated risk monitoring indicator system was set up.

2013 We introduced a centralised risk management and control model implemented Basel III and constructed an information system for internal control. A group of projects in relation to the Basel Accords were carried out based on our overall risk management planning.

IT MANAGEMENT AND OPERATION REFORM

The overall strategic target of our IT work is to “develop our business with the assistance of science and technology”. We continue to invest in technological advancements so as to support the growth of our businesses. Our Bank has established a sound technology management structure and procedures and has developed its research and development capabilities. A summary of the key measures in relation to our IT management and operational reform since 2008 is set out below:

2008 We engaged BearingPoint Inc., a management consulting firm, to formulate our IT strategic plan, setting the development direction of our three-year IT technology strategy.

We established two disaster recovery centres in Harbin and Shuangyashan for remote data backup and recovery to ensure business continuity in the event of disasters.

2010 We established an IT research and development centre in Beijing and set up a comprehensive IT research and development management system covering design, development and testing with reference to CMMI standards. We also completed various key technology projects.

2011 We cooperated with Deloitte Consulting (Shanghai) Co., Ltd. (“Deloitte (Shanghai)”) in the formulation of new technology strategic plans. An overall implementation blueprint was formed to facilitate our prompt response to market changes and to further enhance our technological capabilities. Our Bank established our IT Management Committee under the direct management of the president which comprises representatives from all business departments and the science and technology development department, for efficient decision-making and implementation.

We entered into a strategic cooperation agreement with Deloitte (Shanghai), whereby experts from Deloitte (Shanghai) were engaged to cooperate with our technical staff to establish an IT planning and implementation office to strengthen the formulation and implementation of our science and technology development strategies.

We commenced the construction project for a whole-process credit system, integrating the management of the pre-approval, loan extension and post-disbursement processes of our credit business. This resulted in the efficiency and risk management capabilities of our credit business being enhanced significantly.

We completed the construction of an applied-level disaster data recovery centre covering our branches in Harbin to ensure the continuous operation of major business systems.

OUR HISTORY AND OPERATIONAL REFORM

- 2012
- We established an organisational structure consisting of one department and three centres staffed with over 200 technicians. In this organisational structure, we have established a science and technology development department with a demand and innovation centre, an IT research and development centre as well as an operation maintenance centre.
- We commenced the construction of a bank-wide database and achieved bank-wide sharing of data, which strengthened our statistical analysis and business decision-making capabilities.
- Our Bank commenced the construction of a new generation online banking platform to further extend our electronic business channels and introduce e-banking business innovations.
- We commenced the construction of Enterprise Customer Information File (ECIF), a unified customer information management system, which strengthened bank-wide customer information sharing and centralised management of customer information. This system was formally launched in 2013.
- 2013
- Our Bank established an IT service management organisation and process system with reference to ISO20000 standards and ITIL best practices, which provides our businesses with high quality and efficient IT services and has enhanced the adaptability, stability and reliability of our operation maintenance management.
- Our Bank is currently preparing for the construction of a new data centre. It is planned that the security level of key areas of the new data centre will reach tier 4, which is the highest standard under the Uptime Tier Classification and TIA942 Telecommunication Infrastructure Standard for Data Centers promulgated by Telecommunications Industry Association.

OVERVIEW

Our headquarters is located in Harbin, Heilongjiang Province. We were the second largest commercial bank in Heilongjiang Province and the largest commercial bank in Harbin in terms of total assets as of 31 December 2012 and net profit for the year ended 31 December 2012. Our total assets were RMB270,090.2 million as of 31 December 2012, representing 11.5% of the total assets of all banking institutions in Heilongjiang Province. Our net profit was RMB2,871.5 million for the year ended 31 December 2012, representing approximately 11.2% of the net profit of all banking institutions in Heilongjiang Province for the same year, according to the record of the CBRC Heilongjiang Bureau.

In recent years, our Bank has experienced rapid growth in profits. Our net profit increased from RMB1,227.2 million for the year ended 31 December 2010 to RMB2,871.5 million for the year ended 31 December 2012, representing a CAGR of 53.0%. For the nine months ended 30 September 2013, our net profit was RMB2,371.3 million.

We were ranked 4th among the city commercial banks in the PRC according to the “2013 Research Report on Asian Bank Competitiveness Rankings” released by the 21st Century Business Herald, representing an advancement of five places as compared with 2012. The ranking is based on statistics of eight aspects relating to a bank’s capabilities to enhance capital value for its shareholders, such as return on capital, market share, asset quality and capital adequacy ratio¹. We were ranked 33rd in terms of total assets among the “Top 50 Banks in China” published by Standard & Poor’s in 2012. We were ranked 9th among the city commercial banks with assets scale of over RMB200 billion as published by The Banker, a PRC-based magazine in 2013. City commercial banks are ranked by a number of indicators of financial performance, including total assets, risk profile, capital structure, profitability and liquidity ratio. Our Bank was ranked 313th in the “Top 1000 World Banks 2013” recently announced by The Banker, a UK-based magazine, in terms of total tier 1 capital², representing an advancement of 85 places as compared with our ranking in the same list of the previous year. According to the list, 96 banks in the PRC ranked among the “Top 1000 Word Banks 2013”. Among these PRC banks on the list, we were ranked 27th, 7th among city commercial banks, and first among city commercial banks in Northeast China.

We adopted the operating philosophy of “Inclusive Finance, Harmonious Co-Enrichment”, and our core strategy is to become a “first-class domestic and internationally renowned microfinance bank”. We possess strong core competitiveness in the microcredit market. As of 31 December 2012 and 30 September 2013, the balance of our microcredit loans (including our loans to Small Enterprises, loans to Small Enterprise Owners, loans to farmers and personal consumption loans) amounted to RMB58,448.1 million and RMB72,527.0 million, respectively, representing 67.0% and 69.1%, respectively, of our total loans to customers.

We believe that our businesses, strong operating results and high-quality services have enabled us to become a market leader in various banking business segments:

- We were one of the first city commercial banks in the PRC to launch microcredit business, and the first commercial bank in the PRC to export microcredit know-how and technology to other banking institutions;
- We were the first city commercial bank in Northeast China to obtain an operating permit for foreign exchange business;

¹ A bank’s asset scale, liquidity and efficiency indicators, deposit structure and branch network are also taken into consideration.

² The banks are also assessed with other secondary indicators, namely, assets, capital asset ratio, pre-tax profits, profit on capital, return on assets, capital adequacy ratio, NPL to total loans, loans to assets, risk weighted assets to assets and cost to income.

BUSINESS

- We are one of the four market makers for Renminbi-Ruble tradings in the interbank foreign exchange market of the PRC, the domestic bank with the largest scale of Ruble cash exchange and also the pilot bank for various banking businesses with Russia;
- We were one of the first city commercial banks in Northeast China to launch investment banking and interbank business; and
- We are one of the three promoters of the Asia Financial Cooperation Association¹.

We have been focusing on providing microcredit services, differentiated financial services and various integrated financial service solutions. We believe that “Harbin Bank” has become one of the first-class microcredit financial service brands in the PRC. We have received a number of honours and awards for our strong business performance. In recent years, our major honours and awards include the following:

- In 2011, we were awarded the “Best SME Banking in China” (中國最佳中小企業銀行服務獎) award by The Asian Banker, being the only city commercial bank in the PRC to receive such award. We were also recognised as ‘the “Market Maker of Emerging Currency with the Greatest Improvement” (最大進步新興貨幣市場做市商) by the China Foreign Exchange Trade System and an outstanding debt valuation member by China Central Depository & Clearing Co. Ltd.;
- We received the award for “Leading Banking Institution Providing Services to Small and Micro Enterprises” (全國銀行業金融機構小微企業金融服務先進單位) by the CBRC for five consecutive times; and
- In 2012, we were honoured as the “Outstanding Investment Bank in China – Investment Bank with the Greatest Growth Potential” (中國區優秀投行—最具成長性投行) by Securities Times.

OUR STRENGTHS

We believe that our competitive strengths are as follows:

I. We believe we are one of the leading providers of microcredit in the PRC

We are one of the only two commercial banks in China to be awarded “Leading Banking Institution Providing Services to Small and Micro Enterprises” (全國銀行業金融機構小微企業金融服務先進單位) by the CBRC for five consecutive times. Furthermore, we are the first PRC commercial bank to export microcredit know-how and technology to other banking institutions which is a testament to our advanced microcredit know-how and technology. On these bases and also on the basis of the following factors, we believe we are one of the leading providers of microcredit in the PRC.

We were a pioneer of, and have strategically focused on, developing microcredit business in China. In 2004, on the basis of our comprehensive understanding of the market positioning and operating characteristics of city commercial banks in China, we analysed the development trends of SMEs in the PRC. Leveraging on the PRC government’s ongoing support to the development of SMEs at a policy

¹ Asia Financial Cooperation Association is a regional financial cooperation organisation formed by certain small and medium-sized banks and non-banking financial institutions in Asia on 24 April 2012 in Sanya, Hainan. The association strives to provide a cooperation platform for its members, facilitate compliance management of its members and assist its members to overcome development delays, thus contributing to the development of the economy and the financial sector.

level, we developed a strategy focusing on the development of our microcredit business. We set the goal of our strategic development to become a “first-class domestic and internationally renowned microfinance bank” and adopted the idea of “Inclusive Finance, Harmonious Co-Enrichment” as our growth philosophy. We launched microcredit products, including loans to Small Enterprises, loans to Small Enterprise Owners, loans to farmers and personal consumption loans and have achieved positive results.

Our microcredit business has grown rapidly and we have achieved high loan yields. From 2010 to 2012, the total balance of our microcredit loans grew at a CAGR of 33.6%. The balance of our microcredit loans, as a proportion to total loans and advances to customers, consistently accounted for over 60% over the same period. Interest income from microcredit loans accounted for over 63% of our total interest income for each of the years ended 31 December 2010, 2011 and 2012. As of 30 September 2013, the total balance of our microcredit loans reached RMB72,527.0 million, representing 69.1% of our total loans and advances to customers. The number of customers of our microcredit business as of 30 September 2013 increased to more than 480,000, representing 99.0% of the total customers of our loan business. In addition, the loans of our microcredit business consistently maintained relatively high loan yields during the Track Record Period. For the years ended 31 December 2010, 2011 and 2012 and the nine months ended 30 September 2013, the average yields of the loans of our microcredit business were 7.05%, 7.82%, 8.54% and 7.80% (annualised), respectively. Benefiting from our strong pricing ability in the microcredit business, the average yields of our total loans for the years ended 31 December 2010, 2011 and 2012 and the nine months ended 30 September 2013, were 6.37%, 7.63%, 8.00% and 7.48%, respectively, and were higher than those of all Listed PRC Commercial Banks¹ in the same periods. While realising rapid development in the microcredit business, we have also focused on asset quality. As of 30 September 2013, the non-performing loan ratio of our microcredit loans was 1.14%.

We have a sophisticated management model for our microcredit business. We adopted a development model for our microcredit business that features “localisation plus internationalisation” and “specialisation and characterisation”. Our credit business for Small Enterprise Customers is jointly run by marketing managers, risk managers and product managers, while a vertical management model is adopted for our loans to farmers. In addition, we established a microcredit research and development centre and developed a microcredit IT system with proprietary intellectual property rights with a comprehensive set of risk management measures. We have successfully introduced our microcredit know-how and technology to many regions in the PRC, which we believe will help us to attain a leading position in the microcredit industry in the PRC. As of 30 September 2013, the total balance of our microcredit loans of our branch outlets outside Heilongjiang Province accounted for 39.49% of the total balance of our microcredit loans.

We were the first commercial bank in the PRC to export microcredit know-how and technology to other banking institutions in China. As a testament to our advanced microcredit know-how and technology, we were the first commercial bank in the PRC to export microcredit know-how and technology to other banking institutions, including rural credit cooperatives, city commercial banks and rural commercial banks in China. As of 30 September 2013, we had entered into 22 contracts for the exportation of microcredit know-how and technology, 10 of which have been completed. Our exportation of microcredit know-how and technology was presented by the CBRC with the award for “Achievement Exhibition of Small Enterprise Financial Services of the PRC Banking Industry (中國銀行業小企業金融服務成就展)” in 2013.

¹ Listed PRC Commercial Banks: the 19 PRC commercial banks listed in A-share and H-share capital market as of the Latest Practicable Date, consisting of the Five Large Commercial Banks, China Merchants Bank, China CITC Bank, China Minsheng Bank, Hua Xia Bank, Industrial Bank, Ping An Bank, Shanghai Pudong Development Bank, China Everbright Bank and the 6 Listed PRC City Commercial Banks and Rural Commercial Banks.

We are committed to developing a localised microcredit financial services team with international standards. As of 30 September 2013, we had more than 1,000 employees dedicated to microcredit business, of which 29 were microcredit know-how and technology exportation professionals and 10 were microcredit business professionals with international experience. We have approximately 340 employees dedicated to loans to Small Enterprises and loans to Small Enterprise Owners, including approximately 200 marketing managers, approximately 130 risk managers and approximately 10 product managers. We have approximately 460 employees dedicated to loans to farmers, including approximately 350 marketing managers and approximately 110 risk managers. We have approximately 280 employees dedicated to personal consumption loans, including approximately 200 marketing managers, approximately 60 risk managers and approximately 20 product managers. Two of our employees have been awarded the “Person of the Year in China Microfinance Industry” (中國小額信貸年度人物), three have won the title of “Leading Individuals in Serving SME in China” (全國服務中小企業發展先進個人) and three have won the First Prize of Urban Loan Officer of the “China Banking Association (Citigroup) Micro-entrepreneurship Award” (中國銀行業協會（花旗集團）微型創業獎城市信貸員).

Our “Just-for-you” (乾道嘉) microcredit business brand is highly recognised in domestic and overseas markets. In 2013, a series of microcredit products under our brand of “Just-for-you” (乾道嘉) was recognised as “Best Microfinance Product in China in 2013” (2013 年度中國最佳小額信貸產品) by The Asian Banker. As a result of our outstanding performance in the microcredit industry in China, we have been honoured as a “Leading Banking Institution Providing Services to Small and Micro Enterprises in China” (全國銀行業金融機構小微企業金融服務先進單位) for five consecutive times by the CBRC, one of only two commercial banks in China to receive this award for five consecutive times. In addition, we were also awarded the “Best SME Banking Services in China” (中國最佳中小企業銀行服務) by The Asian Banker in 2011 and were the only city commercial bank in China to receive this honour in that year.

We have commenced business dialogue with leading international microfinance organisations, such as PlaNet Finance in France, ACCION International in the United States, Grameen Bank in Bangladesh and ICICI Bank in India, entered into strategic cooperation agreements with institutions such as the IFC to explore business innovation in various areas, and entered into an agreement with the United Nations Development Programme (“UNDP”) for cooperation in microcredit projects. We have also co-founded the Asia Financial Cooperation Association. In 2010, our “Just-for-you” (乾道嘉) microcredit business brand was listed in the Microfinance Information Exchange in the United States.

We have been a top city commercial bank with microcredit business as our core competitive strength. From 2010 to 2012, the CAGR of our total assets was 46.5%, and the CAGRs of total loans and deposits were 27.1% and 28.6%, respectively. The net profit attributable to our shareholders grew faster with a CAGR of 52.7% over the same period, which was higher than that of all Listed PRC City and Rural Commercial Banks.¹

II. We have comparative advantages among city commercial banks in terms of our cross-regional operating network

We were one of the first city commercial banks that received approval to establish and operate a cross-regional operating network outside home province. We are also one of the city commercial banks with the broadest regional coverage and the most comprehensive branch network outside home provinces. As of 31 January 2014, we had a total of 304 branch outlets consisting of 15 branches, 245 sub-branches,

¹ Listed PRC City and Rural Commercial Banks: Chongqing Rural Commercial Bank and the five PRC city commercial Banks listed in A-share or H-share capital market as of the Latest Practicable Date, consisting of Bank of Beijing, Bank of Nanjing, Bank of Ningbo, Bank of Chongqing and Huishang Bank.

24 Village and Township Banks and their 20 sub-branches under them in the PRC. Through our cross-regional network, we believe we are well positioned to capitalise on the rapid growth of the major economic regions in the PRC.

Our headquarters is in Heilongjiang Province, the geographic centre of Northeast Asia. Apart from our ten branches in the Heilongjiang Province, we have also established five branches in the economically developed cities in China such as Tianjin, Dalian, Shenyang, Chongqing and Chengdu. Furthermore, we have indirectly entered the Pearl River Delta region through an equity investment in Guangdong Huaxing Bank Co., Ltd. to extend our operating network. As of 30 September 2013, the total deposits and loans of our branch outlets outside Heilongjiang Province accounted for 38.2% and 48.0%, respectively, of our total deposits and loans. For the nine months ended 30 September 2013, these branch outlets realised profit before provision of RMB1,297.8 million in aggregate, representing 36.6% of our total profit before provision and have been an important part of our business development.

We operate 24 Village and Township Banks in 14 provinces and municipalities directly under the State Council, which made us one of the city commercial banks with the largest number of Village and Township Bank subsidiaries in the PRC as of 31 December 2012. In order to achieve standardised operational management and strategy between the Bank and our Village and Township Banks, we have established a specialised unit within the Bank that governs and controls the operations of each Village and Township Bank. As a result, all Village and Township Banks have adopted the Bank's advanced microcredit know-how and technology and business model. Most of our Village and Township Banks have now become profitable. For instance, Huining Huishi Village and Township Bank in Huining, Gansu Province, a county relying on financial support from the central government, realised over RMB15.68 million accumulated net profits since its establishment in 2009 until the end of 2012.

Our cross-regional network provides us with a low-cost funding base and plays an important role in the growth of our business and financial results. As of 31 December 2012, the proportion of demand deposits to total deposits of our Bank was 52.0%, higher than the average level of the Listed PRC City and Rural Commercial Banks. For the year ended 31 December 2012, the average interest rate of deposits was 2.0%, lower than the average level of the Listed PRC City and Rural Commercial Banks.

We believe that with the continued growth of the PRC economy, we will be able to capitalise upon our experience and advantages in serving small and micro enterprises and in rural finance based on our existing cross-regional network and market positioning of serving small and micro enterprises and rural customers to promote future development.

III. We are a pioneer among PRC city commercial banks in launching rural financial services

We were the first city commercial bank to launch rural financial services. In 2005, while other city commercial banks were not focused on rural financial services, we successfully anticipated the trends of national policies and launched our rural financial business, which further enhanced our development potential. Based on our deep understanding of the agricultural industry and the rural financial markets in the PRC, we have developed an advanced rural financial services business model to capitalise on the growth of rural banking.

Our Bank has established an extensive network for rural financial services, comprising 40 rural financial service centres and 24 Village and Township Banks. We also cooperated with the IFC to introduce mobile banking as a new electronic service channel for rural financial services. Over 700 “Just-for-you” (乾道嘉) e-outlets were established under our marketing strategy in Heilongjiang Province, and we intend to promote this business model nationwide and expand into the extensive rural market.

As of 30 September 2013, we offered our rural banking services in 14 provinces and directly controlled municipalities, 70 counties, 67 farms and over 7,300 villages in China, with over 1.4 million customers. We currently employ approximately 460 professionals with significant experience in rural financial services. As such we believe that we are able to target customers with low default rates and maintain our pricing power in this segment. During the Track Record Period, we priced our loans to farmers on average of at least 1.4 times the relevant benchmark rate. For the nine months ended 30 September 2013, the average annualised yield on loans to farmers was 9.27%, which was the highest yield among all of our loan products.

According to the NBSC, Heilongjiang Province ranked first in China in terms of grain output in 2012. The people's government of Heilongjiang Province promulgated favourable regulations to support agricultural business. In particular, the development of two major plains in Heilongjiang Province has become a national strategic development project. Capitalising on the advantages of Heilongjiang Province in the traditional agricultural sector, our Bank has implemented the strategy of "extensive rural financial services" to diversify our rural financial services centred around the agricultural industrial chain and urbanisation. We believe that our strategy of innovating and improving rural services and financial systems in Heilongjiang Province, together with our wide coverage in rural areas and large customer base, will further contribute to our competitiveness as compared to other city commercial banks in the PRC.

IV. We are the leading PRC city commercial bank in Russian financial services

We are the first city commercial bank in the PRC to launch Russian Ruble banking services. We are also a participant of the Financial Cooperation Sub-committee of the Regular Sino-Russian Premier-level Meeting Committee (中俄總理定期會晤委員會金融合作分委會). We have developed our core competitiveness in Russian banking businesses as a result of exploration and innovation in the development of our business network, operating systems, featured products, talent pool and cross-border e-commerce services. We had entered into agency agreements with 107 Russian banks as of the Latest Practicable Date. Out of more than 40 commercial banks in the far-east region of Russia, we have established agency relationships with 20 banks. As of 31 December 2012, half of the top ten enterprises in Heilongjiang Province that had import or export transactions with Russia in 2012 had business relationships with our Bank and settled certain of their transactions through our Bank.

We are a pioneer in Ruble business and extended the first cross-border RMB-denominated loan to Russia in the PRC. We were also the first domestic bank to offer direct Ruble-Renminbi exchange rates. We are a major service provider in the PRC in terms of Ruble currency and cash exchange. In November 2010, we received approval from the PBOC to act as one of the four market makers for Renminbi-Ruble tradings in the interbank foreign exchange market of the PRC. We are also the only market maker for minor currencies trading among city commercial banks in the PRC. For the years ended 31 December 2010, 2011 and 2012 and the nine months ended 30 September 2013, the aggregate volume of our onshore market-making transactions for Renminbi-Ruble tradings were RUB22.4 million, RUB2,541.1 million, RUB6,557.1 million and RUB3,461.4 million, respectively. We are also a pilot bank for Ruble cash exchange, Ruble cross-border trading and purchase and sales of RMB from and to Russian banks. For the years ended 31 December 2010, 2011 and 2012 and the nine months ended 30 September 2013, our total Ruble cash exchange volume was RUB130.9 million, RUB113.3 million, RUB1,015.1 million and RUB4,170.6 million, respectively. As of 30 September 2013, our Ruble cash exchange represented more than half of the total Ruble cash exchange volume of financial institutions in the PRC. We handled cross-border transportation of Ruble cash amounting to RUB555.0 million between our commencement of such business in February 2012 to 30 September 2013. For the nine months ended

30 September 2013, the total income generated from our Russian financial services amounted to RMB91.0 million, consisting of interest income of RMB78.0 million and fee and commission income of RMB13.0 million.

The CAGR of the total Sino-Russian import and export volume amounted to 17.18% between 2010 and 2013. According to the relevant joint declaration entered into by the PRC and Russia in 2013, the target trade volume between the PRC and Russia is US\$100 billion by 2015 and US\$200 billion by 2020 so as to facilitate the diversification of the trade structure. The trade volume between the PRC and Russia is expected to continue to increase along with the deepening of the comprehensive strategic cooperative partnership between the PRC and Russia. We believe that with the development and opening up of Heilongjiang Province and the Eastern border of Inner Mongolia, along with the implementation of development strategies of Eastern Russia, Harbin will develop into a regional financial centre encompassing Russia and Northeast Asia. We will continue to implement and benefit from our strategies in relation to Russian banking businesses and maintain our status as the leading domestic bank in conducting Russian-related financial services.

V. We have a prudent and improving risk management and internal control system

Our Bank has adopted a conservative approach to risks and continues to improve our comprehensive risk management system. We have established a professional and vertically centralised risk control and management structure in each of our front office, middle office and back office functions. We have established a coordinated, effective “three-layer defence” risk prevention and control system with duties and responsibilities being clearly defined. We have recently worked on the construction of various risk governance structures, policy systems, procedures and methods. Our risk control measures and tools have been improved to match our risk profile, which has further enhanced the integrity, synergy and effectiveness of our risk management.

We are improving our comprehensive risk management system with reference to the requirements of the Basel III Accords. We have improved our capabilities to identify, measure, monitor and control various risks facing us in our overall risk management, by formulating bank-wide unified risk management policies and utilising tools such as economic capital, risk limit, risk pricing, internal fund transfer pricing, stress tests, risk control and self-assessment, data loss prevention and key risk indicators. During economic downturns, we implemented risk limit management in major sectors such as local government financing vehicles, real estate and industries with excess production capacity, strictly complied with the guidance of national industrial development policy, satisfied the financing needs of the real economy and SMEs, and optimised the structure of our credit assets. In addition, we have further improved the technology and method of risk management and implemented an internal ratings-based approach. Scorecards for applicants for loans to Small Enterprise Customers and behavioural scorecards are used in daily risk management. Optimisation of credit-rating models for corporate and personal banking customers is in progress.

We have further improved our risk management mechanism by establishing a risk-based performance assessment system to encourage the implementation of risk control by each operating unit. We have further implemented and improved our use of the six mechanisms of credit risk management, including pre-approval investigation, credit review and approval, credit disbursement, post-disbursement management, risk alert and non-performing asset management based on the various characteristics of regional risks and customer risks. Further, we have streamlined our risk management procedures for risk policy, limit management, warning and supervision, and performance assessment. In respect of our strategic microcredit business, we have established a standard and comprehensive quality management

and internal control system. We allocate human resources according to the business models of different microcredit businesses to improve the level of microcredit management and enhance risk identification and control capabilities of various businesses.

We have been optimising our internal control system. We have taken into account major areas of internal control for each business system by streamlining our bank-wide rules and business procedures. As a result, our internal controls are being transformed from a manual process to an automated process. Our automation control rate has been enhanced to prevent operational risk and staff fraud risk more effectively. In addition, we launched an off-site audit system to timely detect, inspect and address off-site pre-warning information. On-site inspection has also been improved. We established an effective and coordinated joint inspection mechanism and a rectification follow-up mechanism to facilitate synergies among the three lines of defence, namely, business departments, compliance management and internal audit. These mechanisms focus on the integration of on-site and off-site monitoring and the combination of inspection and prevention, so as to prevent and resolve potential risks. In addition, the risk compliance awareness of all staff has been enhanced.

In order to strengthen our risk management and internal control capabilities, we engaged Deloitte (Shanghai) in 2011 to provide consultation services for our comprehensive risk management planning and internal control system construction. In addition, we commenced implementing the Basel III Accords and adopting related improvements to our internal control system in 2012.

We believe that our consistent and sound asset quality is attributable to our risk management efforts. As of 31 December 2010, 2011 and 2012 and 30 September 2013, our non-performing loan ratio was 0.79%, 0.62%, 0.64% and 0.86%, respectively, while the provision coverage ratio was 192.60%, 347.16%, 353.52% and 263.01%, respectively.

VI. We have an experienced and dedicated management team and a competent staff base

Our management team have made significant achievements in the financial industry by leveraging their experience, insights and commitment to improvement. Mr. GUO Zhiwen, the Chairman of the Board of our Bank, has over 19 years of experience in the financial industry and has served our Bank for over 16 years. Mr. GUO was nominated for the “Leader of the Year Award” of the global microfinance industry (全球微型金融領軍人物提名獎) and has extensive experience in the financial industry. Ms. GAO Shuzhen, the president of our Bank, has over 25 years of experience in the financial industry and has served our Bank for over 13 years. She was awarded the “Person of the Year in China Microfinance Industry” (中國小額信貸年度人物獎) and has extensive experience in banking management. Our senior management team has over 19 years of experience in the financial industry on average, and has remained relatively stable with nine members of our senior management team having served our Bank for more than 13 years on average. All members of our management team are familiar with the operation and management of the banking business and have a thorough understanding of the macro-economic environment and the banking industry in China, especially the development of microfinance business, based on their experience in our Bank and other PRC financial institutions. Under the leadership of our senior management team, the operating capacities and financial performance of our Bank have improved significantly.

In addition, we have cultivated a team of quality staff by leveraging our advanced human resource management concept, efficient recruitment system, competitive remuneration system, up-to-date training system and sound performance appraisal system. As of 30 September 2013, the average age of our employees was 31 years and over 80% of them had obtained a bachelor’s degree or above.

OUR STRATEGIES

Our goal is to become a “first-class domestic and internationally renowned microfinance bank”. We will continue to apply the development philosophy of “Inclusive Finance, Harmonious Co-Enrichment”. We strive to further enhance our leading position in microcredit business and improve our general competitiveness with the aim of establishing our Bank as a city commercial bank with “sound corporate governance, clear positioning, distinctive features, a strong capital base, an excellent team and an advanced corporate culture”.

We plan to achieve these goals by adopting the following strategic measures:

Maintain and further enhance our competitive edge in the microcredit industry

We intend to further develop our microcredit business to maintain and enhance our competitive advantages and improve our influence on microcredit business in the international arena.

We plan to regularly review and refine our core microcredit technologies, further enhance our research in microcredit technologies and improve our microcredit know-how and technology system, to continue to tailor our microcredit know-how and technology systems and management model to the economic conditions in China. We are also devoted to building our Bank as repository of talent and technologies related to microcredit business so as to contribute to the development of inclusive finance in China by further promoting the exportation of our microcredit know-how and technology to other institutions in the banking industry in China.

We will seek to further enhance our market position in the microcredit market in Harbin and other regions in the Heilongjiang Province, while strategically focusing on developed areas, including the Bohai Rim economic region, the Pearl River Delta region and the economic centres in Western China, to expand our base of Small Enterprise Customers.

We plan to continue applying our centralised management model for credit business for personal consumption as well as refining our tiered customer classification, cross-selling marketing and joint marketing system, to improve the loyalty and overall contribution of our customers. We will also strive to develop premium mid-end individual customers and high-net-worth individuals.

We intend to continue to strengthen the branding power of the “Just-for-you” (乾道嘉) brand for our microcredit products, maintain and improve the development and innovation of our microcredit products and continue to enrich the product system of our business.

We will further develop and expand our Small Enterprise Customer base, while prioritising the support to Small Enterprise Customers from urban commercial districts, strategic emerging industries, emerging culture and the internet industries and other industries closely related to people’s livelihood in accordance with the 12th Five-Year Plan of the PRC. In addition, we intend to establish a Small Enterprise Customers union, to promote the transformation of our microcredit business into a microfinance business that provides more comprehensive financial services to customers.

We intend to further expand the electronic service channels of our microcredit business and establish a competitive e-business model for small and micro financing in the PRC SME financial services community.

Achieve comprehensive development of rural financial services

The nationwide development of modern agriculture and urbanisation has facilitated the expansion of our rural financial services. We have adopted the marketing strategy of “Extensive Rural Financial Services”, and plan to accelerate the adjustment of our organisation structure and actively promote product and service innovation to further improve the market competitiveness and awareness of our rural financial services. Furthermore, we intend to adjust the management structure and business lines of our rural financial services. We expect to restructure all of our agriculture-related businesses and unify them under our rural financial services management. The integration of our relevant corporate banking business, products for Small Enterprise Customers in agriculture-related industries and relevant customer resources will be carried out to provide diversified financial services for supporting the development of new rural areas.

We intend to capitalise on the opportunities arising from the nationwide development of modern agriculture and urbanisation. In particular, we plan to explore business opportunities arising from the production, processing, sales and logistics market of agricultural products and production materials along the industry chain of rural financial business; consider the capital needs from both rural infrastructure construction and urbanisation; accelerate and promote product and service innovation; and expand our emerging customer base consisting of farmers’ cooperatives, family farms and family ranches by taking advantage of our existing connections and geographical coverage.

We intend to improve the establishment of rural financing channels. By focusing on the establishment of both physical outlets and electronic channels, we intend to establish a three-level channel network covering counties, towns and villages. The county-level networks are expected to be primarily composed of physical integrated outlets. Simplified physical outlet networks will be established at township level, consisting of ATMs and lower-cabinet businesses, while e-outlets for rural customers and mobile banking platforms will be employed at village level. We believe that a service channel network built on this basis will enable us to meet the demand for the development of rural financial institutions and facilitate the payment and settlement by customers of rural financial services.

Accelerate the development of international financial business for small enterprises and micro enterprises and cross-border Russian financial services

We intend to further improve our international financial services for small enterprises and micro enterprises and enhance our core competitiveness in our cross-border financial business with Russia, to accelerate the development of our international business.

We plan to continue targeting export-oriented small enterprises and micro enterprises as the main customers of our international business, while developing large enterprise customers based on our capabilities. We intend to actively develop domestic and overseas customers for our cross-border financial business with Russia. We will focus on established markets outside Heilongjiang Province as our primary markets, and cities within Heilongjiang Province with established branches that are rich in resources and sub-branches in border cities as our secondary markets. We expect to further develop interbanking and offshore financial services provided to Russian financial institutions and corporate customers. We intend to expand our offshore financing and cross-border RMB business in Hong Kong.

We will improve interbank financial products and trade financing products to Russian counterparties, exploit and develop foreign exchange derivative products and foreign exchange wealth management products, gradually strengthen our international financial products and services, and establish a competitive product portfolio for small enterprises and micro enterprises and cross-boarder financial services to Russia.

We intend to adopt a broad expansion strategy to accelerate the development of our financial services to Russia. Specifically, we plan to expand our international business and launch cross-border financial services in all branches and border sub-branches to achieve overseas market expansion. We intend to develop a series of new international financial products and services. We also plan to expand our customer base to cover Chinese merchants conducting business in Russia, Russian merchants conducting procurement business in China, domestic companies that engage in trading with Russia and overseas Chinese companies. As part of this strategy we intend to establish a specific business department in our headquarters at an appropriate time to concentrate resources on developing our international business customer base. We also intend to focus on establishing and enhancing cooperation with relevant government authorities of the PRC, establish strategic alliance with policy financial institutions and small and medium sized commercial banks.

Strategically expand our operating regions and further improve our multi-channel distribution network

We intend to strategically expand our operating regions to enlarge our customer base and achieve growth in our profits. In particular, we plan to selectively expand our operating network in regions where we already have a presence, and leverage on our being a cross-regional bank. Subject to applicable laws and regulations, we will seek to expand our business into other regions in China where we do not yet have branches.

We are committed to optimising our multi-channel distribution network by further expanding our sub-branch network and enhancing the establishment of distribution channels on the basis of our existing network. The role of information technology will be emphasised in the establishment of distribution channels, as we expect the proportion of business conducted via electronic distribution channels to increase. We intend to increase the number of our sub-branches in developed regions and improve the layout of our distribution network in county areas. We intend to install and apply self-service equipment and simplified outlet models in those regions lacking financial services. We plan to enhance the establishment of our electronic distribution channels to achieve higher efficiency in distribution via electronic channels and wider customer coverage. We also intend to actively explore the online financial market in the future.

Further enhance our corporate governance, risk management and internal controls

Our Bank intends to further enhance our corporate governance structure. We plan to enhance the management capabilities of our headquarters and operating capabilities of our branches and sub-branches to facilitate our transformation from a “department-based bank” to a “process-based bank”. By enhancing our corporate governance, we plan to further improve our capital management capabilities, develop a multi-level capital replenishment mechanism, and prepare strategic capital reserves buffers and capital adequacy ratio buffers necessary for satisfying the capital demand of future development.

We intend to further improve our overall risk management system and internal controls. In particular, we plan to enhance the management of our credit asset quality; promote the transformation of the recovery mode of non-performing loans; improve the management mechanism of non-performing loans; and reinforce the guidance on credit asset quality management. We intend to enhance risk management on a consolidated basis, unify risk control policies and standards, and strictly prevent and control the risks relating to financing investment banking and wealth management business. We plan to further improve our market risk limit system and integrate the transformation of our front, middle and back offices in the fund transfer system. We intend to adopt stringent risk-based credit access standards and allocate resources to enhance stop-loss management and profitability of risk-covered transactions. In

accordance with the requirements on internal control compliance and the application of the Basel Accords projects, we intend to improve the deployment of risk management positions and personnel for each business line. We intend to reinforce the second line of defence of our compliance department and risk control department of each branch, continue our investment in the establishment of corporate governance structures and personnel training.

Rely on information technology to drive business development and management

We aim to develop our business with the assistance of technology and to cultivate our core competitiveness in terms of our information technology systems in order to provide comprehensive IT support to strengthen our leading position in the microcredit business.

We set up a designated IT strategy planning and implementation office to ensure the implementation and enforcement of our IT strategies and schemes. We also commenced the construction of a new version of data platform, the whole-process credit system, the ECIF system, the enterprise master service project, a new version of online banking platform and other projects so as to extend department-level projects to bank-wide projects.

Our IT governance strategies include: (1) establishing a multi-tiered and specialised team to prepare for technology development in the next five to ten years and to ensure the successful implementation of our IT development plans; (2) adopting a flexible recruitment strategy to attract external IT talents with high calibre to join our IT team and further optimising the structure of our IT team to enhance our research and development capabilities in respect of IT systems; and (3) promoting the establishment of our IT R&D centre, which has independent research and development capabilities so as to achieve self-reliant IT research and development relating to major business lines of our Bank. We intend to establish an operating maintenance centre solely operated by our Bank to ensure the stable operation of our various IT systems, including business systems of our 15 branches and 24 Village and Township Banks.

We strive to develop our electronic banking business as well as integrate and improve channels of our electronic banking business to realise comprehensive transformation of our electronic banking business. We aim to expedite the establishment and optimisation of our basic system platforms and the development and application of channels relating to our electronic banking business. We intend to expand the coverage of our electronic banking business to facilitate growth in the number of our customers using our electronic banking business and to provide business expansion. In addition, our Bank has accelerated the research, development and application of new technologies. We endeavour to transform technology innovations into business innovations to promote the development of our electronic banking business.

Continue to implement our “talent-oriented” strategy

We believe that the key to success lies in our ability to recruit, retain, incentivise and cultivate capable and experienced professional staff. We aim to attract, retain, incentivise and cultivate talents in all fields, and strengthen the management of the talent pool for managerial positions and positions that require technical skills. We intend to further enhance the allocation of human resources, gradually increase the proportion of staff for our microcredit business, sales positions and core managerial positions, as well as the proportion of professional talents, to form an even stronger staff base within our Bank. We plan to implement diversified and differentiated remuneration strategies and combinations to create a wide range of incentive packages for our staff. We intend to introduce innovative staff training to improve staff quality and create staff development systems for various career paths. We intend to establish performance assessment modes in line with market standards, placing emphasis on evaluation of contribution from our staff so as to enhance their level of contributions to our business.

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OUR PRINCIPAL BUSINESS ACTIVITIES

Our principal businesses include corporate banking business, personal banking business, treasury operations and other businesses. The table below sets forth our operating income by business segments and the percentage of our total operating income in the periods indicated:

	For the year ended 31 December						For the nine months ended 30 September			
	2010		2011		2012		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(Unaudited)									
	(in millions of RMB, except percentages)									
Corporate banking business	1,502.5	46.3	2,000.2	36.9	2,585.6	33.5	1,722.4	31.4	2,034.7	34.3
Personal banking business	1,309.0	40.3	1,947.6	36.0	2,228.7	28.9	1,808.8	33.0	1,761.4	29.7
Treasury operations	377.4	11.6	1,425.6	26.3	2,808.6	36.4	1,907.1	34.8	2,111.8	35.7
Other businesses ⁽¹⁾	56.5	1.8	40.6	0.8	88.4	1.2	40.7	0.8	15.7	0.3
Total operating income	3,245.4	100.0	5,414.0	100.0	7,711.3	100.0	5,479.0	100.0	5,923.6	100.0

Note:

- (1) Other businesses comprise businesses that cannot be identified as an independent segment or to a reasonable extent not considered part of our corporate banking business, personal banking business and treasury operations. Income generated from other businesses mainly includes government subsidies, leasing income, technology consultation fees and gains from disposals of fixed assets.

Corporate Banking Business

Corporate banking business (including international corporate banking business) is our main source of income. For the years ended 31 December 2010, 2011 and 2012 and the nine months ended 30 September 2013, income from our corporate banking business accounted for 46.3%, 36.9%, 33.5% and 34.3%, respectively, of our total operating income. Our corporate customers include state-owned enterprises, privately owned enterprises, foreign-invested enterprises and government institutions. We provide comprehensive corporate banking products and services, such as corporate loans, discounted bills, corporate deposits as well as fee- and commission-based corporate banking services for our corporate customers. As of 31 December 2010, 2011 and 2012 and 30 September 2013, corporate loans (excluding discounted bills) accounted for 43.4%, 52.0%, 58.6% and 58.7%, respectively, of our total loans and advances to customers, while corporate deposits accounted for 71.4%, 71.1%, 70.2% and 70.1%, respectively of our total due to customers. See “Assets and Liabilities”.

For details of our international corporate banking business, see “– International Business”.

Corporate Customer Base

We have built a strong customer base in Northeast China, especially in Heilongjiang Province. We seek to expand our corporate customer base in other regions in China and the number of our corporate customers from these regions is increasing. As of 30 September 2013, we had over 7,000 corporate customers, which had accounts with our Tianjin, Chengdu and Chongqing branches, with a CAGR of 39.7% from 2010 to 2012. As of 30 September 2013, we had over 57,000 corporate customers.

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In addition to medium and large enterprise customers we also have many Small Enterprise Customers, which include small and micro enterprises. As of 30 September 2013, we had over 4,500 Small Enterprises customers. We strive to consolidate and strengthen the dominant position of our credit services for Small Enterprises and have nurtured a group of loyal customers of corporate loans provided to Small Enterprises.

We prioritise cooperation with customers from industries with higher credit ratings and benefit from preferential governmental policies, to optimise the structure of our customer base and improve the quality of customers. As of 30 September 2013, loans to our corporate loan customers who were from industries such as the (i) wholesale and services, (ii) manufacturing, (iii) construction, (iv) rental and commercial services and (v) agriculture, forestry, husbandry and fishery sectors, accounted for 36.0%, 21.7%, 9.0%, 6.5% and 5.1%, respectively, of our total corporate loans. See “Assets and Liabilities – Assets – Loans and Advances to Customers – Corporate Loans – Distribution of Loans by Industry”.

Corporate Banking Products and Services

Corporate Loans

Corporate loans have historically been the largest component of our loan portfolio, substantially all of which are RMB-denominated loans. As of 31 December 2010, 2011 and 2012 and 30 September 2013, the total amount of our corporate loans (excluding discounted bills) was RMB 23,420.8 million, RMB35,601.1 million, RMB51,108.1 million and RMB61,639.4 million, respectively. The CAGR of our corporate loans from 2010 to 2012 was 47.7%. See “Assets and Liabilities – Assets – Loans and Advances to Customers – Corporate Loans”. In terms of loan maturity, our corporate loans comprise short-term loans and medium- and long-term loans. In terms of the types of customers, our corporate loans consist of loans to Small Enterprises and loans to other companies. The majority of our corporate loans were granted to corporate customers in Northeast China. As of 31 December 2010, 2011 and 2012 and 30 September 2013, the balance of our loans to corporate customers in Northeast China was RMB18,586.6 million, RMB26,534.2 million, RMB36,293.6 million and RMB35,436.6 million, respectively, accounting for 79.4%, 74.5%, 71.0% and 57.5%, respectively, of our total corporate loans as of those dates.

Distribution of Corporate Loans by Maturity

The following table sets out our corporate loans by loan maturity as of the dates indicated.

	As of 31 December						As of 30 September	
	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	17,285.9	73.8	27,324.3	76.8	39,524.7	77.3	47,891.6	77.7
Medium-and long-term loans	6,134.9	26.2	8,276.8	23.2	11,583.4	22.7	13,747.8	22.3
Total corporate loans	23,420.8	100.0	35,601.1	100.0	51,108.1	100.0	61,639.4	100.0

Short-term loans. Under the General Rules for Loans of the PBOC, short-term loans are loans with maturities of one year or less. Our loans are mainly short-term loans, including working capital loans, which are our main short-term loan products. As of 31 December 2010, 2011 and 2012 and 30 September 2013, our short-term loans were RMB17,285.9 million, RMB27,324.3 million, RMB39,524.7 million and

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RMB47,891.6 million, respectively, representing 73.8%, 76.8%, 77.3% and 77.7%, respectively, of our total corporate loans (excluding discounted bills) as of those dates.

Medium- and long-term loans. Under the General Rules for loans of the PBOC, medium- and long-term loans are loans which mature in more than one year. As of 31 December 2010, 2011 and 2012 and 30 September 2013, our medium- and long-term loans were RMB6,134.9 million, RMB8,276.8 million, RMB11,583.4 million and RMB13,747.8 million, respectively, representing 26.2%, 23.2%, 22.7% and 22.3%, respectively, of our total corporate loans (excluding discounted bills) as of those dates.

Distribution of Corporate Loans by Types of Customers

The following table sets forth the distribution of our corporate loans by types of customers as of the dates indicated.

	As of 31 December						As of 30 September	
	2010		2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)								
Loans to Small Enterprises	9,062.6	38.7	15,171.9	42.6	23,638.0	46.3	31,657.6	51.4
Other corporate loans (excluding loans to Small Enterprises)	14,358.2	61.3	20,429.2	57.4	27,470.1	53.7	29,981.8	48.6
Total corporate loans	23,420.8	100.0	35,601.1	100.0	51,108.1	100.0	61,639.4	100.0

Loans to Small Enterprises are an important component of our microcredit business. In order to meet the capital needs for daily operation of Small Enterprises, and in addition to offering general corporate credit products and services such as working capital loans, we provide special RMB-denominated credit products tailored for Small Enterprises. See “– Microcredit Business”. As of 30 September 2013, the Bank had a total of over 4,500 customers of corporate loans to Small Enterprises. As of 31 December 2010, 2011 and 2012 and 30 September 2013, the balance of loans to Small Enterprises of our Bank amounted to RMB9,062.6 million, RMB15,171.9 million, RMB23,638.0 million and RMB31,657.6 million, respectively, and accounted for 38.7%, 42.6%, 46.3% and 51.4%, respectively, of our total corporate loans (excluding discounted bills) as of the same dates. For the years ended 31 December 2010, 2011 and 2012 and the nine months ended 30 September 2013, our interest income from corporate loans to Small Enterprises was RMB461.9 million, RMB889.6 million, RMB1,315.6 million and RMB1,448.8 million, respectively, representing 11.5%, 10.8%, 10.1% and 14.0%, respectively, of our total interest income during those periods.

Discounted Bills

We purchase bank and commercial acceptance bills with remaining maturities of no more than six months at a discounted price from corporate customers, mainly to satisfy the short-term capital needs of the corporate customers. We also purchase commercial acceptance bills from companies with credit ratings meeting our requirements.

The interest yields from discounted bills of our Bank may fluctuate along with the changes in the overall liquidity of the interbank market and the market demand for discounted bills. As of 31 December 2010, 2011 and 2012 and 30 September 2013, the balance of our discounted bills was RMB6,935.6 million, RMB3,743.0 million, RMB1,346.2 million and RMB2,501.6 million, respectively.

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Corporate Deposits

We provide corporate customers with demand deposits and time deposits bearing interest rates within the statutory floating range. Our corporate deposits are mainly denominated in RMB with a small portion denominated in foreign currencies. We offer short-term, medium-term and long-term time deposits for corporate customers and provide RMB time deposits products with maturities of up to five years. In addition, we provide certain types of negotiated RMB deposit products with negotiable interest rates, including deposits from insurance companies and social security trust funds, usually with maturities of more than five years.

As of 31 December 2010, 2011 and 2012 and 30 September 2013, our corporate deposits amounted to RMB80,591.2 million, RMB103,699.2 million, RMB131,039.8 million and RMB134,135.8 million, respectively. The CAGR of our corporate deposits from 2010 to 2012 was 27.5%. See “Assets and Liabilities – Liabilities and Sources of Funds – Due to Customers”. As of 31 December 2010, 2011 and 2012 and 30 September 2013, corporate deposits denominated in foreign currencies amounted to RMB127 million, RMB166 million, RMB511 million and RMB494 million, respectively.

The following table sets out the distribution of demand deposits and time deposits from corporate customers by product type as of the dates indicated.

	As of 31 December						As of 30 September	
	2010		2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
(in RMB million, except percentages)								
Demand deposits	58,850.2	73.0	70,284.4	67.8	69,981.5	53.4	62,369.8	46.5
Time deposits	21,741.0	27.0	33,414.8	32.2	61,058.3	46.6	71,766.0	53.5
Total corporate deposits	80,591.2	100.0	103,699.2	100.0	131,039.8	100.0	134,135.8	100.0

Fee- and Commission-Based Corporate Banking Products and Services

We provide various fee- and commission-based business products and services for corporate customers, including assets management services, consulting and financial advisory services, clearance and settlement services, guarantee services and entrusted loans. We place a strong emphasis on the development of our fee- and commission-based corporate banking business. For the years ended 31 December 2010, 2011 and 2012 and the nine months ended 30 September 2013, the net fee and commission income from our corporate banking business amounted to RMB39.8 million, RMB40.1 million, RMB65.6 million and RMB196.4 million, respectively. The CAGR of our net fee and commission income from our corporate banking business from 2010 to 2012 was 28.4%. See “Financial Information – Net Fee and Commission Income”.

Assets Management Services. Our Bank has launched various wealth management products with different terms and yields based on the market volatility and customers’ risk tolerance in order to satisfy the financial and investment needs of corporate customers. Since 2010, our Bank has been developing its corporate wealth management products under the brand of “Lilac”. It provides integrated financial services for corporate customers through developing wealth management products including bills, bonds and monetary instruments, investment with yield and portfolio investments.

Consulting and Financial Advisory Services. Our Bank provides consulting and advisory services for corporate customers in respect of enterprise merger and acquisition, financing, investment,

restructuring, asset management and business integration, which mainly include formulating investment and financing plans, and capital operation plans and providing assets and liabilities arrangement services for customers.

Clearance and Settlement Services. Our Bank provides settlement services in relation to domestic and international corporate banking businesses. The domestic settlement services include settlement effected through cash, drafts, promissory notes, cheques and other negotiable instruments. We also provide entrusted recovery, disbursement and payment services on behalf of corporate customers. For the international settlement services of our Bank, see “– International Business”.

Guarantee Services. Our Bank provides guarantee services for corporate customers primarily through letters of guarantee denominated in RMB (including performance guarantees and bid guarantees), standby letters of credit and loan commitments. Our Bank receives fees for providing these guarantee services.

Entrusted Loans. Our Bank provides lending services on behalf of our corporate customers. Our Bank extends loans to borrowers on behalf of our corporate customers in accordance with the lending targets, purpose, amount, terms and interest rates of the loan determined by our corporate customers. We monitor the utilisation and assist with the collection of the payments of loans on behalf of our corporate customers. Our corporate customers, being the principals, assume the credit risk of loans, while we charge agency fees based on the size of the entrusted loans.

Marketing

Our Bank has established a comprehensive system for the marketing of our corporate banking business. Our headquarters is responsible for the formulation of overall promotion and marketing strategies, according to which the branches are responsible for formulating specific marketing plans, allocating marketing resources and implementing marketing plans based on their analysis of the market and policies.

We subdivide the market and customers into different segments and groups, to which we provide differentiated marketing, services and management. We have established a tiered marketing services model. Our headquarters, branches and sub-branches conduct differentiated marketing management of customers based on their scale, industry ranking and overall revenue contribution.

Marketing models of our Bank include cross-selling and joint marketing. Our headquarters assists the branches to organise the customer information of each business segment to identify the target customers for cross selling, coordinating the whole bank to carry out joint marketing among customers of different business segments, so as to promote the joint development of our corporate banking business and personal banking business.

Personal Banking Business

We offer a wide range of products and services to individual customers, which mainly include loans, deposits, debit cards, credit cards as well as fee- and commission-based personal banking products and services. Personal banking business (including international personal banking business) contributed 40.3%, 36.0%, 28.9% and 29.7%, of our total operating income for the years ended 31 December 2010, 2011 and 2012 and the nine months ended 30 September 2013, respectively. As of 31 December 2010, 2011 and 2012 and 30 September 2013, our personal loans accounted for 43.8%, 42.5%, 39.9% and 38.9%, respectively, of our total loans and advances to customers. As of those same dates, our personal

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deposits accounted for 28.6%, 28.9%, 29.8% and 29.9%, respectively, of our total due to customers. See “Assets and Liabilities”.

Customer Base

We have established a broad individual customer base which comprises Small Enterprise Owners, farmers, civil servants, payroll payment agencies, private business owners, sole proprietors and policyholders of social insurance. As of 30 September 2013, we had approximately 5,590,000 individual customers, of which 479,000 had a loan balance with our Bank, including 28,000 customers of loans to Small Enterprise Owners, 237,000 customers of loans to farmers and 214,000 customers of personal consumption loans.

In order to improve the quality of the services for individual customers, we continue to upgrade our e-banking and mobile banking systems, while increasing the number of our ATMs and outlets. We also provide “one-to-one” customer service for mid- and high-end customers whose balance of financial assets with us is no less than RMB300,000.

In recent years, we have sought to optimise our customer structure by focusing on maintaining and enlarging the customer base of mid-end individual customers and high-net-worth individuals, developing wealth management services and various value-added services, and supporting Small Enterprise Owner and farmers customers with good records.

Personal Banking Products and Services

Personal Loans

Personal Loans consist primarily of loans to Small Enterprise Owners, personal consumption loans and loans to farmers. As of 31 December 2010, 2011 and 2012 and 30 September 2013, our total personal loans amounted to RMB23,668.2 million, RMB29,139.7 million, RMB34,810.1 million and RMB40,869.4 million, respectively. Personal loans have been an important component of our microcredit business, see “– Microcredit Business”. The following table sets forth our personal loans by product type as of the dates indicated.

	As of 31 December						As of 30 September	
	2010		2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)								
Loans to Small Enterprise Owners	8,443.6	35.7	11,540.0	39.6	13,731.2	39.4	14,966.8	36.6
Personal consumption loans	7,363.2	31.1	8,909.6	30.6	11,203.3	32.2	14,294.4	35.0
Loans to farmers	7,861.4	33.2	8,690.1	29.8	9,875.6	28.4	11,608.2	28.4
Total personal loans	23,668.2	100.0	29,139.7	100.0	34,810.1	100.0	40,869.4	100.0

Loans to Small Enterprise Owners

Loans to Small Enterprise Owners primarily include personal business loans, micro loans and small amount secured loans. See “– Microcredit Business”. As of 31 December 2010, 2011 and 2012 and 30 September 2013, our loans to Small Enterprise Owners amounted to RMB8,443.6 million, RMB11,540.0 million, RMB13,731.2 million and RMB14,966.8 million, respectively, representing 35.7%, 39.6%, 39.4% and 36.6%, respectively, of our total personal loans. Our interest income from

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loans to Small Enterprise Owners amounted RMB498.6 million, RMB943.1 million, RMB1,061.4 million and RMB856.9 million, respectively, for the years ended 31 December 2010, 2011 and 2012 and the nine months ended 30 September 2013, representing 12.4%, 11.5%, 8.2% and 8.3%, respectively, of our total interest income during those periods.

The following table sets forth the distribution of our loans to Small Enterprise Owners as of the dates indicated.

	As of 31 December						As of 30 September	
	2010		2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)								
Personal business loans . . .	6,033.4	71.4	8,972.2	77.7	11,398.6	83.0	13,166.3	88.0
Micro loans	1,634.3	19.4	1,268.8	11.0	1,190.3	8.7	572.4	3.8
Small amount secured loans	775.9	9.2	1,299.0	11.3	1,142.3	8.3	1,228.1	8.2
Total loans to Small Enterprise Owners	8,443.6	100.0	11,540.0	100.0	13,731.2	100.0	14,966.8	100.0

In order to provide flexible financing services to our customers of loans to Small Enterprise Owners, we customise our products based on their operating conditions and composition of assets, and accept a variety of assets as collateral, such as movable properties, inventory and accounts receivable.

Personal Consumption Loans

Our personal consumption loans consist primarily of “Fangquantong” (房全通) personal consumption loans secured by personal real estates, personal residential mortgage loans, comprehensive consumption loans, personal auto consumption loans, national student loans and credit card overdrafts. We require the provision of security for most of such loans. As of 31 December 2010, 2011 and 2012 and 30 September 2013, our personal consumption loans amounted to RMB7,363.2 million, RMB8,909.6 million, RMB11,203.3 million and RMB14,294.4 million, respectively, representing 31.1%, 30.6%, 32.2% and 35.0%, respectively, of our total personal loans as of those dates.

Personal residential mortgage loans and “Fangquantong” personal consumption loans are the main products of our personal consumption loans. As of 31 December 2010, 2011 and 2012 and 30 September 2013, our personal residential mortgage loans and “Fangquantong” personal consumption loans amounted to RMB5,196.0 million, RMB6,063.0 million, RMB7,864.0 million and RMB9,317.0 million, respectively, representing 70.6%, 68.1%, 70.2% and 65.2%, respectively, of our total personal consumption loans as of those dates. In addition, as the host bank offering national student loans in Heilongjiang Province, we introduced featured national student loans in 2007 for the college students in and from Heilongjiang Province.

Loans to Farmers

We were the first city commercial bank in China to provide rural financial services. Since 2005, we have been committed to developing rural financial services, especially loans to farmers. Our loans to farmers refer to the RMB-denominated loans applied by rural households and granted to individual family members of the farmer household who meet the relevant requirements of our Bank, in order to meet their funds needs for production operation and daily consumption. We develop and offer a number of loans to farmers, including planting loans, animal husbandry loans, loans for the purchase of

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agricultural machinery and tools, housing renovation loans for farmers in reclamation areas, loans to farmers in agriculture-related industry, loans to farmers working overseas, revolving credit loans for farmers, loans for agricultural orders and loans for farmers as members of agricultural cooperatives.

As of 31 December 2010, 2011 and 2012 and 30 September 2013, our loans to farmers amounted to RMB7,861.4 million, RMB8,690.1 million, RMB9,875.6 million and RMB11,608.2 million, respectively, representing 33.2%, 29.8%, 28.4% and 28.4%, respectively, of our total personal loans.

Personal Deposits

We offer various demand deposits and time deposits in RMB and foreign currency (mainly U.S. dollars, Rubles, HK dollars, Japanese Yen, Euro and GBP) to personal customers. Substantially all of our personal deposits are denominated in RMB. We currently offer RMB-denominated time deposits with maturities ranging from three months to five years and foreign currency-denominated time deposits ranging from one month to two years. Our personal deposits increased during the Track Record Period. As of 31 December 2010, 2011 and 2012 and 30 September 2013, our personal deposits amounted to RMB32,300.4 million, RMB42,263.2 million, RMB55,602.6 million and RMB56,994.2 million, respectively, representing a CAGR of 31.2% from 2010 to 2012. See “Assets and Liabilities – Liabilities and Sources of Funds – Due to Customers”.

The following table sets forth the distribution of our deposits from individual customers by product type as of the dates indicated.

	As of 31 December						As of 30 September	
	2010		2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)								
Personal Deposits								
Demand deposits	14,505.0	44.9	19,292.7	45.6	27,107.2	48.8	24,399.3	42.8
Time deposits	17,795.4	55.1	22,970.5	54.4	28,495.4	51.2	32,594.9	57.2
Total personal deposits	<u>32,300.4</u>	<u>100.0</u>	<u>42,263.2</u>	<u>100.0</u>	<u>55,602.6</u>	<u>100.0</u>	<u>56,994.2</u>	<u>100.0</u>

Debit Cards

Our debit card services were launched in 2001. Currently, our primary debit cards include our Lilac Debit Card (丁香借記卡系列產品), Lilac Social Insurance Card (丁香社保卡), Ice City and Summer Capital Tourist Card (冰城夏都旅遊卡) and Funong Debit Card (福農借記卡), and RongXing Puhui Card (融興普惠卡) issued by the Village and Township Banks controlled by us. Being a member of UnionPay, our debit cards are accepted by our network as well as the UnionPay network globally. After launching the Financial IC Card in 2012, we launched VIP debit and credit cards tailored to customers’ needs for debit and credit in 2013. As of 30 September 2013, we had issued over 5,620,000 debit cards.

Credit Cards

Our RMB credit card services were launched in 2008. Currently, our primary credit cards include our Lilac Credit Card (丁香信用卡), Card for Government Officials (公務卡) and Joint Credit Cards (聯名卡). The types of credit cards our customers may apply for depend on their income level, financial status and credit records. Our credit cards are accepted by our network as well as the UnionPay network globally. As of 30 September 2013, we had issued over 107,000 credit cards, of which at least 48,000

were gold and platinum credit cards. For the years ended 31 December 2010, 2011 and 2012 and the nine months ended 30 September 2013, the income from our credit card services amounted to RMB 1.1 million, RMB7.6 million, RMB45.6 million and RMB118.7 million, respectively.

Fee- and Commission-based Personal Banking Products and Services

We provide various fee- and commission-based personal banking products and services for our individual customers, including but not limited to wealth and investment management services, bancassurance, fund distribution agency services. Our key business strategy is to focus on the promotion of our wealth management services. For the years ended 31 December 2010, 2011 and 2012 and the nine months ended 30 September 2013, the fee and commission income from our personal banking services amounted to RMB11.8 million, RMB17.2 million, RMB48.3 million and RMB117.3 million, respectively, and the fee and commission expense from our personal banking services were RMB17.9 million, RMB24.4 million, RMB44.8 million and RMB48.3 million, respectively over the same periods. See “Financial Information – Net Fee and Commission Income”.

Wealth and investment management services. Our wealth management business mainly includes general wealth management services and wealth management services for mid and high-end customers who have a balance of financial assets of no less than RMB300,000 with us. Wealth management products are our main fee- and commission-based products. Our first wealth management product was launched in 2007. Since 2007, we have developed a comprehensive wealth management product portfolio, which includes “Lilac Wealth Management” (丁香花理財), “Lilac Huirong” (丁香花惠融) and “Lilac Huijin” (丁香花惠金), to satisfy various demands of customers. Our “Lilac” wealth management services product was recognised as one of the “Top 10 Financial Products Awards” (金融產品十佳獎) in the “2008 China Financial Marketing Award” (2008年度中國金融營銷獎) hosted by The Banker, a PRC-based magazine. We believe our “Lilac” product has developed into a wealth management product brand with a strong reputation and market influence in China. While our “Lilac Wealth Management” (丁香花理財) product is promoted as a wealth management product for the general public, we have also upgraded our wealth management services in 2013 through the launch of a high-end wealth management brand “Lilac Wealth” (丁香財富), which mainly provides comprehensive investment and wealth management services for mid- and high-end customers. We have established a wealth management team consisting of over 400 staff, to offer “one-to-one” investment and wealth management services to mid- and high-end customers. See “– Wealth Management Products”.

Bancassurance. We distribute insurance policies within the scope authorised by the relevant insurance firms as their agent, and charge agency fees from these insurance companies. We have cooperated with a number of major insurance companies such as Pacific Life and China Life Insurance.

Fund distribution agency services. As a distribution agency of open-ended funds approved by the CSRC and on behalf of fund managers, we provide subscription, purchase and redemption services of open-ended fund units to investors through our fund distribution outlets and internet banking channel. As of 30 September 2013, we cooperated with 12 fund companies and distributed a total of 331 fund products.

Other Products and Services. We provide a number of other fee- and commission-based personal banking products and services, such as remittance, payment agency, settlement and safe deposit box services, to meet various needs of our individual customers.

Marketing

Our headquarters has formulated bank-wide personal banking services strategies and promotes our personal banking products and services via branches, sub-branches and Village and Township Banks. E-banking, phone banking and mobile banking are also used to promote such products and services. We conduct marketing for these products and services and organise advertising activities through television, print media and other media channels.

We conduct a wide range of marketing activities targeting different customer groups according to the characteristics of our individual customers by leveraging the differentiated strengths of our personal banking products. In particular, we have set up a small enterprise department to conduct marketing of our loans to Small Enterprise Owners, and a rural financial department to implement vertical management for our rural financial services. We have also implemented joint marketing and cross-selling models for personal financial products and are devoted to strengthening the synergies among various business segments. Capitalising on the advantages of integrated operations, we have developed cross-selling models for personal wealth management, funds, bank cards, E-banking and personal deposit and loan businesses, so as to enhance the sharing of various product resources and customer bases. We are also dedicated to developing our branch outlets into integrated sales centres of personal banking products by adopting various marketing approaches and advanced technologies.

We had established a frontline sales team for our personal banking business consisting of approximately 1,100 salespeople as of 30 September 2013, who are responsible for the sales of personal banking products and provision of customer services. In addition, we have strengthened our cooperation and interaction with other city commercial banks and held various marketing activities with them.

Wealth Management Products

For the years ended 31 December 2010, 2011 and 2012 and the nine months ended 30 September 2013, we issued 81, 189, 308 and 281 tranches of wealth management products to our customers, respectively, and raised funds in total of RMB23,028.3 million, RMB31,557.1 million, RMB59,865.7 million and RMB59,313.4 million, respectively.

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For the years ended 31 December 2010, 2011 and 2012 and the nine months ended 30 September 2013, the average size of each tranche of wealth management products issued by us was RMB284.3 million, RMB167.0 million, RMB194.4 million and RMB211.1 million, respectively. The table below sets out a breakdown, by the size of each tranche, the wealth management products issued by us.

	For the year ended 31 December						For the nine months ended 30 September	
	2010		2011		2012		2013	
	Number of tranches issued	Amount	Number of tranches issued	Amount	Number of tranches issued	Amount	Number of tranches issued	Amount
(in millions of RMB, except number of tranches)								
Up to RMB 10 million . . .	–	–	1	8.7	9	66.0	–	–
Over RMB 10 million to RMB 50 million	3	116.6	43	1,434.0	72	2,226.5	32	1,001.6
Over RMB 50 million to RMB 100 million	33	2,830.7	59	4,931.5	72	5,835.2	42	3,164.7
Over RMB 100 million to RMB 500 million	35	6,646.5	77	19,937.9	131	30,907.3	195	43,612.9
Over RMB 500 million . .	10	13,434.5	9	5,245.0	24	20,830.7	12	11,534.2
Total	81	23,028.3	189	31,557.1	308	59,865.7	281	59,313.4

The table below sets out a breakdown of our principal-protected and non-principal protected wealth management products during the Track Record Period.

	For the Year ended 31 December						For the nine months ended 30 September	
	2010		2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
(in millions of RMB, except percentage)								
Principal-protected	–	–	1,651.2	5.2	6,348.4	10.6	4,983.9	8.4
Non-principal protected	23,028.3	100.0	29,905.9	94.8	53,517.3	89.4	54,329.5	91.6
Total	23,028.3	100.0	31,557.1	100.0	59,865.7	100.0	59,313.4	100.0

As most of the wealth management products issued by us are non-principal protected products, we are not liable for any loss suffered by investors from these products. During the Track Record Period, the investors of our non-principal protected products or our principal-protected wealth management products have also not suffered any losses.

As of 30 September 2013, the balance of our investment of funds raised from wealth management products in bonds, due from banks and other financial institutions, financial assets held under reverse repurchase agreements and fund trust plans and directional asset management plans amounted to RMB3,665.0 million, RMB8,692.8 million, RMB1,521.4 million and RMB16,298.0 million, respectively, representing approximately 12.2%, 28.8%, 5.0% and 54.0%, respectively, of the total balance of our investment of funds raised from wealth management products.

For the years ended 31 December 2010, 2011 and 2012 and the nine months ended 30 September 2013, the yield from investments of funds raised from wealth management products issued by us ranged from 5.5% to 8.5%, 5.3% to 9.0%, 3.7% to 9.7% and 3.6% to 9.0%, respectively, while the interest

payable to customers of our wealth management products ranged from 2.0% to 7.0%, 3.5% to 7.3%, 3.1% to 7.3% and 3.3% to 6.8%, respectively.

We manage each of our wealth management products independently with separate accounting and book-keeping. Each of our wealth management product is linked to its underlying investments, which complies with the relevant requirements issued by the CBRC.

The maturity of the wealth management products issued by us is usually shorter than those of the underlying investments. As of 30 September 2013, the outstanding balance of our wealth management products with maturity mismatch with the underlying investments was RMB11,674.3 million. We control liquidity risk brought on by such mismatch by issuing new wealth management products, arranging alternative funding in advance of the maturity date, and increasing the proportion of the investment of funds raised from wealth management products in bonds which have higher liquidity. We have also established contingency plans for liquidity risk in relation to these wealth management products. These plans include measures to increase the types of products to be issued and the maturity of these products and expand distribution channels.

For the years ended 31 December 2010, 2011 and 2012 and the nine months ended 30 September 2013, fee and commission income generated from our non-principal protected wealth management products amounted to RMB18.2 million, RMB121.8 million, RMB96.9 million and RMB204.5 million, respectively. During the Track Record Period, we recognised the income from the underlying investments of our principal-protected wealth management products under our total interest income, while the payments we made to customers of the wealth management products issued by us are recognised under our total interest expenses.

Treasury Operations

Our treasury operations (including international treasury operations) primarily include monetary market transactions, investments in securities and other financial assets, treasury operations conducted on for customers' accounts, bond underwriting and distribution, financial derivatives transactions and interbank discounts and rediscounts of bills. For the years ended 31 December 2010, 2011 and 2012 and the nine months ended 30 September 2013, the operating income of our treasury operations (including international treasury operations) amounted to RMB377.4 million, RMB1,425.6 million, RMB2,808.6 million and RMB2,111.8 million, respectively, and accounted for 11.6%, 26.3%, 36.4% and 35.7%, respectively, of our total operating income for those periods. Our treasury operations are performed by the financial market department of our Bank.

Transactions with Financial Institutions

A large number of our treasury operations are conducted with financial institutions, which primarily include money market transactions with other domestic banks and non-bank financial institutions, and investments in securities and other financial assets issued by financial institutions. See “– Monetary Market Transactions” and “– Investments in Securities and Other Financial Assets”.

For further details about our international treasury operations, see “– International Business”.

Monetary Market Transactions

Interbank monetary market transactions are an important means for us to manage our risks and liquidity. Our monetary market transactions primarily consist of (i) short-term borrowings from and

lending to other domestic banks and non-bank financial institutions, and (ii) repurchases and reverse repurchases of securities with other domestic banks and non-bank financial institutions. Securities underlying repurchase and reverse repurchase transactions consist primarily of bonds issued by the PRC central government and policy banks and bank acceptance bills. In 2012, our RMB denominated financing transactions amounted to RMB1,185,836 million. We were elected as one of the “Top 100 Traders in National Interbank Bond Market (by Transaction Volume)” (全國銀行間市場交易量100強機構) for ten consecutive years from 2003 to 2012 by the Nation Interbank Funding Centre. We were awarded “the Greatest Influential Award” (最具市場影響力獎) in 2009 and 2010 and were named as “Outstanding Dealers of the Interbank Renminbi Trading in National Interbank Bond Market” (全國銀行間本幣市場優秀交易成員) in 2011 and 2012 by the National Interbank Funding Centre.

As of 31 December 2010, 2011 and 2012 and 30 September 2013, the balance of our due from banks and other financial institutions and financial assets held under reverse repurchase agreements were RMB27,701.4 million, RMB65,880.6 million, RMB71,692.4 million and RMB55,513.5 million, respectively, representing 22.0%, 31.9%, 26.6% and 21.2%, respectively, of our total assets. As of 31 December 2010, 2011 and 2012 and 30 September 2013, the balance of our due to banks and other financial institutions and financial assets sold under repurchase agreements were RMB5,465.9 million, RMB46,023.6 million, RMB59,356.2 million and RMB43,497.9 million, respectively, representing 4.5%, 23.6%, 23.4% and 17.9%, respectively, of our total liabilities.

Our interest income from these investments increased by 457.1% from RMB351.9 million for the year ended 31 December 2010 to RMB1,960.3 million for the year ended 31 December 2011, and further increased by 67.9% to 3,291.3 million for the year ended 31 December 2012. For the nine months ended 30 September 2013, our interest income from these investments increased by 13.3% to RMB2,871.5 million compared to RMB2,535.5 million for the nine months ended 30 September 2012. These increases were mainly attributable to changes in our investment portfolios. See “Assets and Liabilities — Assets — Debt Investments” and “Financial Information — Results of Operations”.

The results of operations with respect to our monetary market transactions are affected by material fluctuations in interbank rates, liquidity and other factors in the PRC financial markets. The average cost on our short-term borrowings from other financial institutions significantly increased to 5.37% for the year ended 31 December 2011 from 1.76% for the year ended 31 December 2010 as a result of tight market liquidity, which was in turn caused by increases in PBOC benchmark interest rate and adjustment of monetary policies by the PBOC since the second half of 2010. See “Risk Factors — Risks Relating to the PRC Banking Industry — We are subject to changes in interest rates and other market risks”.

Investments in Securities and Other Financial Assets

Our investments in securities and other financial assets include bond investments and investment in debt instruments issued by financial institutions.

Bond Investments

Our bond investments include our investment in treasury bonds, financial bonds, corporate bonds and mid- and short-term notes. We trade bonds in the inter-bank market. According to China Central Depository & Clearing Co., Ltd., our Bank’s trading volume of bonds for the nine months ended 30 September 2013 amounted to RMB1.81 trillion. We were recognised as an Outstanding Settlement Member in the National Interbank Bond Market by China Central Depository & Clearing Co., Ltd. for four consecutive years from 2009 to 2012.

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The following table sets forth, as of the dates indicated, the components of our bond investments.

	As of 31 December						As of 30 September	
	2010		2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)								
Government bonds	4,655.8	30.0	2,752.2	11.8	3,117.3	10.7	3,198.8	9.4
Bonds issued by financial institutions	—	—	—	—	—	—	329.0	1.0
Corporate bonds	1,962.7	12.7	4,951.4	21.2	6,906.3	23.8	8,320.7	24.5
Bonds issued by policy banks	8,895.3	57.3	15,683.2	67.0	18,987.9	65.5	22,136.6	65.1
Total bond investments	<u>15,513.8</u>	<u>100.0</u>	<u>23,386.8</u>	<u>100.0</u>	<u>29,011.5</u>	<u>100.0</u>	<u>33,985.1</u>	<u>100.0</u>

During the Track Record Period, we provided financing to local governments in the PRC, in part by investing in bonds issued by the financing vehicles of the local governments. As of 31 December 2010, 2011 and 2012 and 30 September 2013, our exposure to bonds investments issued by local government financing vehicles amounted to RMB332.8 million, RMB870.8 million, RMB1,383.6 million and RMB1,415.0 million, respectively. In recent years, regulatory authorities in the PRC have adopted various measures that increased restrictions on providing financings to local governments financing vehicles to minimise the risks relating to debts of local governments in the PRC. Any adverse change in the ability of the local government financing vehicles to service their bonds may have an adverse impact on our financial condition and results of operations. See “Risk Factors — Risks Relating to Our Loan Portfolio — Any deterioration in the ability of local government financing vehicles to repay debt or any change in national policy relating to local government financing vehicles may have an adverse impact on our asset quality, financial condition or results of operations”.

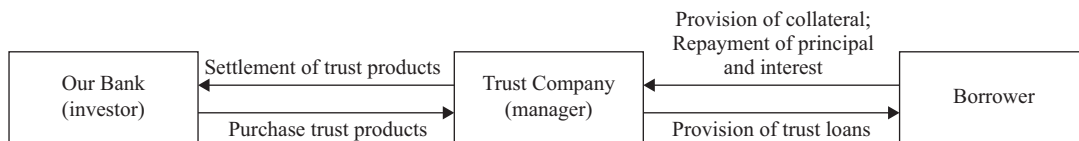
Investments in Debt Instruments Issued by Financial Institutions

Our principal investments in debt instruments issued by financial institutions primarily consist of fund trust plans and structured wealth management products. Fund trust plans are financial instruments that are linked with the beneficiary rights of trust plans sponsored by trust companies. Structured wealth management products include directional asset management plans managed by securities companies and other types of wealth management products issued by commercial banks.

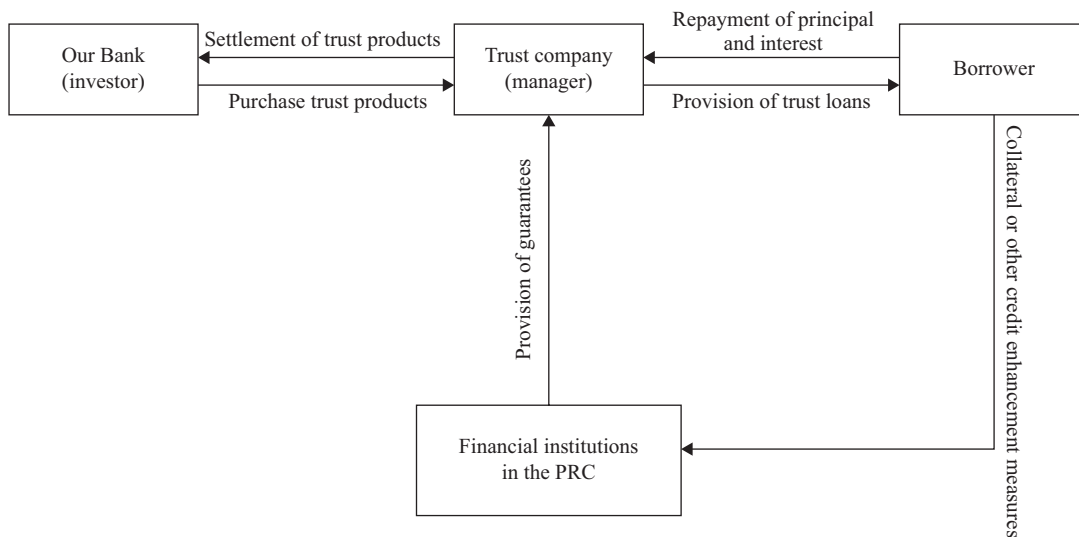
BUSINESS

Through investing in fund trust plans, we entrust trust companies with the management of our funds and allow them to lend our funds to borrowers in their own names. The borrowers provide collateral such as properties, land, certificates of deposit under their names or letters of guarantee, unconditional repurchase agreements or irreversible undertakings provided by third-party financial institutions in the PRC to the trust companies in favour of the borrowers, or guarantee the obligations of the borrowers to the trust companies. To minimise their own risks arising from such guarantees, these financial institutions generally require the borrowers to provide collateral or arrange other counter-guarantee arrangements. The relationship of the parties involved in our fund trust plans is illustrated by the following charts:

In the case where borrowers provide collateral to the trust companies:



In the case where third-party financial institutions provide guarantees to the trust companies:



Under directional asset management plans, we enter into directional asset management contracts with securities companies and such securities companies are entrusted by us to provide loans to borrowers under designated accounts and in accordance with the terms and conditions of such contracts. The use of funds is specified in the asset management contract and the asset management arrangement is secured by guarantees provided by financial institutions in the PRC or by the collateral provided by borrowers, including properties, land and certificates of deposit of adequate value.

Funds under directional asset management plans are managed by securities companies out of the designated accounts in accordance with the terms of the asset management contracts. Directional asset management plans are not part of trust loans or the loan portfolio of our Bank and are non-standard debt securities of our Bank.

As of 31 December 2010, 2011 and 2012 and 30 September 2013, the balance of our investments in debt instruments issued by financial institutions amounted to RMB2,710.8 million, RMB12,642.9 million, RMB22,144.0 million and RMB17,836.9 million, respectively. As of 31 December 2013, such balance amounted to RMB43,345.0 million, representing 13.5% of our total assets as of that date. For the years ended 31 December 2010, 2011 and 2012 and the nine months ended 30 September 2013, the

interest income from these investments amounted to RMB56.9 million, RMB570.6 million, RMB1,889.5 million and RMB823.9 million, respectively, and the weighted average yield of these investments was 8.56%, 8.77%, 8.83% and 8.82%, respectively.

For a discussion of the increase in our investment in debt instruments issued by financial institutions during the Track Record Period, see “Assets and Liabilities – Assets – Investment Securities and Other Financial Assets – Debt Investments”.

As of 30 September 2013, our funds under fund trust plans and directional asset management plans were for the purpose of providing credit to the following types of borrowers (i) approximately 11.71% was provided to local government financing vehicles; (ii) approximately 29.77% was provided to financial institutions; (iii) approximately 0.28% was provided to communications, software and IT service companies; (iv) approximately 11.60% was provided to the real estate industry; (v) approximately 12.58% was provided to wholesale and retailing companies; (vi) approximately 1.38% was provided to construction industry and (vii) approximately 32.68% was provided to other industries.

Our investment strategy for fund trust plans and directional asset management plans is to invest our funds in financial products issued or distributed by financial institutions other than banks to generate long term and stable income. We believe that fund trust plans and directional asset management plans offer stable returns and manageable risks, and investment in them is in compliance with the industry and regulatory policies of the PRC government. The fund trust plans and directional asset management plans we invested in have one of reasonable terms. We are able to secure our return from these products by controlling the net profit margin by closely monitoring the fluctuations in market interest rates. Our Bank has implemented certain risk management measures. We strictly control the selection of counterparties and the credit exposure. In addition, our investment banking division coordinates with our credit approval department to conduct an annual review of the credit limits of counterparties that are financial institutions. We strictly manage our source of funds to match the maturity of funding and investment and prohibits mismatches to avoid liquidity risk.

Repayment of principal and interest of our fund trust plans and directional asset management plans is fully secured by financial institutions in the PRC or by collateral provided by borrowers, such as properties, land and certificates of deposit. As of 30 September 2013, the guarantees of our investment in fund trust plans and directional asset management plans were provided as to approximately 38.06% by financial institutions in the PRC, as to approximately 19.41% by certificates of deposit provided by borrowers and as to approximately 42.53% by properties, land and other collateral provided by borrowers. Our Bank only accepts guarantees from financial institutions that are subject to the supervision of the CBRC. We will not accept pledges of certificate of bank deposits with a deposit amount less than the aggregate amount of principal and interests payable by the borrower. We will only accept collateral including properties and land with clear, legal and valid title and ownership. The value of such collateral is assessed and determined by our designated appraisal institutions. We typically require the loan-to-value ratio (representing the loan amount divided by the value of the collateral) to be no more than 60%. If the borrowers fail to repay the principal and interest to the issuers of the fund trust plans and directional asset management plans, we can demand that the trust companies or securities companies enforce the guarantee or collateral to recover or minimise our loss. The exercise of the rights under guarantees by trust companies and securities is generally not subject to any conditions.

According to Jun He Law Office Beijing, our PRC legal advisor, entrusted assets are different from assets owned by trustees and shall be separated from the assets of the trustee in accordance with the Trust Law of the People’s Republic of China. Therefore, the guarantees received from guarantors by trust companies cannot be used to repay the debts of the trust companies. Our rights under the guarantees and

our investment in fund trust plans should not be affected by any financial difficulties of the trust companies.

Investment in debt instruments issued by financial institutions can be divided in three stages.

Preliminary investigation: The relevant business department will review the due diligence investigation conducted by the trust companies, securities companies or the relevant guarantors on the borrowers and financed projects for approval by the investment management committee of branches, which they will in turn submit to the Investment Banking and Interbank Department of our headquarters before making investments.

Follow-up investigation: Upon receipt of the investment application from branches, the Investment Banking and Interbank Department of our headquarters reviews the structure of the investment, the counterparty and the investment return, and provides an investment proposal. Our Capital Investment Banking Business Risk Control Centre under our Credit Approval Department Risk Management Department will also provide their independent views.

Final approval: The investment proposal and the independent views from the credit approval department and risk control office will be submitted to the investment management committee of our headquarters for approval. If approved, the investment proposal will be forwarded to the Investment Banking and Interbank Department for execution. Currently, all fund trust plans and directional asset management plans we invested in are subject to the approval of the investment management committee of our headquarters.

We control the risks of our fund trust plans and directional asset management plans in the following manners:

- As the relevant trust company or securities company and the relevant guarantors have conducted due diligence on borrowers and the financial projects underlying a trust plan or directional asset management plan, we will review the due diligence conducted by them prior to investment in a trust plan or directional asset management plan. However, as we are not the direct lender to the underlying borrowers, we do not evaluate the creditworthiness of the borrowers, the trust plans or directional asset management plans.
- According to the agreements between our Bank and the trust companies, trust companies shall effectively manage fund trust plans and produce regular management reports. If trust companies indentify any risk that may have adverse effect on our fund trust plans, they are required to promptly notify us and take active measures to reduce relevant risks.
- If trust companies or securities companies fail to repay principal and interest under the fund trust plans or directional asset management plans, we may demand that trust companies or securities companies to take measures to minimise our loss including, but not limited to, exercising their rights under the guarantees.
- We review and revise approval limits on an annual basis, taking into account the implementation of approval limits and actual circumstances.

Investments in receivables, which typically have predetermined rates of return and fixed terms, carry certain credit risks. We rely on the issuers and ultimate borrowers for such products to make investment decisions to achieve the agreed-upon rates of return. If the agreed-upon rates of return cannot be achieved or the principal of our investments cannot be maintained, we rely on the issuers to reduce our losses and exercise our rights under the related contracts and guarantees to recover losses from the

issuers and any guaranteeing entities. See “Risk Factors – Risks Relating to Our Business – We have made substantial investments in receivables, and any adverse development relating to these types of investments could materially and adversely affect our profitability”.

Treasury Operations Conducted on Behalf of Customers

Our treasury operations also manage funds received from the issuance of wealth management products to our corporate and personal customers. As of 31 December 2010, 2011 and 2012 and 30 September 2013, the total outstanding amount of wealth management products issued by us was RMB21,252.6 million, RMB10,894.1 million, RMB37,426.5 million and RMB30,177.2 million, respectively. As of 30 September 2013, the balance of our investments in non-standard debt-based assets⁽¹⁾ amounted to RMB16,298.0 million, representing approximately 54.0% of the total balance of our Bank’s wealth management products as of 30 September 2013 and approximately 6.0% of our total assets as of 31 December 2012. The balance of our investments in non-standard debt-based assets as of 30 September 2013 exceeded the limits set out in the Notice on the Regulation of the Investment and Operation of Wealth Management Business by Commercial Banks issued by the CBRC on 25 March 2013⁽²⁾, since some of our investment in non-standard debt-based assets had not reached their maturity as of 30 September 2013. As of the Latest Practicable Date, we had not been subject to any penalties nor had we been ordered by the CBRC or its relevant local branches to suspend the sale of our wealth management products due to this issue.

As our investments in non-standard debt-based assets gradually reached their maturity, the balance of our investments in non-standard debt-based assets as of 31 December 2013 complied with the regulatory requirements of the CBRC. For the balance of our investments in non-standard debt-based assets as of 31 December 2013, see “Appendix IV – Unaudited Preliminary Financial Information of the Bank for the Year Ended 31 December 2013 – Business Review”.

Bond Underwriting and Distribution

Our bond underwriting and distribution businesses include our underwriting business, under which we subscribe for bonds from primary markets as an underwriting member of the bond underwriting syndicates, and our distribution business, under which we bid for bonds on behalf of other institutions and transfer relevant bond subscription rights to such institutions after we have won the bidding within the required distribution period, or purchase and re-distribute bonds distributed from other institutions. We are a primary dealer in the public markets and a member of government bond underwriting syndicates. Our Bank is also a member of underwriting syndicates of financial bonds issued by China Development Bank, Agricultural Development Bank of China and the Export-Import Bank of China. We were recognised as an “Excellent Underwriter” (優秀承銷商) by the Agricultural Development Bank of China for three consecutive years from 2009 to 2011. In 2012, the amount of bonds underwritten by us amounted to RMB16.4 billion.

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- (1) Non-standard debt-based assets refer to debt-based assets that are not traded in the interbank markets or on the stock exchanges, including but not limited to, credit assets, trust loans, entrust credit rights, acceptance bills, letters of credit, account receivables, various beneficial interests (or the right to receive income) and equity financing with a buy-back clause.
- (2) According to the Notice on the Regulation of the Investment and Operation of the Wealth Management Business by Commercial Banks, the balance of wealth management funds invested by a commercial bank in non-standard debt-based assets cannot exceed the lower of (i) 35% of the balance of the commercial bank’s wealth management products, and (ii) 4% of the commercial bank’s total assets as disclosed in its annual audited report for the prior fiscal year. The CBRC may order a commercial bank which failed to comply with this requirement to suspend the sale of relevant wealth management products and may also impose an administrative penalty.

Financial Derivatives Transactions

In 2012, we were authorised to carry out financial derivatives transactions. Our financial derivatives transactions mainly include interest rate swap transactions. Interest rate swap transactions refer to financial contracts in which both parties agree to exchange interests based on agreed amount of nominal principal in the same currency in certain future time which enable us to effectively control our costs of funding and minimise market risks. See “Risk Factors – We are subject to changes in interest rates and other market risks”.

Interbank Discounts and Rediscounts of Bills

We engage in interbank discounts of commercial bills with other qualified financial institutions or rediscounts of commercial bills with the PBOC, to generate working capital and income from interest spreads. Our interbank discount services involve bills buyout, bills sell-out, bills held under reverse repurchase agreements and bills held under repurchase agreements. We rediscount bills according to requirements of the PBOC.

MICROCREDIT BUSINESS

In 2004, on the basis of our understanding of the market positioning and operating characteristics of city commercial banks in the PRC, we analysed the development trends of SMEs in the PRC. Leveraging off the PRC government’s ongoing support to the development of SMEs at a policy level, we developed a strategy focusing on the development of our microcredit business. We set the goal of our strategic development to become a “first-class domestic and internationally renowned microfinance bank” and adopted the idea of “Inclusive Finance, Harmonious Co-Enrichment” as our growth philosophy. Under the development strategy of microcredit business, we have established our leading position in microcredit business. See “Our Strengths – 1. We are a leading provider of microcredit in the PRC”.

Our microcredit business comprises loans to Small Enterprises, loans to Small Enterprise Owners, personal consumption loans and loans to farmers.

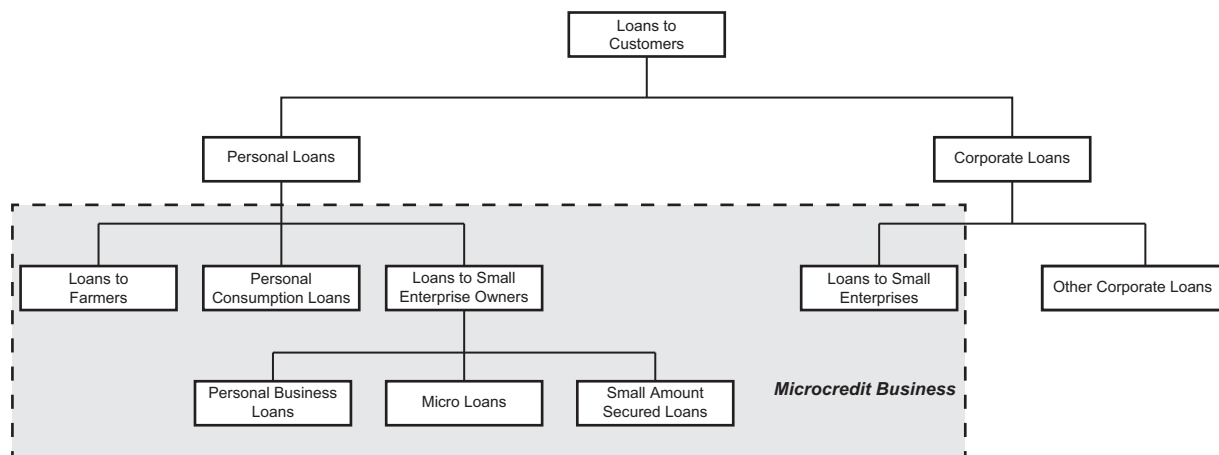
As of the Latest Practicable Date, neither the CBRC nor the PBOC had prescribed any official standards on the definition or composition of microcredit business. There is also no prevailing industry standard on the definition or composition of microcredit business in the PRC banking industry. In grouping our loans to Small Enterprises, loans to Small Enterprise Owners, personal consumption loans and loans to farmers under our microcredit business, we have taken into account the common risk profile shared by customers of these types of loans, being that they normally have difficulty in providing sufficient collateral or other security for the loans or are more susceptible to fluctuations of the economic environment. Given the risk profile shared by these customers, we have applied similar management methodology to these loans, developed products to meet the particular needs of these customers and implemented a tailored risk control mechanism so as to maximise business opportunities created by these customers who usually do not have access to financing. This is also consistent with our operating philosophy of “Inclusive Finance, Harmonious Co-Enrichment”.

In view of the aforesaid risk profiles shared by customers of our microcredit business, we have exerted control over the amount of each loan granted to these customers. The amount of each loan granted to farmers generally does not exceed RMB two million, while the amount of each personal consumption loan generally does not exceed RMB five million. With respect to loans to Small Enterprises and loans to Small Enterprise Owners, we determine the amount of each loan to be provided on a case-by-case basis based on the actual circumstances of the relevant small enterprise or micro

enterprise and approval of such loan is based on our internal rating of the relevant enterprises and our internal risk management policy. See “Risk Management”.

Our loans to Small Enterprises refer to loans granted to small enterprises¹ and micro enterprises² as defined in the SMEs Classification Standards. Based on the Supplementary Notice of Supporting Commercial Banks in Further Improving Financial Services for Small and Micro Enterprises (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) issued by the CBRC on 24 October 2011, we categorise our loans to individual owners of small enterprises and micro enterprises (as defined in the SMEs Classification Standards) as loans to Small Enterprise Owners. Furthermore, our categorisation of personal consumption loans and loans to farmers is conducted in accordance with the standards in the Interim Measures for the Administration of Personal Loans (個人貸款管理暫行辦法) issued by the CBRC on 12 February 2010 and Administrative Measures of Loans to Farmers (農戶貸款管理辦法) issued by the CBRC on 17 September 2012, respectively.

Financial information for each type of loan of our microcredit business is presented in the “Business” section of this prospectus. As the customers of loans to Small Enterprises are legal entities, relevant financial figures of such loans are presented in the corporate banking business section in this prospectus. See “– Our Principal Business Activities – Corporate Banking Business – Corporate Banking Products and Services – Corporate Loans”. Since the customers of our loans to Small Enterprise Owners are individuals, relevant financial figures of such loans are presented in the personal banking business section in this prospectus. See “– Our Principal Business Activities – Personal Banking Business – Personal Banking Products and Services – Personal Loans”. For relevant financial figures of our personal consumption loans and loans to farmers, see “– Our Principal Business Activities – Personal Banking Business – Personal Banking Products and Services – Personal Loans”. The following diagram illustrates our microcredit business.



As of 31 December 2010, 2011 and 2012 and 30 September 2013, the total balance of our microcredit loans amounted to RMB32,730.8 million, RMB44,311.6 million, RMB58,448.1 million and RMB72,527.0 million, respectively, representing 60.6%, 64.7%, 67.0% and 69.1%, respectively, of our total loans to customers as of those dates. For the years ended 31 December 2010, 2011 and 2012 and the

¹ According to the SMEs Classification Standards, there are different classification standards for different industries. For example, industrial enterprises having more than 20 but fewer than 1,000 employees and generating more than RMB3 million in operating income in a year are classified as small enterprises, while enterprises having more than five but fewer than 200 employees and generating more than RMB10 million in operating income in a year in the wholesale industry are also classified as small enterprises.

² According to the SMEs Classification Standards, there are different classification standards for different industries. For example, industrial enterprises having fewer than 20 employees or generating less than RMB3 million in operating income in a year are classified as micro enterprises, while enterprises having fewer than five employees or generating less than RMB10 million in operating income in a year in the wholesale industry are also classified as micro enterprises.

BUSINESS

nine months ended 30 September 2013, our interest income from microcredit business amounted to RMB2,031.6 million, RMB3,262.4 million, RMB4,146.5 million and RMB3,706.0 million, respectively, representing 65.1%, 69.5%, 63.4% and 67.8%, respectively, of our total interest income from loans to customers for the same periods.

The following table sets forth the distribution of the total balance of microcredit loans by product type as of the dates indicated.

	As of 31 December						As of 30 September	
	2010		2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)								
Loans to Small								
Enterprises	9,062.6	27.7	15,171.9	34.2	23,638.0	40.4	31,657.6	43.6
Personal loans ⁽¹⁾	23,668.2	72.3	29,139.7	65.8	34,810.1	59.6	40,869.4	56.4
Total balance of microcredit loans	32,730.8	100.0	44,311.6	100.0	58,448.1	100.0	72,527.0	100.0

Note:

(1) Include loans to Small Enterprise Owners, loans to farmers and personal consumption loans.

The microcredit product series under our brand “Just-for-you” (乾道嘉) offer loans with high flexibility and efficiency, meeting a variety of customer needs. In recent years, the brand received a number of awards for serving Small Enterprises. For example, the brand was awarded the “Best SME Financial Products Brand” (最佳小微企業金融品牌) in the selection of the Most Respected Bank & Best Personal Bank of China in 2011 and 2012 (2011年及2012年中國最受尊敬銀行暨最佳零售銀行評選活動) hosted by Money Weekly, the “Most Satisfactory Model Brand of SME Financial Service of China” (中國中小企業金融服務客戶滿意最佳典範品牌) in the Third National Survey on Customer Satisfaction of the Service Industry in 2012 (2012年第三屆全國服務業公眾滿意度調查活動) hosted by the Committee of the National Survey on Customer Satisfaction of the Service Industry, “Best SME Service Award” (最佳中小企業服務獎) in 2012 from the Modern Bankers, and the “Most Popular Featured SME Financial Product of China in 2012” (2012全國中小企業最受歡迎金融特色產品) from the Annual Conference of Entrepreneur from Chinese SMEs (中國中小企業家年會).

The featured products in the microcredit product series under our brand “Just-for-you” (乾道嘉) are:

- “Fangquantong (房全通)” loans: loans to borrowers who provided personal real estate as collateral and comprise of “Fangquantong” personal consumption loans and “Fangquantong” personal business loans. “Fangquantong” personal consumption loans refer to loans provided to borrowers for daily personal consumption. “Fangquantong” personal business loans refer to loans provided to Small Enterprise Owners as working capital for their day-to-day business operations. As of 30 September 2013, the total balance of our “Fangquantong” loans was RMB7,620.5 million. For the nine months ended 30 September 2013, the interest income and the average yield of such loans were RMB456.3 million and 7.94%, respectively.
- Cross joint-guaranteed loans for Small Enterprises: loans to three to seven small enterprises as a joint guarantee body with each borrower agreeing to bear joint guarantee obligations for the entire loans. As of 30 September 2013, the total balance of our cross joint-guaranteed loans for Small Enterprises was RMB2,364.7 million. For the nine months ended 30 September 2013, the interest income and the average yield of such loans were RMB113.7 million and 8.51%, respectively.

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- “Shangquantong” (商全通) loans: loans for the same use to a group of Small Enterprise Customers that have close business relationships with one major enterprise (entity) for their business operations. As of 30 September 2013, the total balance of our “Shangquantong” (商全通) loans was RMB2,001.1 million. For the nine months ended 30 September 2013, the interest income and the average yield of such loans were RMB92.0 million and 8.20%, respectively.
- Secured (pledged) revolving loans for Small Enterprises: revolving credit facilities to the Small Enterprises, who may re-borrow and repay the loans within the credit limit at any time during the prescribed period, as working capital for their day to day business operations. As of 30 September 2013, the total balance of our secured (pledged) revolving loans for Small Enterprises were RMB1,555.3 million. For the nine months ended 30 September 2013, the interest income and the average yield of such loans were RMB62.0 million and 7.77%, respectively.
- Small amount secured loans: secured loans to individuals for career and business development. As of 30 September 2013, the total balance of our small amount secured loans was RMB1,220.9 million. For the nine months ended 30 September 2013, the interest income and average yield of such loans were RMB82.1 million and 9.39%, respectively.
- Micro loans: single loans in the amount of not more than RMB500,000 provided to Small Enterprise Owners. As of 30 September 2013, the total balance of our micro loans was RMB572.4 million. For the nine months ended 30 September 2013, the interest income and the average yield of such loans were RMB62.5 million and 11.56%, respectively.

In addition to the above featured products, in order to meet the personalised financing needs of Small Enterprise Customers during different stages of business development, we also offer a wide variety of loan products and financing plans tailored to their business operations and asset structures, based on our understanding of their needs.

We are the first commercial bank to export microcredit know-how and technology to other banking institutions in the PRC. We have provided other rural credit cooperations, city commercial banks and rural commercial banks with the following types of microcredit know-how and technology relating to the credit business for Small Enterprise Customers and loans to farmers: (i) identification of target customers, (ii) product development and design of product portfolio, (iii) sales management, (iv) on-site training, (v) risk management techniques, collection, analysis and assessment of financial information, (vi) identification and verification of supplementary information, (vii) staffing, performance management and assessment, (viii) establishment of management structure, (ix) design of business model, (x) brand management and (xi) establishment of microcredit IT systems. We provide this microcredit know-how and technology tailored to the needs of counterpart banking institutions by providing training and participating in product development. Experts from our Bank will form a team to carry out preliminary market surveys and formulate business plans after we have entered into agreements with counterpart banking institutions.

Since we entered into the first contract for the exportation of microcredit know-how and technology in 2011, our Bank had entered into 22 contracts for the exportation of microcredit know-how and technology, 10 of which had been completed, as of 30 September 2013. Our bank has successfully introduced our microcredit know-how and technology to various provinces in China, including Sichuan, Henan, Shandong, Jiangsu and Zhejiang. For the years ended 31 December 2011, 2012 and the nine months ended 30 September 2013, fee income generated from exportation of microcredit know-how and technology amounted to RMB1.0 million, RMB5.2 million and RMB6.8 million, respectively.

INTERNATIONAL BUSINESS

We have established a department specially responsible for carrying out and managing our international businesses. Our international business primarily comprises corporate banking business. We were authorised to engage in foreign exchange business in October 2002, being the first licensed city commercial bank in Northeast China to engage in foreign exchange business. The corporate customers of our international business mainly are small and medium export-oriented industry and trade companies and foreign trade companies. Our international corporate banking businesses include foreign currency loan and financing business, foreign currency deposit business and foreign exchange fee- and commission-based business.

Foreign Currency Loan and Financing Business. We extend loans denominated in foreign currency to corporate customers, including foreign currency loans to enterprises in and outside China. We also provide short-term financing or credit facilities such as bills purchase, delivery guarantees, packing finance, foreign exchange discounted bills, export buyer's credit and other trade financing products and services in relation to import and export trade settlement between exporters and importers. As of 31 December 2010, 2011 and 2012 and 30 September 2013, the balance of our foreign currency loan (before allowance for impairment losses) to corporate customers amounted to US\$37.7 million, US\$82.2 million, US\$185.8 million and US\$152.4 million, respectively.

Foreign Currency Deposit Business. We provide foreign currency denominated demand and time deposits to corporate customers. Currently, we offer deposits denominated in U.S. dollars, Rubles, HK dollars, Japanese Yen, Euro and GBP. As of 31 December 2010, 2011 and 2012 and 30 September 2013, the balance of our foreign currency deposit from corporate customers amounted to US\$19.2 million, US\$26.4 million, US\$81.3 million and US\$80.3 million, respectively.

Foreign Exchange Fee- and Commission-based Business. Our foreign exchange fee- and commission-based business mainly consists of international settlement business, including international settlement, capital transactions and settlement and sale of foreign exchange provided to domestic and foreign corporate customers. We offer international banking services to our domestic and foreign individual customers, which include foreign currency deposits, foreign currency cash exchange service, settlement and sale of foreign exchange and foreign exchange remittances.

We also engage in the international capital business. We are a market-maker of Ruble in the interbank foreign exchange market, providing quotation of RMB against Ruble to market participants and customers. In 2011 and 2012, we were honoured as the “Best Compliant Trading Member” (最佳交易規範會員) in the national interbank foreign exchange market. We also won the “Member with the Greatest Improvement in 2012 Award” (2012年度最大進步會員獎). We had been honoured as “Class A Bank (Foreign Exchange Management)” (外匯管理A級行) for four consecutive years (from 2009 to 2012) by the Heilongjiang branch of the SAFE.

We are committed to the development of financial business with Russia and established an exclusive brand for financial business with Russia in 2011. By offering a wide range of banking products for banking business with Russia, we have formed a specialised products system covering settlement, financing, liquidation, exchange, capital transaction and agency services. We were the first commercial bank in the PRC to commence banking business with Russia, and were the first licensed bank to announce direct exchange rate of Ruble against RMB. We also extended the first RMB-denominated loan to Russia from the PRC. As of 30 September 2013, we were the city commercial bank with the largest scale of Ruble cash exchange within the PRC. See “– Our strengths – We are the leading PRC city commercial bank in Russian financial services”.

International business is one of the key areas in our strategies for future development. See “– Our Strategies – Accelerate the development of international financial business for small enterprise and micro enterprise and cross-border financial business with Russia”.

PRICING

The interest rates we charge on our RMB-denominated loans are generally regulated by the PBOC. For RMB-denominated corporate loans and personal loans (other than personal residential mortgage loans and credit card overdraft), we have adjusted the lower limit of the interest rate floating range to 80% of the relevant PBOC benchmark rate since 8 June 2012. Since 6 July 2012, we have further adjusted the lower limit of the interest rate floating range to 70% of the relevant PBOC benchmark rate. We have been allowed to determine interest rate for loans by ourselves since 20 July 2013. With respect to interest rates for personal residential mortgage loans, from 27 October 2008, the lowest interest rate we can charge on personal residential mortgage loans is 70% of the PBOC benchmark lending rate. From 17 April 2010, the lowest interest rate we may charge for personal residential mortgage loans to second-time home buyers is 110% of the PBOC benchmark lending rate pursuant to a notice issued by the State Council. 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 regulated by the PBOC. Our interest rates for foreign currency-denominated loans are negotiated with reference to the LIBOR and the prevailing market interest rate.

Interest rates for our RMB-denominated deposits cannot be higher than 110% of the relevant PBOC benchmark rates according to the current PRC laws and regulations. However, we are permitted to provide negotiated time deposit interest rates under certain circumstances to institutions such as insurance companies and social insurance institutions. We are permitted to negotiate the interest rates on foreign currency deposits other than those denominated in U.S. dollars, HK dollars, Japanese Yen and Euro with a term of one year or less and in an amount less than US\$3 million or equivalent, which shall not exceed the interest rates on small amount foreign currency deposits. The interest rate of small amount foreign currency deposits is prescribed by the PBOC. See “Supervision and Regulations – PRC Banking Supervision and Regulation – Pricing of Products and Services – Interest Rates for Loans and Deposits”.

With respect to fee- and commission-based business, the prices for relevant products and services are generally determined according to the market conditions, while certain services are subject to government pricing guidelines, such as basic Renminbi settlement services specified by the CBRC and the NDRC. See “Supervision and Regulations – PRC Banking Supervision and Regulation – Pricing of Products and Services – Pricing for Fee- and Commission-based Products and Services”.

Our Assets and Liabilities Management Committee is responsible for determining our pricing policies and benchmark prices. The specific prices for various products and services are determined by respective business departments within their pricing power authorised by our headquarters. In compliance with applicable regulatory requirements, we determine our pricing based on various criteria, such as the risk profile of our assets, customers’ contribution to our revenue, our underlying costs and risks involved and the expected returns. In addition, we also consider general market conditions, our market position and prices for similar products and services charged by our competitors in pricing our products and services.

DISTRIBUTION NETWORK

We deliver our products and services to customers through a variety of distribution channels, including branches, sub-branches, Village and Township Banks and their sub-branches, online banking,

phone banking, mobile banking and self-service terminals. As of 31 January 2014, we had a total of 304 branch outlets comprising 15 branches and their 245 sub-branches, 24 Village and Township Banks and their 20 sub-branches. In addition, we also had 724 self-service terminals in the PRC.

Branch Outlets

Our branch outlets are our main sales channels. As of 31 January 2014, we had 15 branches and 245 sub-branches, including 10 branches and 198 sub-branches in Heilongjiang Province, as well as five branches and 47 sub-branches outside Heilongjiang Province. Our branches and sub-branches are mainly located in Heilongjiang Province, covering all 18 counties in Harbin. Each branch is responsible for the businesses in its region, while each sub-branch provides comprehensive services to our customers in divisions covered by respective branch.

Our branch outlets also include Village and Township Banks and their sub-branches. The first Village and Township Bank was established in 2009. As of 31 January 2014, we had a total of 24 Village and Township Banks with 20 sub-branches), covering 14 provinces and municipalities of China. We set up a board of directors for Village and Township Banks in 2011, which is responsible for operation and management of all of the Village and Township Banks.

See “– Our Strengths – We have comparative advantages among city commercial banks in terms of our cross-regional operating network” and “Our History and Operational Reform – Our Shareholding and Corporate Structure”.

Electronic Banking

We offer 24-hour, seven-days a week services through electronic banking channels such as self-service terminals, online banking, customer service centres, phone banking and mobile banking to our corporate and personal customers.

Self-service Terminals

As of 31 January 2014, we had 724 self-service terminals (include ATMs, cash recycling systems and multi-media inquiry machines), offering cash deposit and withdrawal, account inquiry, bill payment, passcode changing and fund transfer services. Our self-service terminals are in various locations, including shopping malls, main streets, hotel lobbies, supermarkets, large residential areas, hospitals and universities in order to support our business and provide convenient access to our customers.

We are a member of China UnionPay Co., Ltd., which operates bank card, exchanges interbank e-banking information and provides network services in the PRC. After we became a member of China UnionPay Co., Ltd., our distribution network significantly broadened by allowing our customers to use any self-service terminals within the UnionPay network in the PRC and overseas.

Internet Banking

We have provided online banking services for our corporate and personal customers since 2009. As of 30 September 2013, more than 305,381 customers opened accounts through our online banking platform. Our corporate online banking services comprise a variety of services under 14 different categories, including account inquiry, money transfer and remittance, group customer services, corporate loans, international business, e-bills, bill payment, advanced inquiry services, management of payee list and enterprise operators management. Our personal online banking services comprise a variety of services under 15 different categories, including account management, money transfer and remittance,

basic wealth management, credit card, agency business, government bond business, “Lilac (丁香花)” wealth management and funds. Since the commencement of the online banking services in 2009 and as of 30 September 2013, the total volume of our corporate banking transactions and personal banking transactions conducted via our online banking platform were RMB1,900,980.3 million and RMB232,581.4 million, respectively.

Customer Service Centre and Phone Banking

Since 2010, we have offered 24-hour, seven-days a week operator services and automatic voice services through our national customer service hotline “95537”. These services include account inquiry, bill payment, credit card, oral report of loss, advisory and call-out services.

Mobile Banking

Our mobile banking service was launched in 2012, consisting primarily of various financial and derivative services such as business inquiry, money transfer and fee payment. These services support a variety of functions such as account management, basic wealth management, money transfer and remittance, bill payment, credit card and funds.

INFORMATION TECHNOLOGY

Our IT systems are an integral part of our business operations. Our IT Management Committee is responsible for the overall management of the development and operation of our IT systems. The establishments of advanced IT systems that are compatible with our overall business service strategies will greatly improve our efficiency, customer service capabilities, risk management and financial management capabilities. We have made and will continue to make large-scale investments in our IT systems. We have set up an IT research and development centre in Beijing, and have engaged Deloitte (Shanghai) to provide consultation services on internal controls. See “– Information Technology – IT Planning”.

IT System

Components of Our IT System

Our IT system consists of five levels, namely channel management (including online banking, customer service centre and self-service terminals), business processing (including core business system, credit system and credit system for Small Enterprise Customers), management analysis (including off-site audit system, risk management system and assets and liabilities management system), internal management (including financial management system, office automation system and IT service management system) and integrated management (including various front line systems and enterprise service bus). These systems are either researched and developed by us or provided by IT product and service providers.

Our major application system comprises our core business system, credit business system, credit system for Small Enterprise Customers, online banking system, off-site audit system, assets and liabilities system and financial system.

Core Business System

Our core business system is the most important application system for our business operations. It has real-time accounting functions, such as account management, product management, transaction management, financial statement management, cash management and general ledger. The information contained in the core business system is the main source of data for the management of our IT system.

Credit Business System

We can input, search, modify and manage the basic information of our corporate and individual customers and information related to our credit business via our credit business system. The functions of this system can be divided into 13 categories, including batch supervision, customer information management, credit facilities management, business approval management, credit contracting, granting and payment management, credit line management, accounting management, post-disbursement management, guarantee management, asset preservation, inquiry and statistics, regional management and system management.

Small Enterprise Credit System

Pursuant to our strategy of developing our credit business to Small Enterprises and Small Enterprise Owners and supporting the expansion of such business, we have devoted resources to the research and development of our credit system for Small Enterprise Customers, to realise digitalisation and automation of the management, statistical analysis, monitoring, approval and control of our credit business to Small Enterprises and Small Enterprise Owners. The system provides a rapid business acceptance platform in line with the characteristics of our credit business to Small Enterprises and Small Enterprise Owners. It can also store, consolidate and collect information related to such business and other relevant business, thus providing information support for supervision and precaution at each level of our business management.

Online Banking System

We established our online banking system in 2009 to provide electronic financial services to customers and improve the experience and satisfaction level of our customers. The internet banking system includes, among others, personal online banking, corporate online banking, internal management system of internet banking, personal mobile banking (WAP) and personal mobile banking (user terminals).

Off-site Audit System

Our off-site audit system provides a basic management platform, audit platform and fraud identification platform for our risk control. Through immediate detection, inspection and dealing with off-site warning messages, the efficiency and accuracy of the internal audit of our Bank were enhanced. We deployed and commenced extensive audit inspections on all branches and business segments. Penalties including fines, dismissal and demotion were imposed on the persons in charge to serve as warnings or deterrents and raise the compliance awareness of all employees.

Assets and Liabilities System

Functions of the assets and liabilities system include identification and quantification of our interest rate risk and liquidity risks and the issuance of the statement of liquidity risk exposure, to form basis for our assets/liabilities allocation. It also features the functions of projection of and analysis on the term structure of our assets/liabilities and provision of forward-looking planning for relevant regulatory indicators.

Financial System

Our financial system contains both financial accounting and internal management functions. Accounting management system provides a basis for assessing the profitability of each segment from different perspectives and data support for our strategic positioning.

IT System Risk Management

We focus on the employment of advanced security technology, including firewall technologies, digitalised verification, intrusion detection and advanced Internet security technology in the banking industry to ensure the security of our IT system. We intend to invest approximately RMB226 million to establish a new data centre, the core component of which will have the highest Tier 4 standards of Uptime Tier Classification and TIA942 upon completion. As for the management of information security, we have established relatively comprehensive information security management systems in accordance with the ISO27001 international standard and obtained the certification from the China Information Technology Security Evaluation Centre in 2012. We are one of the few city commercial banks in China that obtained the ISO27001 certification. To ensure business continuity, we have adopted measures include building two disaster recovery centres in Harbin and Shuangyashan in the event of major disruption or failure of our main data centres. See “Risk Factors – Our business is highly dependent on the proper functioning and improvement of our information technology systems”.

IT Research and Development

We have an experienced IT team. As of 30 September 2013, we had more than 220 employees undertaking IT-related positions and responsibilities. We developed and maintained the key areas of our own IT system, thus ensuring the stable operation and sustainable development of our business systems.

We established our IT research and development centre in Beijing in 2010, and developed core capability in respect of IT research and development. As of 30 September 2013, the IT centre hosted more than 150 research and development employees. Currently, we have strong research and development capacities in a wide range of fields such as our core business system, credit system, fee- and commission-based business system, customer relationship management system and data platform. In addition, we place emphasis on cooperation with domestic and overseas IT research and development experts, as well as other experts, to strengthen our IT innovation.

IT Planning

We plan to further increase investment in our IT systems. In 2011, we worked with Deloitte (Shanghai) to formulate three-year IT development plan for 2012 to 2014. According to the development plan, we will extend the application of our systems to all business operations, providing efficient IT support for the front, middle and back offices to our business operations. Therefore, we can further enhance our comprehensive strengths in channel service integration, customer relationship management, product and service expansion, risk control management, performance improvement and operation management. During the period of the plan, we will carry out ten major projects including data platform establishment, customer management and credit management development. Under the three-year development plan, we expect to incur a total research and development expense of approximately RMB508.4 million of which an aggregate amount of RMB272.8 million had been incurred as of 30 September 2013.

COMPETITION

The banking industry in China is becoming increasingly competitive under the current macroeconomic environment. In particular, the introduction of and changes to relevant policies in the PRC in recent years have intensified competition in certain financial business areas of the domestic banking industry. See “Industry Overview – Current Competitive Landscape of PRC Banking Industry”.

BUSINESS

We mainly face competition from Large Commercial Banks, Nationwide Joint-stock Commercial Banks and other city commercial banks which have established branches in Heilongjiang Province as well as local banks in Heilongjiang Province. We also face competition from foreign banks that carry out their business in Heilongjiang Province. We also face competition from banks in other regions in which we operate. We compete with our competitors primarily on product variety and prices, service quality, brand recognition and distribution channels. In addition, we compete with non-banking financial institutions, such as small-credit firms and insurance companies, in the provision of financial services.

The intensifying competition may have adverse effects on our future business and results of operations. See “Risk Factors – Risks Relating to the PRC Banking Industry – Intensifying competition in the PRC banking industry and competition in the emerging capital markets of the PRC in terms of capital could have material adverse effects on our business, financial condition, results of operations and prospects”.

Staff

As of 31 December 2010, 2011 and 2012 and 30 September 2013, we had 3,944, 5,237, 6,546 and 7,414 full-time employees, respectively. The table below sets forth a breakdown of all our full-time employees by function as of 30 September 2013:

	Number of employees	Percentage
Corporate banking	1,160	15.6%
Personal banking	2,720	36.7%
Treasury operations	84	1.1%
Finance and accounting	695	9.4%
Risk management, internal audit and legal compliance	355	4.8%
Information technology	269	3.6%
Management ⁽¹⁾	552	7.4%
Others ⁽²⁾	1,579	21.3%
Total	<u>7,414</u>	<u>100.0%</u>

Notes:

- (1) Including senior management of the headquarters, general managers, deputy general managers and assistants to general managers of departments of the headquarters and direct-affiliated entities; branch presidents, deputy presidents of branches and assistants to branch presidents; presidents of sub branches, deputy sub-branch presidents and assistants to sub-branch presidents.
- (2) Including staff of departments, such as human resources, administration and supporting staff, operation management, electronic banking management and service.

As of 30 September 2013, the average age of our full-time employees was 31 years, and over 80% of our full-time employees had bachelor’s degrees or above.

We provide social insurance and other benefits to our employees, such as basic pension insurance, basic medical insurance, work injury insurance, unemployment insurance, maternity insurance, housing funds and personal accident insurance pursuant to the PRC Labour Law and relevant requirements of the national and local government. Basic pension insurance, basic medical insurance, unemployment insurance and housing funds are contributed by us and the employees at a certain proportion in accordance with the relevant local requirements. The social insurance premiums payable by employees are paid by us on behalf of them.

We have established an employee appraisal, training and personnel training system. We have developed a three-level training system with coordination between the headquarters, branches and sub-branches. We have also developed an electronic training and education platform. We combine our

development strategy with the career development of individual employees, and pay much attention to the training of young employees, senior management and professionals, in particular. The implementation of our “Professional Managers Training Plan” (職業經理人培養計劃) since 2009 provides a talent reserve for our future growth. As of 30 September 2013, we attracted and cultivated more than 170 graduates from universities in the PRC and abroad. We have established effective employee incentive mechanisms to promote the career development of employees through the implementation of business line management, performance management and remuneration package management.

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

PROPERTIES

Our headquarters is located at 160 Shangzhi Avenue, Daoli District, Harbin, Heilongjiang Province, the PRC. We owned 334 properties in the PRC as of 31 January 2014 and leased 362 properties in the PRC as of 31 January 2014.

Owned Properties

As of 31 January 2014, we owned and occupied 334 properties in the PRC with an aggregate GFA of approximately 260,357.16 square metres.

We have obtained the relevant building ownership certificates and land use right certificates for 253 properties, with an aggregate GFA of approximately 211,283.96 square metres, accounting for approximately 81.15% of the aggregate GFA of all our owned properties.

We have not obtained the land use right certificates or building ownership certificates in respect of 81 properties with aggregate GFA of approximately 49,073.2 square metres, representing approximately 18.85% of the aggregate GFA of our owned properties. Such properties are mainly used as our offices, outlets or for other commercial purposes. Among these properties:

- We have not obtained the land use right certificates in respect of 37 properties with aggregate GFA of approximately 7,836.08 square metres, representing approximately 3.01% of the aggregate GFA of our owned properties. However, we have obtained the relevant building ownership certificates. We have been advised by Jun He Law Offices Beijing, 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 may be restricted unless we obtain the corresponding land use right certificates.
- We have not obtained the land use right certificates and building ownership certificates in respect of 44 properties with an aggregate GFA of approximately 41,237.12 square metres, representing approximately 15.84% of the aggregate GFA of our owned properties. We have been advised by Jun He Law Offices Beijing, our PRC legal advisor, that we should obtain the building ownership certificates and the land use right certificates in accordance with the law before we are entitled to legally occupy, use, benefit from or dispose of such properties.

The Directors of our Bank are of the view that such title defects will not have material effect on our operation. We are currently in the process of obtaining the relevant title certificates of the properties with defective legal title and if necessary, we would be able to replace these properties with comparable

alternatives without any material adverse effect to our operations. See “Risk Factors – Risks Relating to Our Business – We have not obtained the title certificates for some of the properties held by us, and some of the lessor of the properties we leased have not obtained the relevant title certificates, which may materially and adversely affect our rights to use such properties”.

Properties Under Construction

As of 31 January 2014, we held one property under construction in the PRC. The construction of the property has not yet commenced. We have obtained all relevant construction-related permits and approvals as required by the PRC laws except for the construction permit.

Property to be Acquired

As of 31 January 2014, we had entered into agreements with some real estate developers or sellers to purchase 21 properties with an estimated aggregate GFA of 49,725.63 square metres. As of the Latest Practicable Date, the rights of use and ownership titles of such properties had not transferred to our Bank. We have been advised by our PRC legal advisor that the relevant real estate sale and purchase contracts entered into by the seller and purchasers are binding upon both parties, and our Bank has fulfilled our payment obligations according to the contracts.

Leased Properties

As of 31 January 2014, we leased 362 properties with an aggregate lettable available area of approximately 136,791.235 square metres in the PRC.

Among these 362 leased properties, 75 leased properties, with an aggregate lettable area of approximately 32,746.34 square metres were leased from lessors who were not able to provide the title certificates, representing 23.94% of total GFA of leased properties of our Bank. In respect of this, our Bank has proactively procured these lessors to apply for the relevant title certificates or provide us the consent to lease properties. With respect to these leased properties with defective legal title, the lessors of 61 leased properties (with an aggregate lettable area of approximately 26,956.51 square metres, representing approximately 82.32% of total GFA of properties leased from lessors who were not able to provide title certificates) have provided undertaking letters to undertake to us that they have the right to lease these properties, and undertake to compensate us for losses arising from the defective legal title of these leased properties. As advised by our PRC legal advisor, we will have the right to seek compensation from the lessors pursuant to the applicable laws and regulations, the relevant lease agreements or undertaking letters in respect of the above 75 leased properties with defective legal title.

We are of the view that the absence of valid title certificates to these leased properties will not have any material adverse impact on our operation. This is because most of our leased properties can, if necessary, be replaced by other comparable alternative premises, and no significant practical difficulties are expected in the course of relocation to these alternative premises. See “Risk Factors – Risks Relating to Our Business – We have not obtained the title certificates for some of the properties held by us, and some of the lessors of the properties we lease have not obtained the relevant title certificates, which may materially and adversely affect our rights to use such properties”.

INTELLECTUAL PROPERTY RIGHTS

We conduct our business under the names of “Harbin Bank” and “哈尔滨银行”. We own a total of 24 PRC registered trademarks and four Hong Kong registered trademarks. We have applied for registration

of 47 trademarks in the PRC. We are also the registered owner of the domain name of our website “www.hrbc.com.cn”. See “Appendix VIII – Statutory and General Information – Further Information about Our Business – Our Intellectual Property Rights”.

The trademark “” (individually and collectively with our Chinese and/or English name), for which we have the copyright, has been widely used on our signboards, badges, publicity materials and internal documents. We have applied to the Trademark Appeal Board of the State Administration for Industry and Commerce of the PRC (the “Trademark Appeal Board of SAIC”) for registration of such trademarks. However, since such trademarks involve pending disputes on the exclusive right of trademark, we have not completed the registration process and have not obtained the exclusive right to use such trademarks as of the Latest Practicable Date. As of the Latest Practicable Date, of the two trademark disputes, one had been judicially finally determined and one dispute is still pending. As advised by our PRC legal advisor, when we use such trademarks before the exclusive right is obtained, we are not able to enjoy the protection applicable to the holders of exclusive right of trademark under the PRC laws and regulations, but our copyright and use right in the trademark “” was confirmed by the PRC judicial authority. In addition, we have completed relevant trademark registration in Hong Kong. See “– Compliance and Legal Proceedings” and “Appendix VIII – Statutory and General Information – Further Information about Our Business – Our Intellectual Property Rights”.

COMPLIANCE AND LEGAL PROCEEDINGS

Licences

As of the Latest Practicable Date, we had obtained all necessary licences for our business operations.

Claims and Legal Proceedings

We are involved in certain claims against us and are involved in a number of legal proceedings arising from the ordinary course of our business. Most of these claims and legal proceedings involve enforcement claims initiated by us to demand repayment of our loans. As of the Latest Practicable Date, we had 16 pending lawsuits, each with claim amount of over RMB10 million. We are a plaintiff in these lawsuits and the total potential amount of these claims is approximately RMB703.7 million. We have been advised by Jun He Law Offices Beijing, our PRC legal advisor, that none of the above mentioned 16 legal proceedings will, have a material impact on our financial condition or results of operations. Our Directors do not expect any of such legal proceedings to, whether individually or in the aggregate, have a material adverse effect on our financial condition or results of operations.

Trademark Dispute

The registration of our trademark “” (individually and collectively with our Chinese and/or English name) has not been completed due to the following disputes.

Judicially concluded disputes between our Bank and LV Qiuyang

Lv Qiuyang, an individual, submitted an application for registration of the trademark “” (registration No.: 5867623) and obtained the exclusive right of the trademark in 2007 and subsequently filed a lawsuit against us in 2011, claiming that the trademarks used by us infringed his exclusive right of trademark. The court acknowledged that we have the copyright of the disputed trademark due to our prior use of the trademark. Therefore, the court ruled against Lv Qiuyang, holding that our use of the

trademark does not constitute an infringement against Lv Qinyang's exclusive right of trademark. On 4 January 2013, the Trademark Appeal Board of SAIC decided to withdraw Lv Qiuyang's exclusive right of the disputed trademark (registration No.: 5867623). On 26 February 2013, Lv Qiuyang initiated administrative proceedings against the Trademark Appeal Board of SAIC (as defendant) in Beijing First Intermediate People's Court, requiring the defendant to revoke the decision to withdraw plaintiff's exclusive right over the disputed trademark (registration No.: 5867623). We were the third party in the proceedings. Beijing First Intermediate People's Court upheld the decision of the Trademark Appeal Board of SAIC to withdraw LV Qiuyang's exclusive right of the disputed trademark (registration No.:5867623) on 12 July 2013. On 11 October 2013, Beijing People's High Court issued the final ruling to turn down the appeal by Mr. Lv on the judgment of the Beijing First Intermediate People's Court.

Pending disputes between our Bank and Guangzhou Dingjun Corporate Management Consultants Ltd.

Guangzhou Dingjun Corporate Management Consultants Ltd. (廣州市鼎駿企業管理顧問有限公司) owned exclusive right of trademark “” under registration No. 9587315. On 14 December 2012, we applied to the Trademark Appeal Board of SAIC to cancel the registered trademark No. 9587315 due to the fact that its trademark had infringed our existing copyright and bore similarity with the trademark under registration No. 5867623, (the registration of which has now been cancelled). As of the Latest Practicable Date, the dispute resolution procedure was still in progress.

See “Risk Factors – We may be involved in legal and other disputes in relation to our business operations from time to time, which may lead to potential liabilities and risks”.

Findings of Regulatory Examinations and Compliance with Core Indicators

We are subject to various regulatory requirements and guidelines set forth by the PRC regulatory authorities, which include without limitation the CBRC, the PBOC, the CSRC, the SAFE, the MOF, the SAIC, the CIRC, the NAO and the SAT, and their respective local branches and offices. These regulatory authorities carry out inspections and examinations in respect of our compliance with the required ratios as provided in the Core Indicators (Provisional) issued by the CBRC, legal and regulatory requirements and guidelines relating to our business operations, risk management and internal controls. These inspections and examinations have previously resulted in findings of incidents of non-compliance, for which we have been penalised. Although these incidents and penalties did not materially and adversely affect our business, financial condition or results of operations, we have implemented improvements in our compliance systems and remedial measures to prevent the recurrence of such incidents.

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Administrative Penalties

During the Track Record Period and up to the Latest Practicable Date, we were subject to one fine imposed by the PBOC, amounting to approximately RMB20,000. This fine was imposed by the local branch of the PBOC on our Chengdu branch. We have paid the fine in full and have taken steps to address the issues described above. Details of the fine imposed on us and our primary remedial measures are set forth below:

PBOC

Details of fine	Our primary remedial measures
In June 2011, the Chengdu branch of the PBOC discovered during an inspection that certain staff members at our Chengdu branch requested the individual credit reports of our customers in the absence of the written authorisation of the customers. As a result, a fine of RMB20,000 was imposed.	Provided training on credit inquiry system to our employees; penalised the person-in-charge; strictly implemented the credit inquiry management system; and strengthened the authorisation management of credit inquiries.

We have fully settled the fine. This fine did not materially and adversely affect our business, financial condition or results of operations. In addition to the primary remedial measures taken in response to the past administrative penalty, we have also adopted operational measures, which include supervising and improving our credit inquiry management system, accountability system and other relevant systems, strictly executing and implementing such systems, and enhancing the training of our staff in business departments.

Findings of Regulatory Examinations

Although certain routine or *ad hoc* examinations conducted by the PRC regulatory authorities did not result in fines or other penalties imposed on us, certain deficiencies or failures of strict compliance with applicable regulatory requirements or guidelines were identified in our business operations, risk management and internal controls. The primary results identified during these examinations are summarised below.

CBRC

The CBRC Heilongjiang Bureau and other relevant local branches of the CBRC conduct routine and *ad hoc* inspections on our Bank, including on-site inspections of our headquarters, branches and sub-branches. Based on these inspections, the local branches of the CBRC issued inspection reports setting forth their inspection results and guidance.

During the Track Record Period and up to the Latest Practicable Date, the relevant local branches of the CBRC carried out routine and *ad hoc* inspections on our Bank. During these inspections, the relevant local branches of the CBRC identified certain issues in some of our branches and sub-branches, which mainly included deficiencies in the operating procedures of our loan business, discounted bills and accounts management, as well as deficiencies in the establishment and enforcement of our risk management and internal control systems. The key issues identified and main recommendations proposed by the relevant local branches of the CBRC in its reports and our main remedial measures are summarised below:

Material issues and main recommendations	Our primary remedial measures
Improve credit management and asset quality through strictly complying with and enforcing rules and guidelines of the CBRC relating to credit management and business operation and strengthening loan review and approval, risk assessment and post-disbursement management. In particular, the deficiencies identified included: • we did not carry out at lending and post-lending investigations for certain loans; and • the procedures for and standard loan agreements of certain branches were not refined on a timely basis.	Improve internal control and risk management systems based on the CBRC guidelines on credit approval procedures and post-disbursement management; strengthen the management of the details of our loan granting process and post-disbursement supervision and management; penalise the person responsible for the non-compliance incidents; enhance our employees' capabilities to enforce the systems through training and assessment; upgrade the functions of information technology system.
Strengthen the establishment of the management system of discounted bills and the management of operating procedures; strengthen the prevention of corporate credit risks and industry concentration risks. In particular, the deficiencies identified included: • high industry concentration of acceptance bills business of our Tianjin Branch; and • insufficient inspection, review and post-lending inspection of certain bills business of certain branches.	Improve the management system of our discounted bills business; provide training on compliance and risk management for operational staff; improve the enforcement of the relevant systems through conducting our business in strict compliance with applicable laws and regulations as well as our internal rules and procedures; tighten the supervision of the source of deposits and the application of discounted cash; investigate the responsibilities of the person who committed the non-compliance and impose penalties accordingly; strictly control industry concentration risks.
Strictly implement the compulsory leave policies and strengthen the prevention of operational risks.	Arrange rotation and compulsory leave for employees in important positions pursuant to applicable regulations; carry out exit audits of employees.
Strengthen account management and capital disbursement management. In particular, the deficiencies identified included: • the opening of certain general deposit accounts and the management of account information did not fully comply with applicable requirements; and • certain branches did not strictly comply with the requirements of entrusted payments.	Optimise our account management system and capital disbursement management system; strictly comply with the rules regarding entrusted payments; strengthen account review and conduct account reconciliation with enterprises in a timely manner; and enhance staff training.

In addition to the above, the CBRC Heilongjiang Bureau conducted on-site and off-site inspections on our business performance on an annual basis and issued annual inspection reports according to the inspection results, mainly setting out (1) the main business development achievements of our Bank for the year; and (2) the material issues and major recommendations. In the annual report of the three financial years from 2010 to 2012, the CBRC Heilongjiang Bureau affirmed the results of operations of our Bank and confirmed that the major regulatory indicators of our Bank fulfilled the standards and the material risks were controllable. The inspection report for the three years contained certain suggestions and recommendations in respect of the material issues. We also took measures to improve or strengthen our management capability in the relevant year or the following year, the details of which are as follows:

Material issues and major recommendations	Measures to further improve and strengthen our management capability
Credit risks and management Strictly comply with the loan management policies, and enhance the disposal of non-performing loans, the management of remote loans and granting of credit.	• Continue to strengthen comprehensive risk management and carry out on-going monitoring and early warning; • Formulate and issue credit risk management policies on an annual basis to further improve the controlling standards for non-performing loan ratios, and strengthen the management on precaution of risks; establish management mechanisms for problem loans; • Impose strict entry requirements on remote loans; set up supervision and handling systems for overdue loans to farmers; and formulate strict credit policies in respect of remote loans of small enterprises.
Liquidity risks and management Enhance the stability of core deposits and liabilities dependence, improve liquidity management techniques and optimise our revenue structure.	• Develop and improve the assets and liabilities implementation information system, and optimise the structure of assets and liabilities; as of November 2013, the core liabilities dependence of the Bank satisfied and surpassed the regulatory standards, and our assets and liabilities structure has been improved; • Conduct liquidity risk stress test on a regular basis, and engage a well-known consulting firm, to make suggestions on the liquidity risk management of the Bank; • Create high-quality liquidity asset reserves, and strengthen the liquidity of assets; • Strengthen the analysis and monitoring of the debt concentration, and enhance the management of assets and liabilities maturity mismatch.

Material issues and major recommendations	Measures to further improve and strengthen the management capability
Operation risks Management of accounts and account opening of certain branches are not standardised; the grant of credit is not implemented in strict accordance with procedures; and some internal control and risk management systems have defects.	- Standardise non-compliance accounts, and impose restrictions and adjustments on terms of reference of different tellers; strictly enforce separation of loan approval and grant; carry out staff training and enhance supervision; - Conduct rectification on relevant branches. Each branch shall carry out self-examination on its accounts and shall strictly comply with operating procedures for account opening; - Establish comprehensive credit management quality evaluation system for the branches, and carry out comprehensive assessment, inspection and management; - Our Bank adjusted the relevant internal control and risk management systems in January 2013 to eliminate the existing defects.
Technology risks Strengthen the IT management and system establishment carried out by the risk management department and Internal Audit Department.	- Risk management department takes the lead to organise the IT risk management, responsible for coordinating the formulation of IT risk management policies; - Engage Deloitte (Shanghai) to conduct comprehensive internal control arrangement for our Bank, and carry out internal audit on the IT projects; - Network of the headquarters was restructured, and Phase II of disaster recovery system was set up to mitigate IT risks.
Corporate governance Strengthen the remuneration incentive mechanism and the transparency of remuneration appraisal; and further improve the internal audit and management capability of consolidated statements of risks of subsidiaries.	- Comprehensive remuneration and performance appraisal system was established, and total performance-based remuneration of the senior management for the year was disclosed in the annual report. Organisational structure, hierarchy and the consolidated statements management of each department were further improved. Efforts were made to strengthen risk-oriented internal audit capability and enhance the training for internal audit staff; - A number of risk management systems were formulated, such as Measures on Compliance Risk Management of Harbin Bank (哈爾濱銀行合規風險管理辦法) and Measures on IT Risk Management of Harbin Bank (哈爾濱銀行信息科技風險管理辦法).

Material issues and major recommendations	Measures to further improve and strengthen the management capability
Management of branches and rural subsidiaries	
Strengthen the management of bills business and innovative business of certain branches in other provinces; enhance the management of risk concentration and liquidity of rural subsidiaries; and optimise the corporate governance and internal control of branches and rural subsidiaries.	• Verification and management were enhanced to ensure the authenticity of the bills margin of branches, and strict appraisal, review and post-loan management were conducted on guarantor enterprises; possible risks were disclosed for new businesses and corresponding measures were carried out in branches to prevent the risks; • Credit risk management for rural banks was strengthened; • Management levels of the branches were defined to further refine the formulation of network planning; • Distribute the Notice Regarding Further Improvement on Corporate Governance (進一步完善公司治理的通知) to rural banks to strengthen their corporate governance knowledge; strengthen the training for rural banks; adjust and coordinate the idle funds in rural banks.

Our Bank has submitted a report in relation to the implementation of regulatory opinions reflected in inspection reports issued by the CBRC Heilongjiang Bureau and other relevant local branches of the CBRC. As of the Latest Practicable Date, the CBRC Heilongjiang Bureau and other relevant local branches of the CBRC had no further comments on the implementation of regulatory opinions by us. We have not received any notice requiring us to take further measures or imposing any penalties. According to the inspection results by the CBRC Heilongjiang Bureau, we believe that our business operations, internal audit, internal controls and risk management do not have any material deficiencies. The suggestions on management and risks and guidance opinions given by the CBRC Heilongjiang Bureau and other relevant local branches of the CBRC enable us to improve or enhance our risk prevention and management capabilities, and such suggestions and recommendations have no material and adverse impact on our business, financial condition or results of operations.

PBOC

Relevant local branches of the PBOC conduct routine and *ad hoc* inspections of our Bank, including on-site inspections of our branches, sub-branches and other outlets. Based on these inspections, the relevant local branches of the PBOC issue inspection reports setting forth their findings and recommendations.

During the Track Record Period and up to the Latest Practicable Date, the relevant local branches of the PBOC carried out several routine and *ad hoc* inspections of our Bank. During these inspections, the relevant local branches of the PBOC identified non-compliance incidents or deficiencies in our Bank in respect of anti-counterfeit currency procedures and anti-money laundering procedures, management of credit investigation systems, cash business management and management of payment and settlement. The

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key issues identified and main recommendations made by the relevant local branches of the PBOC in their reports and our main remedial measures are summarised below:

Material issues and main recommendations	Our primary remedial measures
Strictly comply with counterfeit banknote handling procedures, and improve the internal control system of our cash business.	Strictly comply with the standards in dealing with counterfeit currency; establish and improve internal control and review systems; enhance training for staff at the counters.
Strengthen anti-money laundering management and fulfil anti-money laundering obligations such as “know-your-customers”. Strictly and accurately comply with the system of reporting suspicious transactions.	Establish and maintain anti-money laundering systems; Carry out an accountability system for anti-money laundering; organise staff training to enhance their anti-money laundering awareness and understanding of relevant rules and procedures; improve customer identification and data preservation procedures.
Establish a perfect credit investigation system, and enhance the management of our credit investigation systems. In particular, the deficiencies identified included: • delay in data reporting in the credit investigation system; • irregularities in enquiry and management of individual credit reports; and • irregularities in user password management and post-lending management enquiry in certain branches and sub-branches as well as absence of filing of changes of user information.	Rectify any irregularities; increase investment in IT development to update our information platform server, thus ensuring an accurate and timely reporting of credit investigation data and building a transmission system of credit investigation data; enhance the training on credit investigation; establish an enquiry and management system for credit investigation and improve its operation procedures; formulate different systems regarding individual credit investigations and enterprise credit investigations.
Strengthen payment and settlement management, and carry out proper registration of opening and closing of accounts. In particular, the deficiencies identified included: • failure to strictly comply with the registration requirements in respect of the opening, closing and filing of accounts by certain branches; and • failure to comply with the requirements of the formats and contents of RMB purchase and sales data reports and RMB exposure ledgers.	Carry out self-examination on payment and settlement business; rectify any irregularities; improve the payment and settlement and the operation procedures of counter business; optimise audit examination and follow-up control; enhance the training for relevant personnel.
Regulate bank card acceptance business and enhance risk management; improve relevant systems of acquiring business. In particular, the deficiencies identified included: • failure to strictly comply with the market rules for acquiring business; and • deficiencies in relevant systems of acceptance business.	Revise relevant systems of acceptance business; enhance the entry examination of merchants; give guidance to the branches for identifying merchant category efficiently and managing files for merchants, and supervise the compliance of branches; enhance loan approval; strictly control the risk of credit card advances.

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As of the Latest Practicable Date, we had not been subject to any penalties for the aforesaid issues or requested by the PBOC or its relevant local branches to take further remedial measures. According to the inspection results by the relevant local branches of the PBOC, we believe that our business operations, internal audit and risk management do not have material deficiencies that may result in material and adverse impact on our business, financial condition or results of operations.

Audit Office of Heilongjiang Province

The Audit Office of Heilongjiang Province conducts audits on the assets, liabilities and profits and losses of the Bank from time to time in accordance with law. Between June and October 2011, the Audit Office of Heilongjiang Province audited our assets, liabilities and profits and losses for the year 2010, and issued the 2010 annual audit report based on its auditing findings. The main problems identified in the audit report and our main remedial measures are listed as follows:

Main problems identified in audit report	Our main remedial measures
There are certain business management irregularities in relation to the Bank's credit business management, credit settlement and timeliness, as well as investment effectiveness.	• Rectification and regulation of the relevant irregularities, settlement of outstanding current accounts, special research on investment effectiveness and allowance for impairment according to actual circumstances; • Remedial measures and improvements in various systems, including organising and refining credit business systems and operation procedures, strengthening internal control systems, balancing duties and responsibilities, and commencing IT planning consultation projects to enhance technology management.
There are issues of non-compliance in the granting by the Bank of certain loans (including the granting of an off-site loan of RMB90 million in 2010 which was not reported to the relevant authority; a loan of RMB120 million in 2009 to a customer without the borrower's qualifications; an invalid hypothecated loan of RMB100 million in 2002; and a loan of RMB400 million in 1999 used to repay a previous loan).	• We have rectified and regulated such issues of non-compliance in extending loans, and required all branches to implement the General Rules for Loans strictly, enhance employee training, improve their credit business systems and operation procedures and strengthen the development of internal control systems.

The Bank has submitted a report to the Audit Office of Heilongjiang Province regarding the problems identified in the audit report. The above audit findings of the Audit Office of Heilongjiang Province have no material adverse impact on our business, financial condition and results of operations. Save as disclosed above, as of the Latest Practicable Date, we were not required to take further measures as stipulated by the Audit Office of Heilongjiang Province.

SAFE

The relevant local branches of the SAFE will conduct off site and onsite inspection for our foreign exchange business, and will issue inspection reports based on the inspections. Results of inspections and recommendations are included in such reports. During the Track Record Period, the relevant local

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branches of the SAFE conducted inspections of our foreign exchange business and issued inspection results, including evaluations of our management of foreign exchange (we were granted an A rating in the evaluation conducted by Heilongjiang branch of the SAFE for three consecutive years from 2010 to 2012). They also provided guidance and made corrective recommendations relating to our foreign exchange business. The key deficiencies identified and major recommendations made by SAFE and our primary remedial measures were as follows:

Key issues and main recommendations	Our primary remedial measures
Optimise the internal control system and update and enhance the accounting and statistical statement system for settlement and sales of foreign exchange business and the operation guidelines of our foreign exchange business.	Update and issue new internal control systems for our foreign exchange systems; formulate operation guidelines; establish inspection mechanisms for our foreign exchange business and subsequent supervision mechanisms; enhance training and examination mechanisms.
Regulate operation of our foreign exchange business and enhance risk management and control of our foreign exchange business.	Rectify any irregularities; refine and regulate the operation procedures of foreign exchange and the management of employees and enhance internal examination; implement dynamic management and control for liquidity of loan-deposit ratio of foreign exchange capital; increase foreign exchange deposit and adjust foreign exchange loan structure; organise continuous training for employees of foreign exchange business; enhance inspection and supervision of branches.
In particular, the deficiencies identified included: • failure to comply with the requirements of document examination for purchase, payment, receipt and settlement of foreign exchange in trading of goods; • failure to meet requirements on data filing for certain foreign exchange business; and • failure to comply with the requirements of opening or operating certain foreign exchange accounts in certain instances.	
Improve the collection of foreign exchange data, enhance the accuracy of data collected by the settlement and sales system of foreign exchange and improve the data reporting of international payments.	Enhance training for employees of our foreign exchange business; improve collection, reporting and statistics management of data; adjust unreasonable operation procedures; regulate the statistics and reporting of data; reduce risk in relation to mistakes and omissions from reporting.

As of the Latest Practicable Date, we had not been subject to any penalties for the aforesaid issues or received any notice from the SAFE or its relevant local branches requiring us to take any further remedial measures. According to the inspection results by the relevant local branches of the SAFE, we believe there is no material deficiency in respect of our foreign exchange business and risk management and control which may materially and adversely affect our business, financial condition or results of operations.

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Compliance with Core Indicators

We are required to comply with the various ratios as provided in the Core Indicators (Provisional) issued by the CBRC. During the Track Record Period, we had the following incidents of non-compliance with these ratios:

Ratio	Details of non-compliance	Our primary remedial measures
Loan exposure to a single customer	As of 31 May 2010, our loan balance with Harbin Qunli New District Real Estate Development Company Limited (哈爾濱市群力新區房地產開發有限責任公司) exceeded 10% of our net capital. See “Assets and Liabilities – Borrower Concentration”.	Since June 2010, the borrower had started to repay the loan and the loan balance was reduced to RMB550.0 million as of 30 June 2010, representing 9.82% of our net capital.
Allowance adequacy ratio for asset impairment and allowance adequacy ratio for loan	Our allowance adequacy ratio for asset impairment and allowance adequacy ratio for loan were both below 100% as of 31 December 2010.	Our Bank increased general provision for loan impairment and strengthened risk management to control the ratio of non-performing loans.
Cost to income ratio	Our cost to income ratio exceeded 35% as of 31 December 2010.	We adopted measures to increase income through enhancement of asset structure and strengthen management on product pricing. At the same time, we actively controlled cost and expenses and thereby reduce the cost to income ratio.
Core liabilities ratio	Our core liabilities ratio was less than 60% as of 31 December 2012.	We conducted liquidity stress test at quarterly intervals, reduce fluctuations of deposit, strengthen liability management and increased proportion of fixed deposits.

In each of the above incidents of non-compliance, we were not penalised or fined and were only verbally requested by the regulatory authority to adopt rectification measures. In response to such requests, we adopted the measures described above and have complied with these ratios in subsequent years.

We do not believe that the relevant PRC regulatory authorities’ findings or non-compliance with the ratios under the Core Indicators (Provisional) described above revealed any material deficiencies in our internal control or risk management systems. To the extent that any of these findings suggests any such deficiencies, we believe we have taken the necessary steps to correct them. We have reported the status of the implementation of our remedial measures to the relevant regulatory authorities following the inspections by such authorities. None of these findings, incidents of non-compliance or administrative penalties has resulted in any material adverse impact on our financial condition or results of operations. As advised by our PRC legal advisor, Jun He Law Offices Beijing, as of the Latest Practicable Date, the relevant PRC regulatory authorities had not imposed any further administrative penalties in relation to these incidents. See “Risk Factors – Risks Relating to Our Business – We are subject to various PRC regulatory guidelines and requirements, and our past non-compliance could have an adverse impact on our reputation, business, financial condition and results of operations”.

Employee Non-compliance

We have, from time to time, detected non-compliance incidents committed by our employees, customers and other third parties. The non-compliance incidents committed by our employees mainly relate to non-compliance with our internal rules regarding the credit review and approval process, counter processing procedures and accounting related matters. None of our Directors and senior management has been involved in any such incidents of non-compliance. We believe that such non-compliance, individually or in the aggregate, will not have any material adverse effect on our business, financial condition and results of operations. During the Track Record Period, we did not discover any material employee misconduct involving criminal activities.

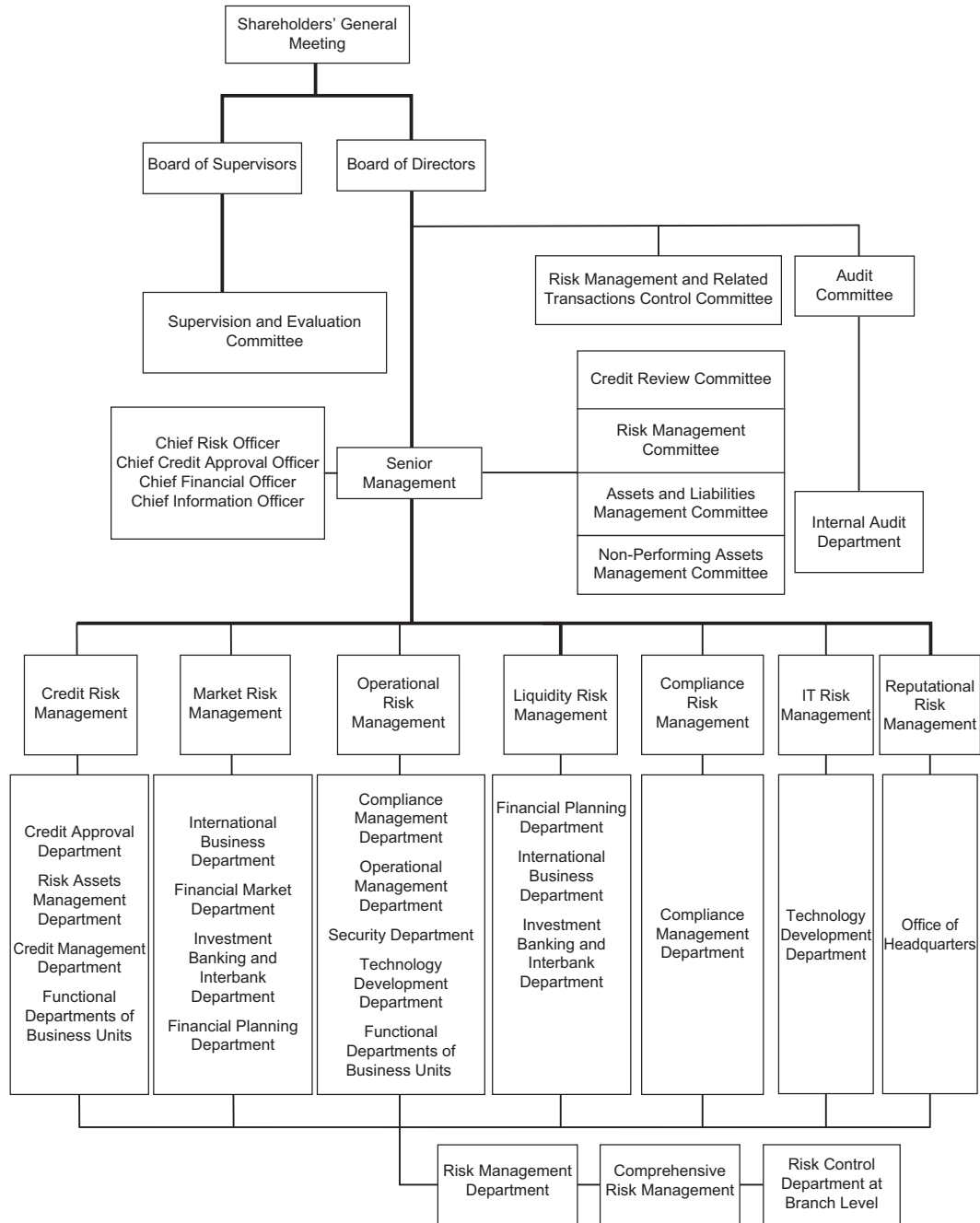
The Directors are of the view that the findings of the regulatory authorities and the non-compliance incidents did not reveal any material deficiencies in our operations, internal audit, internal controls or risk management.

RISK MANAGEMENT

RISK MANAGEMENT FRAMEWORK

Our Bank monitors and controls its risk exposure through various reporting systems that cover the financial, management, compliance and legal aspects of our business operations. We have established a four-tier governance framework for risk management and internal control: the four levels being the Board, the Board of Supervisors, the senior management and the operations.

The following chart sets forth the risk management structure of our Bank:



Board and Special Committees

The Board is the highest decision-making and risk management body of our Bank. It is responsible for reviewing and approving our Bank's risk management and internal control systems and strategies, evaluating our Bank's risk management and internal control performance, and enhancing them based on the evaluation results. The Risk Management and Related Transactions Control Committee and the Audit Committee of the Board are responsible for assisting the Board in fulfilling its responsibilities in respect of risk management and internal control.

Risk Management and Related Transactions Control Committee

The Risk Management and Related Transactions Control Committee is mainly responsible for monitoring the control exercised by our senior management over credit risk, market risk and operational risk; conducting periodic evaluations of our Bank's risk profile and providing suggestions on how to optimise risk management; reviewing our Bank's policy on asset and liability management; and providing advice on the optimisation of risk management and internal control.

Audit Committee

The Audit Committee is mainly responsible for reviewing our internal control policies and their implementation. The Audit Committee supervises and evaluates the performance of the Internal Audit Department, and coordinates our internal and external audit work.

Board of Supervisors

The Board of Supervisors supervises the effectiveness of the compliance risk management conducted by the Board and the senior management. It is also responsible for overseeing and evaluating our Bank's compliance with legal requirements and the performance of duties by the Board and management. The Supervision and Evaluation Committee is established under the Board of Supervisors to supervise our Bank's risk management and internal control, and provide supervisory advice.

Senior Management

Our senior management is the highest executive level of risk management of our Bank. Risk management functions are mainly performed by four designated personnel and four special committees relating to risk management.

- *Chief Risk Officer*: mainly responsible for the overall implementation of our Bank's risk management strategies, coordinating the formulation of comprehensive risk management policies and the establishment of a risk management organisational structure (including coordinating the formulation of risk management rules and procedures, comprehensive risk monitoring, identification and reporting and the construction of an internal control system) so as to strengthen internal control and compliance management, and the promotion and development of our risk and compliance culture.
- *Chief Credit Approval Officer*: mainly responsible for the construction and management of our credit review and approval system; optimising the credit risk management system; promoting our credit business operations; as well as preventing and controlling the credit and operational risks in our credit business.

RISK MANAGEMENT

- *Chief Financial Officer*: mainly responsible for the construction and improvement of our overall financial policies; establishing a strict internal financial system and a cost and expenses management system; and overall planning, establishment and operation of our financial system and proposing forward-looking alerts and measures from a risk control perspective.
- *Chief Information Officer*: responsible for formulating the IT development plan; coordinating our IT management; coordinating the establishment of our IT management organisational structure and IT departments; coordinating and promoting the implementation of our IT management plan; coordinating the establishment of our IT risk management system; formulating and implementing our risk management strategies, ensuring the effectiveness of our IT risk management, and performing other duties relevant to IT risk management.
- *Risk Management Committee*: a special committee responsible for the overall control, management, evaluation and monitoring of bank-wide risks. Its main responsibilities range from the supervision and management of bank-wide operational risk, reviewing the organisational structure and planning in connection with the supervision and control of various risks and reporting the same to the Board for approval or record, supervising the operation of the risk management organisations for operational risks, developing of our organisational structure and rules on our bank-wide operational risk management, making decisions as well as conducting regular reviews of various risk limits, authorisation, risk management systems and policies that are within the committee's authority.
- *Credit Review Committee*: the highest decision-making organ of our Bank in connection with the review and approval of our credit business, which provides decisions on the relevant credit business and matters. Its main responsibilities include the review and approval of various on- and off-balance-sheet credit business in excess of approval authorities of relevant departments in each business line and the credit approval department in our headquarters, and providing decisions thereon.
- *Assets and Liabilities Management Committee*: mainly responsible for determining the total amount and composition of assets and liabilities, determining business strategies for bond investments and bills, proposing measures for improving asset and liability management, monitoring and managing various regulatory indicators and business operation indicators, focusing on the enhancement of the level of return on assets and the effectiveness of cost control policies, deciding on the plans for handling any materially unusual conditions relating to asset and liability management arising in operating activities, reviewing and determining the policies for liquidity management and interest rate management, determining the contingency plans for liquidity management, determining the performance appraisal plan for asset and liability management, and evaluating the implementation results of the policies for asset and liability management.
- *Non-performing Assets Management Committee*: responsible for reviewing and determining the preservation, recovery, restructuring and disposal of non-performing assets that are in excess of the approval authority granted to the risk assets management department.

Any resolution of the Risk Management Committee, Credit Review Committee, Assets and Liabilities Management Committee and the Non-performing Assets Management Committee may only be passed by the approval of two-thirds or more of the respective committee members present at the meeting.

OPERATION

Headquarters

Our Bank's risk management functions are performed by several departments in our headquarters:

- *Risk Management Department:* the core department of our Bank for risk management and responsible for overall risk management. Its main responsibilities include formulating and optimising our risk management rules and annual risk control policies; developing and maintaining the risk measurement instruments; managing credit risk portfolios; identifying, measuring, monitoring and reporting our major risks; submitting risk analysis reports to the Risk Management Committee; and managing the authorisation process.
- *Credit Management Department:* a functional department of our risk management mainly in charge of coordinating our Bank's credit business management, including formulating our credit business policies and planning, credit business management and maintaining the credit system.
- *Credit Approval Department:* one of our Bank's core departments for credit risk management and mainly responsible for the managing of our credit business; reviewing and approving credit business within its approval authority; and submitting its review comments to the Credit Review Committee of the headquarters for approval where the credit business is beyond its approval authority.
- *Compliance Management Department:* our Bank's core department for compliance risk and legal risk management and mainly responsible for monitoring, identifying, evaluating and reporting of any compliance risk and legal risk, and being responsible for the management of anti-money laundering and internal control of our Bank.
- *Financial Planning Department:* a business department for the management of our liquidity risk and bank account interest rate risk. In relation to liquidity risk, the department is mainly responsible for setting the liquidity management objectives and their implementation plans, coordinating management work and deploying funds, routine monitoring and management of liquidity risk, monitoring and managing the liquidity ratio indicators, and contingent liquidity management. In relation to capital management, the main duties of the department are to managing our interest rates, ensuring implementation of the national policy on benchmark interest rates for deposits and loans denominated in RMB and foreign currencies, and determining the interest rates for intra-bank capital transfers.
- *Risk Assets Management Department:* a business department for the management of our non-performing assets. Its duties are to formulate various rules for managing and disposing of our non-performing assets, provide guidance on and examine the management and disposal of non-performing assets by different branch institutions, convene meetings of the Non-performing Assets Management Committee at the headquarters level and supervise the implementation of resolutions of such meetings; and to review and approve matters concerning the management and disposal of non-performing assets of branches according to its approval authority.
- *Internal Audit Department:* the supervisory and appraisal department for our internal control management. There are six divisions under the Internal Audit Department, namely Harbin regional audit division, Shuangyashan regional audit division, Tianjin regional audit division, off-site audit centre, on-site audit centre and Village and Township Banks audit centre. These divisions are responsible for the internal audit and supervision of all businesses and entities within our Bank, and provide support and services for the internal audit and supervision of all

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Village and Township Banks of which our Bank is the controlling shareholder. The Internal Audit Department is subject to the supervision and appraisal of the Audit Committee of the Board, and is independent from the entities and departments being audited. The audit budget and salary of the personnel of the Internal Audit Department are determined by the Board or the Audit Committee of the Board. The appointment, removal and performance appraisal of the key personnel are determined by the Board.

- *Technology Development Department:* a functional department for our IT risk management. It is responsible for the construction of our IT infrastructure and the management of IT risk.
- *Office of Our Headquarters:* mainly responsible for managing our reputational risk, identifying and handling in a timely manner any reputational risks that may arise from time to time.
- *Other Business Departments:* in addition to the above functional departments for risk management, all other business departments of our Bank also implement our risk management policies and procedures. Our business departments each perform their own risk management functions in their respective business areas in accordance with the risk features of their respective businesses.

Branches

Our Bank has established risk control departments in its branches to identify, monitor and report any risks faced by the branches, such as credit risk and operational risk.

MAJOR RISK MANAGEMENT

Our Bank aims to be a “domestically leading, internationally renowned microfinance bank” and has adopted a risk management model and process suitable for the development of our microcredit business in order to achieve the balanced development of scale, quality and efficiency. Our Bank allocates its capital in a rational manner and within an acceptable risk range with the aim of maximising our revenue and ensuring the achievement of our strategic objectives.

Our risk management objectives are to:

- improve the corporate governance and risk management mechanism to ensure that the Board, the senior management and the risk management personnel at all levels implement comprehensive risk management in accordance with the risk management strategies formulated by our Bank;
- establish a comprehensive, independent and vertical organisational structure for risk management and develop a risk management system with a clear division of duties and responsibilities;
- formulate comprehensive risk policies, rules and procedures to ensure that our risk management covers all our businesses, products and positions;
- develop and apply risk management tools and means to identify and measure risks so as to ensure that risk information is timely communicated at different levels;
- nurture our risk management culture via the management’s supervision and management, regulation and managerial accountability, as well as staff training.

The major risks of our Bank include credit risk, market risk (including interest rate risk and exchange rate risk), liquidity risk, operational risk, IT risk, reputational risk and compliance risk.

RISK MANAGEMENT

Credit Risk Management

Credit risk refers to the risk of economic losses suffered by our Bank due to impact on the value of the financial products as a result of the failure by the debtor or the counterparty to fulfil its obligations under the contract or changes in its credit rating. Our credit risk is primarily associated with such businesses as loan portfolios, investment portfolios, collateral, commitments and other on- and off-balance sheet risk exposures.

In terms of the governance structure of our credit risk management, the Risk Management and Related Transactions Control Committee is established at the Board level, while the Risk Management Committee, the Credit Review Committee and the Non-performing Assets Management Committee are set up at the senior management level. The Risk Management Committee is responsible for supervising and managing bank-wide credit risk, as well as reviewing credit risk management policies and rules, credit risk limits and authorisations. The Credit Review Committee is the highest decision-making body for our credit business transactions. The Non-performing Assets Management Committee is responsible for reviewing and determining the rules in relation to the recovery of our non-performing assets and other related recovery policies. Our risk management department, credit management department, credit approval department, risk assets management department and other related business departments are responsible for the daily credit risk management within their respective authority and duties.

Our Bank adopts a unified risk appetite in credit risk management to control its risks within an acceptable range with an aim of achieving satisfactory risk returns and successfully identifying, measuring, monitoring and controlling credit risk.

Credit Risk Management and Control Measures

Our risk management department formulates the risk management policies for the year ahead at the end of each year in accordance with the regulatory requirements and priorities of various regulatory authorities as well as our own management requirements. In the middle of each year, the risk management department will adjust the credit risk policies according to the risk management conditions and relevant policies promulgated in the first half of the year. We also conduct centralised management over the overall credit approvals for single customers, group customers and customers in the banking industry and optimise the structure of credit assets based on the credit policies of various industries.

Our authorisation is granted primarily based on general authorisation policies and supplemented by authorisations granted via ad hoc powers of attorney. We formulate an authorisation matrix with customer ratings and risk mitigation as its two criteria, and differentiate authorisation limits according to regional risk index and the assessment results of the risk management capabilities of different branches. We have established a risk limit system comprising a portfolio risk limit and single customer risk limit to achieve the quantitative estimation of portfolio risk limit and single customer risk limit, so as to keep the concentration risk under control. Our Bank fully takes into account risk costs to ensure that relevant risks are adequately covered in determining loan pricing. Our Bank has established a credit risk reporting system between all departments and the risk management department, as well as between our headquarters and the branches.

Credit Risk Management Tools

Internal Rating Method for Credit Risk

In order to improve credit risk measurement and to meet the regulatory requirements of Basel III and from the CBRC, our Bank launched a programme to carry out comprehensive risk management and

implement Basel Accords in 2011, and began to develop an internal rating system in 2012. The establishment of our internal rating system will take place in three steps: (1) the overall framework design of the internal rating system, (2) the development and application of the internal rating model for retail/non-retail risk exposures; and (3) the stage III examination of the internal rating system. Our Bank has completed the overall framework design of the internal rating system and is now gradually advancing the development and application of the internal rating model for retail/non-retail risk exposures.

Six Credit Risk Management Mechanisms

The risks associated with different credit business lines vary widely. In order to unify the credit risk management requirements of various business lines, our Bank has developed six credit risk management mechanisms, i.e., pre-approval investigation, credit review and approval, credit disbursement management, post-disbursement management, risk alert and non-performing assets management.

Pre-approval investigation: pre-approval investigation is conducted based on the type of the business and the relevant risk appetite and is carried out in a sufficient manner so as to effectively identify and assess risks, formulate reasonable credit disbursement plans, implement unified credit management and achieve balance between risks and profits.

Credit review and approval: our Bank separates the credit review and approval from the disbursement of loans to ensure their independence, conducts centralised management and control to ensure that the credit review and approval is carried out by designated personnel, and sets out an approval and decision-making mechanism to grant authorisation in a rational manner based on the risk of relevant credit business and the qualification of the loan approvers to ensure that the responsibilities correspond with the authorisation and the risks correspond with the profits.

Credit disbursement management: based on the principles of independence and standardisation for credit disbursement management, our Bank separates the review and disbursement of credit, adopts a two-person review panel mechanism and strictly controls credit lines to standardise the disbursement mechanism.

Post-disbursement management: our Bank formulates different post-disbursement management plans according to the relevant risk level and implements differentiated post-disbursement management measures to establish a dynamic management mechanism and to ultimately achieve effective tracking.

Risk alert: our Bank has established a unified, multi-tiered risk alert mechanism and a comprehensive, multi-tiered risk alert indicator system to clarify risk alert responsibilities, achieve proactive management, set up a timely reporting mechanism and set out a prompt response mechanism when risk alerts are triggered.

Non-performing assets management: our Bank clearly defines management responsibilities and mechanisms, standardises information management of non-performing loans to ultimately maintain the integrity of the non-performing assets classified as substandard, doubtful and loss under the five-category classification criteria through special collection, remedies and settlements by designated management personnel of non-performing assets based on a full understanding of the status of the non-performing assets.

Our Bank has adopted a differentiated credit risk management approach and processes for different business lines according to their specific features.

Credit Risk Management for our Microcredit Business

Credit Risk Management for Loans to Small Enterprise Customers

Our loans to Small Enterprise Customers include corporate loans to Small Enterprises and personal loans to Small Enterprise Owners. See “Business – Our Principal Business Activities – Microcredit Business”. Loans to both Small Enterprises and Small Enterprise Owners are classified as our credit business for Small Enterprise Customers and are under centralised management by our small enterprise banking department, so as to control the credit risk of loans granted to Small Enterprise Customers. Our credit business for Small Enterprise Customers is jointly run by marketing managers, risk managers and product managers to achieve a balance of business development, product innovation and risk prevention. We adopt the pricing principle of revenue covering costs and risks in granting credits to Small Enterprise Customers. For example, we charge higher interest rates on unsecured loans with higher risk such as corporate loans to Small Enterprises. Our Bank has unified the performance measurement standards for our loans to Small Enterprise Customers business and has taken various measures in terms of application acceptance, credit review and approval, post-disbursement management and other aspects to implement credit risk management.

Rating and credit extension: the marketing manager accepts customers’ applications and proceeds with the credit rating and credit extension after a preliminary review of customer information. For corporate customers, the principle is that credit rating will need to be conducted prior to credit extension. Our Bank has established a 10-grade credit rating model for Small Enterprises to carry out internal credit ratings. Our Bank develops loan application scorecards at the customer access stage, measures credit risk by using financial indicators, non-financial indicators and special adjustment indicators based on combined qualitative and quantitative analysis. We aim to link the credit rating of Small Enterprises with the credit pre-approval process to fully reflect the comprehensive strength of Small Enterprises. Our Bank classifies the Small Enterprises into AAA grade, AA+ grade, AA grade, AA- grade, A+ grade, A grade, A- grade, BBB grade, BB grade and B grade based primarily on their default risk and determines their credit lines mainly based on their credit rating results using a credit calculation formula.

Credit investigation and review: the marketing manager is in charge of business investigation, the risk manager is in charge of business review, and the product manager is in charge of the design of financing plans on a case-by-case basis. The marketing manager in charge of business investigation and the risk manager in charge of business review are independent from each other. For the mortgaged (pledged) loan business, valuation report of the collaterals shall be prepared by the valuation firms determined by our Bank.

Credit approval: three approval levels are adopted in our credit business for Small Enterprise Customers, namely the three-person approval panel of the small enterprises banking department of our headquarters, the three-person approval panel of our branches and the three-person approval panel of our sub-branches. Each approval panel reviews and approves loans within their respective authorisation and requires unanimous decision of all the relevant panel members. The personnel involved in the investigation and approval procedures are independent from each other, which means investigation personnel cannot not become members of the approval panels.

Credit disbursement management: The authority to approve the disbursement of loans is centrally exercised by the risk control department at the branch level.

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Post-disbursement management: the marketing manager is responsible for post-disbursement management, and the risk manager participates in post-disbursement investigations into overdue loans in cooperation with the marketing manager. Our Bank conducts post-disbursement management at sub-branch, branch and headquarters levels and from six perspectives, namely, classification of management targets, joint cross-checking, real-time risk alert, post-disbursement management and supervision, progressive recoveries and disposal by multiple means.

Risk alert: our Bank has established a risk alert mechanism for credit services for Small Enterprise Customers to carry out risk alert management over its customers through identification of risk signals, dissemination of risk alerts and preparation of risk plans. At the same time, our Bank implements a credit business management system for Small Enterprise Customers to conduct real-time monitoring on credit business for Small Enterprise Customers, so as to obtain updated information on customer status on a timely basis. To facilitate risk alert management, our Bank has adopted behavioural scorecards on customers and provides a score for the behaviours of each customer in accordance with the analysis and quantification results of the account and behavioural data of each Small Enterprise Customer. Our Bank determines credit ratings on borrowers based on their scores so as to provide the customer managers with the means of measuring risk for the purpose of credit risk alerts.

Loan classification: On the basis of the five-category loan classification, our Bank further adopts the 12-grade risk classification standards for loans to Small Enterprises. The grading method is the same as that of general corporate loans.

Non-performing loan management: non-performing loans are recovered by the relevant personnel in charge of credit business for Small Enterprise Customers in collaboration with the risk assets management department.

Credit Risk Management for Loans to Farmers

Our Bank adopts the business-line based management model for loans to farmers and has improved our risk control capabilities by implementing vertical management of loans to farmers in our outlets and establishing approval and evaluation mechanisms that are independent from each other. Our Bank adopts a bank-wide unified basic risk management system for its loans to farmers and implements differentiated credit risk management policies. The risk management tools of our Bank include ratings of rural areas and customer ratings which are used to identify quality customers. Our Bank also adopts various guarantee portfolios and mitigates the risks associated with accidental death of our customers that are farmers and natural disasters through insurance and other means.

Main steps in the risk management for our rural financial services:

Market research and access: our Bank applies progressive approval processes for entering village (township) or lower markets. Before entering a village market, our Bank will conduct a comprehensive rating exercise for the targeted village market, specify access scope, implement differentiated management and, after entering into such a market, conduct a ratings exercise once a year on the loan disbursement area so as to control regional risks.

Loan application and acceptance: farmers shall fill out the applicant investigation forms and provide relevant information to apply for loans with our Bank. The customer managers accept farmers' loan applications mainly on site.

Loan investigation: each of our investigations of loans to farmers is implemented jointly by two customer managers. Our customer managers mainly investigate farmers' assets, liabilities and credit history to form the evidence of field investigation.

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Loan review: our Bank has arranged designated personnel to take charge of the review of loans to farmers. Our Bank conducts a comprehensive review mainly on the legality, reasonableness and compliance of the contents of loan investigations and issues review opinions.

Loan approval: our Bank adopts the three-person approval panel in the rural banking department of our headquarters, branches and rural financial service centres in approving loans. Approval of a loan requires the unanimous consent of all the panel members.

Loan disbursement: our Bank appoints disbursement supervisors and disbursement auditors to review and approve the disbursement of loans.

Post-disbursement inspection: our Bank ensures the independence of post-disbursement inspection by customer managers cross-checking among themselves, after which they will produce a risk analysis report. The post-disbursement inspections for loans to farmers are categorised into two types, namely, regular post-disbursement inspection and *ad hoc* post-disbursement inspection.

Risk alert mechanism: our Bank sets up a risk alert mechanism for our customers that are farmers to comprehensively monitor the borrowers and the changes of relevant indicators of the places where the borrowers are located, as well as a reporting and handling mechanism to facilitate proactive management and prompt response to risks, and thus realising active and dynamic risk management.

Loan classification: The risks in loans to farmers are classified into various grades based on comprehensive evaluation on the conditions of farmers' production and operations, number of loan overdue days and collateral types, details of which are as follows:

Classes	Name of seven-grade classification	Code of seven-grade classification	Name of five-grade classification
1	Pass	A1	Pass
2	Special mention Class I	B1	Special mention
3	Special mention Class II	B2	
4	Substandard Class I	C1	Substandard
5	Substandard Class II	C2	
6	Doubtful	D	Doubtful
7	Loss	E	Loss

Credit Risk Management for Personal Consumption Loans

The credit risk management of our personal consumption loans is conducted mainly through the implementation of a two-person investigation system, a real estate assessment system, a loan approval system of a three-member approval panel and a personal loan approval centre, the centralised account management by our branches and the 7-grade risk classification standards. We seek to control our credit risk by taking a series of approaches and measures, including the creation of a designated position responsible for post-disbursement management.

For our credit card business, we seek to control credit risk by, among others, investigating applicants' qualifications and the genuineness of their application materials, establishing a scorecard system based on the regional characteristics and customer base and mix, developing risk alert and risk reporting mechanisms and adopting the 7-grade risk classification standards. We conduct real-time transaction monitoring by overseeing cardholder transactions, reviewing and dealing with risk-alert accounts on a real-time basis and contacting the cardholders to confirm their transactions. When any

unusual circumstances occur to the credit cards of those cardholders who have other business relations with us, such circumstances shall be reported to the relevant business units to achieve the joint-alert of credit card risk.

Credit Risk Management for Other Corporate Loans

Our process for other corporate loans comprises of customer application, business acceptance, credit rating, credit investigation, credit review, credit approval, credit disbursement (handling) and post-disbursement management. Our Bank mainly relies on the credit risk management mechanism to manage and control risks in each step in the process of other corporate loans business, and adopts the “No credit approval before credit rating” principle to manage and control the credit risk in the whole process. According to our business characteristics, we have prepared separate lists for customers in the industries regulated by national policies and our prioritised customers, and established a 7-grade credit rating system. Our risk managers are required to participate in customer investigations conducted by our customer managers and express independent opinions on risk. Credit review committees at various levels are responsible for reviewing and approving credit services at their corresponding levels. The branches conduct centralised account management, and adopt risk alert mechanism and the 12-grade risk-based loan classification system, where their risk managers participate in post-disbursement management. We succeed in controlling our credit risk by taking a series of the above approaches and measures.

Credit Risk Management for Investment Banking and Interbank Business

Our investment banking and interbank department adopts a “headquarters-branches” management model. The investment banking and interbank business refers to interbank capital transfers, financial asset trading and management, corporate investment and financing consultancy, restructuring, merger and acquisition advisory and financing, structured financing advisory, asset management and wealth management products design that our Bank operates in cooperation with various financial institutions in accordance with relevant regulatory requirements. The credit risk management of investment banking and interbank business adopts differentiated business approval mechanisms and risk management models based on different business types, and our Bank enhances credit risk management through a clear approval process, strict internal control system and effective authorisation mechanisms and by introducing IT support systems and other measures. For details of the credit risk management for our investment in debt instruments issued by financial institutions, see “Business – Treasury Operations – Investments in Securities and Other Financial Assets”.

Customer access: our Bank adopts a strict access management system for interbank customers, and develops differentiated rating models based on the different types of interbank customers. The current rating models include those for banks and financial companies, trust companies and financial leasing companies. Our Bank conducts credit rating exercises on interbank customers by taking the combination of qualitative and quantitative scoring methods in accordance with the relevant rating model, and reasonably determines the credit lines for each interbank customer. Our Bank has established a unified marketing platform for interbank business. Our Bank adopts the name-list based management system for interbank customers and updates such name list regularly to ensure a healthy development of the investment banking and interbank business.

Credit rating: In terms of credit extension to interbank customers, our Bank assesses operating conditions, financial condition, compliance with regulatory indicators, risk events, proposed cooperation and other conditions of credit receiving institutions based on the principles of “unified management, differentiated credit extension, reasonable determination and dynamic adjustment”, and determines credit lines and business types in accordance with the actual needs and solvency of customers, credit policies,

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assets and liabilities structure and credit approval conditions of our Bank and credit extended by other financial institutions to the same customers. Our credit ratings for interbank customers are divided into seven grades based on the comprehensive results of qualitative and quantitative assessment, namely, AAA grade, AA grade, A grade, BBB grade, BB grade, B grade and C grade. Each grade corresponds to a different risk coefficient, and each credit line is determined by multiplying net assets with the risk coefficient.

Interbank credit extension management: Upon approval of an interbank credit limit, the investment banking and interbank department of the headquarters, as the management department of the utilisation of interbank credit lines, allocates credit lines based on credit approval requirements, business relationship with other banking institutions, regional and cooperative status, so as to prevent the risks of excessive extension of credit facilities. Status regarding the utilisation of interbank credit lines is regularly reported to the credit approval department, risk management department and other relevant departments of our headquarters.

Review and approval: Each branch reviews and approves the credit risk of investment banking projects for financing purpose in accordance with management requirements for traditional credit approval. The projects for which the approval is beyond the authority of the relevant branches are reported to the credit approval department of our headquarters for approval. The funds and interbank business risk control centre of our headquarters is responsible for issuing risk assessment opinions, and the investment banking and interbank department is responsible for designing and arranging the trading structure and counterparties of projects and reporting the same to the Investment Management Committee of our headquarters for approval.

Post-investment management for investment banking projects: the post-investment management for investment banking projects adheres to the principles of “layered management, clearly defined responsibilities; accountability imposed on individuals, effective appraisal, real-time monitoring and rapid processing”. The investment banking and interbank department of our headquarters is responsible for formulating relevant rules for post-investment management for investment banking projects, and guiding, supervising and examining the post-investment management of projects of branches. Each branch is responsible for the specific implementation of post-investment management of various projects, including setting up management teams and appointing a person-in-charge, supervising funds accounts, managing borrowers and collaterals, reminding borrowers to duly repay principal and other earnings.

Credit Risk Management of Bonds and Bills Business

In our bond investments business, we keep credit risk under strict control mainly by setting clear investment thresholds for bond-related credit products, specifying issuer and bond ratings and setting an upper limit for our holdings in single bond issuance. In interbank discounting of bank accepted bills, we select acceptance banks according to strict standards, determine the access standards, and put these acceptance banks under our unified interbank customers credit management to ensure that business is conducted strictly within relevant credit lines, and we also grant authority to our outlets as appropriate for the purpose of credit risk control.

Credit Risk Management for Local Government Financing Vehicles

In view of the debt level of local government financing vehicles and their potential policy, administrative and financial risks, the Bank imposes strict control on our exposure to local government financing vehicles. As of 31 December 2010, 2011 and 2012 and 30 September 2013, our exposure to local government financing vehicles accounted for 2.6%, 1.8%, 1.6% and 2.1%, respectively, of our total

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assets. We have taken the following measures in relation to credit risk management for local government financing vehicles.

Risk Management for Loans: The Bank manages risks relating to loans to local government financing vehicles strictly in accordance with regulatory requirements and implementation measures regarding risk management of local government financing vehicles issued by the CBRC and its local bureaus. In particular, the Bank has tightened the authorisation for approval and the conditions for granting of loans. All new loans to local government financing vehicles shall be approved, granted and managed centrally by our headquarters. The Bank manages the balance of loans to local government financing vehicles by restricting the total amount of loans strictly. The Bank implements a controlling list of permitted counterparties for granting loans with an aim of strictly controlling the scope of customers of local government financing vehicles. Further, the Bank strictly controls the guarantee for loans to local government financing vehicles and requires the borrowers to provide qualified collateral guarantees. The Bank puts great emphasis on the post-management of loans to local government financing vehicles and strictly monitors the operation and financial condition of these vehicles to ensure loans to local government financing vehicles can be recovered as scheduled.

According to the requirements of the CBRC, banks in the PRC shall classify the loans to local government financing vehicles into four categories, namely, fully covered, basically covered, half covered and uncovered¹ based on the cash flow coverage ratio, which is calculated as cash flow divided by the principal amount of the loan and accrued interest. As of 30 September 2013, the cash flow coverage ratio of loans to local government financing vehicles was classified as “fully covered”.

As of 30 September 2013, the balance of loans to local government financing vehicles amounted to RMB2,020 million of which RMB1,050 million, RMB790 million and RMB180 million were invested in land reserves, transportation and infrastructure and affordable housing projects, respectively. Among such loans, RMB1,050 million, RMB790 million and RMB180 million were secured by collateral, pledges and guarantees, respectively, accounting for 52.0%, 39.1% and 8.9%, respectively, of our total loans as of 30 September 2013. There were no unsecured loans. Under the five-category loan classification system, all of our loans to local government financing vehicles were classified as “pass” as of 30 September 2013.

Risk Management for Investment in Debentures: The Bank has imposed strict requirements on the rating of debentures issued by local government financing vehicles (the external ratings of all debentures issued by local government financing vehicles are AA or above) and the limit of individual investment. In addition, the Bank implements mark to market and limit management for debentures. As of 30 September 2013, our investment in debentures issued by local government financing vehicles amounted to RMB1,415 million, of which RMB200 million, RMB156.5 million and RMB432.8 million were secured by collateral, pledges and guarantees, respectively, accounting for 14.1%, 11.1% and 30.6%, respectively, of our total investment as of 30 September 2013. As of that date, RMB625.7 million of such investment was unsecured accounting for 44.2% of our total investment. As the interest and principal of these investments were fully recovered as scheduled, there was no loss from default.

¹ “Fully covered” means that the cash flow of the borrower is sufficient to repay 100% or more of the principal amount of the loan and accrued interest. “Basically covered” means that the cash flow of the borrower is sufficient to repay 70% to 100% of the principal amount of the loan and accrued interest. “Half covered” means that the cash flow of the borrower is sufficient to repay 30% to 70% of the principal amount of the loan and accrued interest. “Uncovered” means that the cash flow of the borrower is sufficient to repay less than 30% of the principal amount of the loan and accrued interest.

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Risk Management for Investment through Fund Trust Plans and Directional Asset Management Plans: The Bank manages the risk of investment through fund trust plans and directional asset management plans based on the measures on risk management for loans to local government financing vehicles. Through establishing a control list of permitted counterparties, standardised guarantees and enhanced management for loans, the Bank seeks to ensure the security of the investment. As of 30 September 2013, our investment in local government financing vehicles through fund trust plans and directional asset management plans was RMB2,088 million, of which RMB1,100 million and RMB988 million were secured by pledges and guarantees, respectively, accounting for 52.7% and 47.3%, respectively, of our total investment as of 30 September 2013. As the interest and principal amount of these investments were fully recovered as scheduled, there was no loss from default.

Market Risk Management

Market risk refers to the risk of loss in our on- and off-balance sheet businesses as a result of adverse changes in market prices (interest rates, exchange rates, stock prices and commodity prices). Market risk exists in our trading and non-trading businesses.

The market risks currently faced by our Bank are interest rate risk and exchange rate risk. Our objective of market risk management is to maximise risk-adjusted revenue while limiting the potential losses arising from market risk within a reasonably acceptable level based on our bank-wide risk appetite.

Our Bank carries out market risk management in accordance with the regulatory requirements under the framework of a standardised approach for market risk under Basel III. Our Risk Management Committee is responsible for bank-wide supervision and management of market risk. Our risk management department, financial planning department, financial market department and international business department are responsible for identifying, measuring, monitoring and reporting the market risk in our on- and off- balance sheet trading and non-trading businesses. Our risk management department is responsible for overall market risk management.

Bank Account Interest Rate Risk

This refers to the risk of decrease in net interest income or long-term market value of our assets and liabilities portfolio as a result of fluctuation in interest rates. Our bank account interest rate risk arises primarily from the differences in the maturity dates (for fixed rate) or re-pricing dates (for floating rate) of our assets, liabilities and off-balance sheet businesses. In addition, the value of assets and liabilities under our bank accounts is also subject to bank account interest rate risk arising due to adverse changes in interest rates. We use gap analysis, sensitivity analysis and other methods to measure bank account interest rate risk.

Transaction Account Interest Rate Risk

This refers to the risk of loss in the on- and off-balance sheet businesses under our transaction accounts as a result of adverse changes in interest rates. The interest rate risk associated with our transaction accounts exists mainly in our trading businesses. Our Bank has clear transaction account classification standards, revaluates the market value of assets under our transaction accounts on a daily basis, sets transaction caps, stop-loss limits and risk limits, and monitors and controls them by frequencies. Our Bank uses duration analysis, sensitivity analysis and other methods to measure transaction account interest rate risk. We use standardised methods to measure our interest rate risk capital in transaction accounts in strict compliance with regulatory requirements.

Exchange Rate Risk

This refers to the risk of loss in our on- and off-balance sheet businesses as a result of adverse changes in exchange rates. Our exchange rate risk exists mainly in our foreign currency-related trading and non-trading businesses. Our Bank sets transaction caps, stop-loss limits and exposure limits to manage the exchange rate risk in our foreign exchange business. For the Ruble market-making business and the Ruble cash exchange business, our Bank implements Ruble exposure management on each trading day. Our headquarters implements centralised management in respect of the bank-wide exchange rate risk so as to reduce the exchange rate risk and improve exchange rate risk management efficiency. We use standardised methods to measure our exchange rate risk capital in strict compliance with regulatory requirements.

Liquidity Risk Management

Liquidity risk refers to the risk of failure to obtain adequate funds to repay debts on a timely basis or at reasonable costs. The objective of our liquidity risk management is to comply with relevant supervisory and regulatory requirements, to ensure that we are able to perform all of our payment obligations under any circumstances, and to finance all our payment needs and business operations in a timely and cost-effective manner.

The Assets and Liabilities Management Committee is mainly responsible for formulating our goal and policy of liquidity management, and reviewing any major matters arising out of our liquidity management. The risk management department, financial planning department, international business department and investment banking and interbank department are responsible for our day-to-day liquidity risk management in accordance with their respective duties and responsibilities.

We have established a bank-wide liquidity risk management system. Our main liquidity risk management measures are as follows:

- formulate annual liquidity risk management policies, propose annual liquidity risk management indicators, management requirements and management strategies, and monitor a number of liquidity indicators for our liquidity management;
- closely track any changes in our funds and re-allocate our funds reasonably;
- develop financing channels and ensure smooth financing channels;
- the Assets and Liabilities Management Committee undertakes the management of asset and liability portfolios, and prepares the liquidity gap statements via the asset and liability management system;
- the financial planning department is responsible for our capital management, liquidity management and transfer pricing;
- regularly carry out liquidity risk stress tests and conduct quarterly analyses and appraisals for liquidity management and report the status of risk management; and
- formulate liquidity risk contingency plan to ensure that we can react to emergency in a standardised, systematic and an orderly manner.

Operational Risk Management

Operational risk refers to the risk of loss arising from flawed internal procedures, incompetent personnel or flawed IT systems, or external events. The operational risks faced by our Bank mainly

RISK MANAGEMENT

include internal fraud, external fraud, internal rules and workplace safety, customers, products and business activities, damage to physical assets, IT system failure and other problems identified in the course of execution, delivery and process management.

In 2012, our Bank launched the operational risk management system project in accordance with Basel III, and established a full set of operational risk management systems, covering relevant corporate governance structures, policies and systems, management tools, measurement methods and IT system.

Our Bank has established a three-layer operational risk defence system with business departments, risk and compliance management departments, and Internal Audit Departments at each line of defence. We have also established an operational risk reporting system between our business departments and risk control departments, as well as between our headquarters and branches. Our Bank has also formulated operational risk management policies and procedures, and applied operational risk management tools such as Risk and Control Self Assessment (RCSA), Key Risk Indicators (KRI) and Loss Data Collection (LDC) to identify, assess, monitor and measure risks, so as to strengthen our operational risk management.

Our operational risk management measures include:

- enhancing the technology of our operational risk management system, and gradually realising the automatic control of operational risk through systematic centralisation, functional combination, automatic operation, process control, etc;
- conducting centralised risk management and control over high-risk business and important management areas so as to reduce business operational risk;
- commencing the establishment of a “process-based bank”, optimising and redesigning business and risk management process;
- using three main operational risk management tools to identify, monitor and collect the risk factors and risk signals identified in operational activities;
- establishing an early-stage risk analysis, monitor and alert system and focus on key steps and positions in risk management which are prone to incidents and risks so as to identify and eliminate potential risk and monitor and alert risk in key businesses and steps; and
- establishing a joint contingency management system, initiating the establishment of business continuity management system, organising and implementing drills aimed at maintaining business continuity so as to ensure the continuous and effective operation of our businesses.

IT Risk Management

IT risk refers to operational, legal, reputational and other risks caused by natural factors, human factors, technical loopholes and flawed management in the course of our usage of IT. Our IT risk management objectives are to identify, monitor, assess and control IT risks by establishing a complete, reasonable and effective risk management system and mechanism, so as to operate our business in a safe, continuous and stable manner, promote our business development and innovation, improve our IT operation and management, and enhance our core competitiveness and capability of sustainable development.

Our main IT risk management measures are to:

- formulate unified fundamental policies for our IT risk management, establish and improve our bank-wide IT risk management system;

RISK MANAGEMENT

- strengthen the IT risk management function of the IT Management Committee and our IT decision-making and risk control capabilities;
- establish an IT contingency management system and formulate relevant rules;
- improve our capabilities in the establishment and management of a disaster recovery system, and mitigate the negative impact of accidents on our critical information systems; and
- implement the ISO27001 International Standards to further improve the information security management and prevention strategies.

Reputational Risk Management

Reputational risk refers to the risk of negative comments about our Bank generated by relevant interested parties in respect of our Bank's operations, management and other activities or external events. Our reputational risk management objectives are to build an effective reputational risk management mechanism, so as to identify, monitor, control and eliminate reputational risk, to build and maintain a good corporate image and to promote our continuous and healthy development.

The Reputational Risk Contingency Steering Group of our Bank is responsible for the supervision, coordination and process control of emergency recovery measures in the event of significant reputational incidents. Each department and branch is responsible for routine work such as the identification, assessment, monitoring and prevention of reputational risk in accordance with their respective duties.

Our major reputational risk management measures are to:

- formulate unified basic policies and management system for reputational risk management to ensure the completeness and feasibility of the system;
- communicate with media to enhance our positive influence;
- focus on the trend of public opinions, implement the daily reporting of public opinions and strengthen our capabilities in alerting and responding to sensitive financial issues;
- establish a press spokesman system, with our headquarters coordinating our internal and external relationships;
- enhance customer services and complaints management, and improve service quality and levels; and
- enhance training of frontline staff.

Compliance Risk Management

Compliance risk refers to the risk of being subject to legal and regulatory sanctions, and the risk of major financial loss and reputational loss as a result of our failure to comply with relevant laws, rules and guidelines.

Our Bank has established a preventive system to manage compliance risk. Our business departments take initiatives to identify and manage compliance risk in accordance with compliance management procedures, and timely report such risk through reporting channels in accordance with relevant reporting requirements of compliance risk. The compliance risk management department performs independent compliance risk management responsibilities and provides compliance support and implements professional compliance management. The Internal Audit Department is responsible for inspecting, supervising and evaluating the compliance risk management system and the effectiveness of our compliance risk management.

RISK MANAGEMENT

Our compliance risk management framework is as follows:

- the Board assumes ultimate responsibility for the compliance of our business activities;
- the Board of Supervisors supervises the effectiveness of compliance risk management of the Board and senior management;
- the senior management assumes direct responsibility for the compliance risk management of our Bank, and regularly reports our compliance risk status to the Board;
- each business management department of our headquarters takes foremost responsibility for the compliance of the operation and management of respective departments and business lines;
- each branch is responsible for compliance of the operation of entities under its control;
- each business management department of our headquarters and the head of each of our branches and sub-branches assume the foremost responsibilities for the compliance of their respective operation and management activities; and
- each of our employees assumes the compliance responsibility corresponding to his/her position and duties, and shall consciously observe and strictly enforce relevant laws, rules and guidelines.

Anti-Money Laundering

Our Bank has established an Anti-money Laundering Steering Group headed by our president, which is responsible for coordinating the implementation of PRC Anti-Money Laundering Law and other anti-money laundering rules, regulations, guidelines and policies formulated by regulatory authorities such as the PBOC, and organising and leading all aspects of our anti-money laundering work. The compliance management department is responsible for the implementation of day-to-day anti-money laundering management and the specific arrangement and coordination of anti-money laundering work.

Our Bank performs customer identification and reports large amount and suspicious transactions on each business day to the Anti-Money Laundering Monitoring and Analysis Centre in accordance with PRC anti-money laundering laws. In the event that any transaction or customer is in connection with money laundering activities, terrorism activities or other criminal activities, we will also make a simultaneous report to both the local branch of the PBOC and local public security department, and cooperate with them in their anti-money laundering investigations.

Internal Audit

The Internal Audit Department is subject to the supervision and appraisal of the Audit Committee, which is primarily responsible for the establishment of internal audit systems, internal audit planning, internal audit, internal control, supervision and appraisal, preparation of audit reports, supervision over rectification of issues identified in the audit and coordination with external parties involved in the auditing process.

The Internal Audit Department has six divisions, namely, Harbin regional audit division, Shuangyashan regional audit division, Tianjin regional audit division, off-site audit centre, on-site audit centre and Village and Township Banks audit centre, which are responsible for the internal audit and supervision of all businesses and entities within our Bank and provide support and services for the internal audit and supervision of all Village and Township Banks of which our Bank is the controlling shareholder. The Internal Audit Department is independent from the entities and departments being

audited. The audit budget and salary of the personnel of the Internal Audit Department are determined by the Board or the Audit Committee. The appointment, removal and performance appraisal of the person-in-charge of this department are determined by the Board.

The Internal Audit Department determines the audit plan of each of our branches and businesses on the basis of risk-oriented and cycle coverage principles. It audits, supervises and evaluates the bank-wide business operation and management, internal control and risk profile through regular audits, *ad hoc* audits, follow-up audits, current (post-resignation) economic responsibilities audits, and procures that the audited entities and departments effectively perform their duties.

INTERNAL CONTROLS

The Internal Control System of our Bank

From 2011 to 2013, we engaged Deloitte (Shanghai) to advise on the construction of our internal control system and to carry out the automation of our internal control function, in each case in accordance with the requirements on the establishment of corporate internal control under, among others, the PRC Commercial Banking Law, the Basic Rules on Enterprise Internal Control, the Internal Control Guidelines for Commercial Banks and the guidelines issued by the Basel Committee on Banking Supervision. We thereby formulated an internal control system covering the five aspects of internal environment, risk assessment, control activities, information and communication, and internal supervision.

Internal Control Management Structure

Our Bank has established a corporate governance organisational structure mainly consisting of shareholders' general meeting, the Board, the Board of Supervisors and the senior management. Our internal control management framework comprises the internal control decision-making level, execution level and supervision and evaluation level. The heads of each of our various branches/sub-branches and functional departments are in charge of our internal control management, while all of our employees also jointly participate in the process.

- *Decision-making level:* the Board is our decision-making body for internal control. Its responsibilities are to ensure the establishment and implementation of our internal control system; approve our overall operating strategies and key policies, regularly inspect and assess their implementation; ensure our prudent operation within the relevant legal and policy limits; explicitly set acceptable risk exposures; ensure that our senior management will take necessary measures to identify, measure, monitor and control risks; and ensure that our senior management will monitor and assess the adequacy and effectiveness of our internal control system.

The Board has established four committees, including the Development Strategy Committee, Nomination and Remuneration Evaluation Committee, Risk Management and Related Transactions Control Committee, and Audit Committee, among which, the Risk Management and Related Transactions Control Committee is primarily responsible for regularly assessing our risk exposure and risk management strategies, and making proposals to improve our risk management and the internal control relating to risk management. Each of our committees shall report to the Board.

- *Execution level:* our management and the various bodies at different levels are responsible for the establishment and implementation of our internal control system. The senior management

RISK MANAGEMENT

of our headquarters are in charge of coordinating the formulation of our internal control policies, monitoring and assessing the adequacy and efficiency of our internal control system; implementing the decisions of the Board; establishing the procedures and measures to identify, measure, monitor and control risks; and establishing and improving our internal organisational structure to ensure the effective performance of various internal control duties.

The establishment and implementation units in our internal control system are responsible for the formulation and coordination of the implementation of our internal control system, processes and methods and the timely rectification of any problems in our internal control system.

- *Supervision and evaluation level:* the Board of Supervisors, the Audit Committee and internal audit departments responsible for the supervision and evaluation of our internal control system and its implementation.

The Board of Supervisors supervises the fulfilment of duties of our directors and senior management; conducts resignation audits of our senior management; supervises our financial activities, business decisions, risk management and internal control, and makes supervisory recommendations; studies the preparation of periodic reports of the Board and relevant significant adjustments thereto; and makes supervisory recommendations on appointment of external auditors.

The responsibilities of the Audit Committee are to review our accounting policies, financial status and financial reporting procedures; audit our financial information and its disclosure; review our internal control system and its implementation; supervise and evaluate our Internal Audit Department; propose the appointment or replacement of external auditors; and coordinate the work of our internal and external auditors; and handle other matters authorised by the Board. The Audit Committee shall be chaired by an independent director.

OUR RELATIONSHIPS WITH OUR SUBSTANTIAL SHAREHOLDER AND CONNECTED TRANSACTIONS

OUR RELATIONSHIPS WITH OUR SUBSTANTIAL SHAREHOLDER

Harbin Economic Development is the only substantial shareholder of our Bank within the meaning of the Hong Kong Listing Rules that can exercise or direct the exercise of 10% or more of voting power in any of our shareholders' general meetings, and is expected to remain as the only substantial shareholder immediately following the completion of the H Share Listing. As of the Latest Practicable Date, Harbin Economic Development directly held approximately 29.48% of our shares. Immediately following the completion of the H Share Listing, Harbin Economic Development will directly hold approximately 19.65% of our then total issued shares, assuming the Over-allotment Option is not exercised (or approximately 18.58% if the Over-allotment Option is exercised in full).

Established on 22 August 1992, Harbin Economic Development is wholly owned by Harbin Municipal Finance Bureau, a functional division of Harbin Municipal Government that comprehensively manages municipal fiscal revenue and expenditure, implements financial supervision and participates in adjustment and control of the municipal economy of Harbin. The business scope of Harbin Economic Development is to make financial investments in areas like fixed-assets to municipally owned enterprises and to receive dividends in return. Besides holding 29.48% of the equity interest of our Bank and a minority interest in Harbin Junxin Investment & Assurance Co., Ltd., Harbin Economic Development does not have any other equity investment or hold equity interests in any other commercial banks.

CONNECTED TRANSACTIONS

Pursuant to Chapter 14A of the Hong Kong Listing Rules, the transactions we have entered with our connected persons (as defined in the Hong Kong Listing Rules) will constitute connected transactions. Such transactions will continue following the Listing Date, thereby constituting continuing connected transactions under the Hong Kong Listing Rules.

Exempt Continuing Connected Transactions

We provide commercial banking services and products in the ordinary and usual course of our business to members of the public in China, which include our substantial shareholder, and certain of our Directors and Supervisors, the president and/or each of their respective associates. Each of the above persons is our connected person under Chapter 14A of the Hong Kong Listing Rules. These transactions are entered into on normal commercial terms in the ordinary and usual course of business and thus are exempt from the reporting, annual review, disclosure and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

Credit Facilities Granted by Us to Connected Persons in the Ordinary and Usual Course of Business

We extend credit facilities to our customers in the ordinary and usual course of business and on normal commercial terms with reference to prevailing market rates. Customers who utilise the above credit facilities services may include certain of our connected persons. We expect to continue to provide the above products and services to our connected persons following the H Share Listing, which will constitute continuing connected transactions for us under Chapter 14A of the Hong Kong Listing Rules.

The credit facilities are granted by us to our connected persons by reference to prevailing market rates and on normal commercial terms that are comparable or no more favourable than those offered by us to independent third parties (including other comparable employees of ours who are not connected persons) in our ordinary and usual course of business. Therefore, these transactions will constitute

OUR RELATIONSHIPS WITH OUR SUBSTANTIAL SHAREHOLDER AND CONNECTED TRANSACTIONS

exempt continuing connected transactions under Rule 14A.65(1) of the Hong Kong 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 exempted from the reporting, announcement, and independent shareholders' approval requirements contained in Rules 14A.35 and 14A.45 to 14A.48 of the Hong Kong Listing Rules.

Deposits Placed with Us by Connected Persons in the Ordinary and Usual Course of Business

We take deposits in the ordinary and usual course of business at normal deposit rates and on normal commercial terms. Customers who place deposits with us may include certain of our connected persons. We expect that our connected persons will continue to place deposits with us following the H Share Listing, which will constitute connected transactions under Chapter 14A of the Hong Kong Listing Rules.

The deposits placed by our connected persons are on normal commercial terms with reference to prevailing market rates. These deposits will be exempt continuing connected transactions under Rule 14A.65(4) of the Hong Kong Listing Rules (namely, financial assistance provided by connected persons in the form of deposits placed with a listed issuer for the benefit of the listed issuer on normal commercial terms (or commercial terms which are better for 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 exempted from the reporting, announcement, and independent shareholders' approval requirements contained in Rules 14A.35 and 14A.45 to 14A.48 of the Hong Kong Listing Rules.

Other Banking Services and Products Provided by us in the Ordinary and Usual Course of Business to Connected Persons

We provide various banking services and products in the ordinary and usual course of business to certain of our connected persons on normal commercial terms and through normal charging standards, service charges and fees. We expect to continue to provide such services and products to our connected persons following the H Share Listing. These transactions will constitute continuing connected transactions for us under Chapter 14A of the Hong Kong Listing Rules.

These continuing connected transactions are provision of other banking services and products to our connected persons in the ordinary and usual course of business and on normal commercial terms that are comparable or no more favourable than those offered to independent third parties. Therefore, these transactions will constitute exempt continuing connected transactions pursuant to Rule 14A.33(3), and thus will be exempted from the reporting, announcement and independent shareholders' approval requirements of the Hong Kong Listing Rules.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The following table sets forth information regarding our Directors, Supervisors and senior management. Our Directors, Supervisors and members of senior management all meet the relevant CBRC qualification requirements for their respective positions. For those whose appointments require approval by the CBRC, the approvals have been duly obtained.

Directors:

Name	Age	Date of Joining Our Bank	Current Position	Date of Appointment to the Board	Responsibilities
Mr. GUO Zhiwen (郭志文)	46	July 1997	Chairman of the Board	May 2004	Responsible for the overall strategy in planning and overseeing the management of our Bank and responsible for the Development Strategy Committee
Mr. LIU Zhuo (劉卓)	50	October 2000	Vice chairman of the Board, secretary to the Board	September 2007	Responsible for the overall day-to-day management and operations of our Bank, as well as overseeing and handling corporate, legal and regulatory compliance and administrative matters relating to our Bank, and also performing his duties as a Director through the Board and the Development Strategy Committee, and the Risk Management and Related Transactions Control Committee
Ms. GAO Shuzhen (高淑珍)	50	January 2001	Executive Director, president	May 2011	Responsible for overseeing our business development and the overall management of our business and operations, and also performing her duties as a Director through the Board and the Development Strategy Committee
Mr. ZHANG Taoxuan (張濤軒)*	52	May 2012	Non-executive Director	May 2012	Performing his duties as a Director through the Board and the Development Strategy committee

* The appointment of Mr. Zhang was approved by the CBRC Heilongjiang Bureau in 2012. However, as a government officer, Mr. Zhang may be prohibited from holding positions in any enterprises or other profit-making organisations. Our Bank undertakes that we will elect another director to replace Mr. Zhang according to our Articles of Association if the relevant regulatory authority deems it necessary.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Age	Date of Joining Our Bank	Current Position	Date of Appointment to the Board	Responsibilities
Mr. CHEN Danyang (陳丹陽)	40	April 2006	Non-executive Director	April 2006	Performing his duties as a Director through the Board and the Nomination and Remuneration Evaluation Committee
Mr. CUI Luanyi (崔鸞懿)	33	May 2011	Non-executive Director	May 2011	Performing his duties as a Director through the Board and the Risk Management and Related Transactions Control Committee
Mr. QIN Hongfu (覃紅夫)	36	May 2011	Non-executive Director	May 2011	Performing his duties as a Director through the Board and the Audit Committee
Mr. MA Yongqiang (馬永強)	38	June 2012	Independent non-executive Director	June 2012	Performing his duties as a Director through the Board, the Nomination and Remuneration Evaluation Committee and responsible for the Audit Committee
Mr. ZHANG Shengping (張聖平)	48	June 2012	Independent non-executive Director	June 2012	Performing his duties as a Director through the Board, the Audit Committee and responsible for the Risk Management and Related Transactions Control Committee
Mr. HE Ping (何平)	48	October 2012	Independent non-executive Director	October 2012	Performing his duties as a Director through the Board, the Nomination and Remuneration Evaluation Committee and the Risk Management and Related Transactions Control Committee
Mr. DU Qingchun (杜慶春)	42	October 2012	Independent non-executive Director	October 2012	Performing his duties as a Director through the Board and the Risk Management and Related Transactions Control Committee and responsible for the Nomination and Remuneration Evaluation Committee
Mr. WAN, Kam To (尹錦滔)	61	October 2013	Independent non-executive Director	October 2013	Performing his duties as a Director through the Board, the Nomination and Remuneration Evaluation Committee and the Audit Committee

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Age	Date of Joining Our Bank	Current Position	Date of Appointment to the Board	Responsibilities
Mr. KONG Siu Chee (江紹智)	67	October 2013	Independent non-executive Director	October 2013	Performing his duties as a Director through the Board, the Development Strategy Committee and the Audit Committee

Supervisors:

Name	Age	Date of Joining Our Bank	Current Position	Date of Appointment to the Board of Supervisors	Role and Responsibilities
Mr. ZHANG Bin (張濱)	55	July 1997	Chairman of the Board of Supervisors	April 2012	Responsible for supervising the Board and senior management
Ms. CHENG Yun (程雲)	50	July 1997	Vice chairman of the Board of Supervisors, employees representative Supervisor	April 2012	Responsible for supervising the Board and senior management
Ms. WANG Ying (王穎)	42	July 1997	Employees representative Supervisor	June 2007	Responsible for supervising the Board and senior management
Mr. CHEN Yutao (陳宇濤)	39	March 2010	Employees representative Supervisor	April 2011	Responsible for supervising the Board and senior management
Ms. LU Yujuan (盧育娟)	29	September 2013	Shareholders representative Supervisor	September 2013	Responsible for supervising the Board and senior management
Ms. BAI Fan (白帆)	39	July 2013	External Supervisor	July 2013	Responsible for supervising the Board and senior management
Mr. WANG Jiheng (王吉恒)	49	August 2011	External Supervisor	August 2011	Responsible for supervising the Board and senior management
Ms. MENG Rongfang (孟榮芳)	48	September 2013	External Supervisor	September 2013	Responsible for supervising the Board and senior management

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Senior Management:

Name	Age	Date of Joining Our Bank	Current Senior Management Position	Date of Appointment	Role and Responsibilities
Ms. GAO Shuzhen (高淑珍)	50	January 2001	President	May 2010	Responsible for overseeing our business development and the overall management of our business and operations, responsible for our human resources department and the construction management department
Mr. LIU Zhuo (劉卓)	50	October 2000	Secretary to the Board	September 2008	Responsible for the overall day-to-day management and operations of our Bank, as well as overseeing and handling corporate, legal and regulatory compliance and administrative matters relating to our Bank
Mr. LI Qiming (李啟明)	55	April 1999	Vice president	November 2007	Responsible for managing the office of our headquarters, our strategy development department, our operational management department and our security department
Mr. ZHANG Qiguang (張其廣)	41	June 2001	Vice president, chief financial officer	Vice president: April 2012; Chief financial officer: May 2011	Responsible for managing our financial planning department, our investment banking and interbank department, our financial market department, our corporate banking department and our international business department
Mr. LV Tianjun (呂天君)	47	June 2001	Vice president, chief risk officer	Vice president: April 2012; Chief risk officer: May 2011	Responsible for managing our risk management department, our risk assets management department and our compliance management department

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Age	Date of Joining Our Bank	Current Senior Management Position	Date of Appointment	Role and Responsibilities
Mr. LU Weidong (盧衛東)	43	August 2013	Vice president, chief information officer	August 2013	Responsible for our technology development department and the electronic banking department
Mr. XU Shaoguang (徐紹光)	53	July 1997	Chief credit approval officer	May 2011	Responsible for managing our credit approval department and our credit management department
Mr. WANG Haibin (王海濱)	44	July 1997	Assistant to the president	April 2012	Responsible for the executive work of our Harbin Branch
Ms. SUN Jiawei (孫嘉巍)	44	July 1997	Assistant to the president	April 2012	Responsible for our small enterprises banking department, our personal banking department, our rural banking department and our microcredit R&D centre

Company Secretary:

Name	Age	Date of Joining Our Bank	Current Position	Date of Appointment
Ms. SUN Feixia (孫飛霞)	43	July 1997	Joint company secretary	January 2014
Dr. NGAI Wai Fung (魏偉峰)	52	January 2014	Joint company secretary	January 2014

Mr. GUO Zhiwen, chairman of the Board, is responsible for the overall strategy for planning and overseeing the management of our Bank. Mr. LIU Zhuo, vice chairman of the Board, secretary to the Board, is responsible for the overall day-to-day management and operations of our Bank, as well as overseeing and handling corporate, legal and regulatory compliance and administrative matters relating to our Bank. Ms. GAO Shuzhen, executive Director and president of our Bank, is responsible for overseeing our business development and the overall management of our business and operations. Our non-executive Directors, including our independent non-executive Directors, perform their duties through the Board and do not participate in the day-to-day management of our business operations. Our Supervisors are responsible for supervising the Board and senior management. The members of our senior management are responsible for the day-to-day management of our business operations.

Directors

Executive Directors

Mr. GUO Zhiwen (郭志文), 46, has been an executive Director of our Bank since May 2004 and chairman of our Board since October 2008. Mr. Guo has been the legal representative of our Bank since October 2008 and secretary of the party committee of our Bank since December 2003. He is also currently a deputy to the 12th People's Congress of Heilongjiang Province. Mr. Guo joined our Bank in

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July 1997. From July 1997 to October 2008, he worked as president of the Longqing Sub-branch of our Bank, assistant to the president, vice president and the president of our Bank. Prior to joining our Bank, from August 1994 to July 1997, Mr. Guo worked at Heilongjiang Longqing Urban Credit Cooperatives as deputy general manager and general manager. Between August 1994 and December 1995, Mr. Guo also concurrently served as general manager of the exploitation division of the Youth Development Foundation of Heilongjiang. Prior to that, from July 1988 to August 1994, Mr. Guo was deputy general manager of the operational department of Heilongjiang Youth Social Service Centre and deputy general manager of the exploitation division of the Youth Development Foundation of Heilongjiang. Mr. Guo received a bachelor's degree in economics from Renmin University of China in January 1998 and an EMBA degree from Peking University in July 2008. He has 19 years of experience in banking, and has been a senior economist as accredited by the Personnel Department of Heilongjiang Province since September 1998.

Mr. LIU Zhuo (劉卓), 50, has been an executive Director of our Bank since September 2007 and vice chairman of our Board since April 2012. Mr. Liu has also been secretary to the Board of our Bank since September 2008. Mr. Liu joined our Bank in October 2000. From October 2000 to April 2012, he held a number of positions in our Bank, including office general manager, deputy chairman of the Labour Union, general manager of the business department and assistant to the president of our Bank. Prior to joining our Bank, from May 1990 to October 2000, Mr. Liu held various positions in the Harbin Municipal Committee of the Communist Youth League, including section officer of the industrial office, deputy head of the urban areas department. From August 1986 to May 1990, Mr. Liu worked at the technological section of Harbin Municipal Shipyard. Mr. Liu received a bachelor's degree in engineering from Wuhan Water Transportation Engineering Institute in July 1986. He has 13 years of experience in banking.

Ms. GAO Shuzhen (高淑珍), 50, has been an executive Director of our Bank since May 2011 and president of our Bank since May 2010. Ms. Gao is also currently a deputy to the 14th People's Congress of Harbin. Ms. Gao joined our Bank in January 2001. From January 2001 to May 2010, she held a number of positions in our Bank, including general manager of the market development department, general manager of the personal banking department, assistant to the president and vice president. Prior to joining our Bank, from July 1988 to January 2001, Ms. Gao worked at the Harbin Branch of Agricultural Bank of China as section chief of the system management section under the international business department, vice president of the Huijin sub-branch and deputy general manager of the market development department. Ms. Gao received a bachelor's degree in economics from Heilongjiang University in July 1985, a master's degree in economics from Harbin Normal University in July 1988, a doctor's degree in management from Northeast Agricultural University in June 2006 and an EMBA degree from Tsinghua University in June 2011. She has 25 years of experience in banking, and has been a senior economist as accredited by Agricultural Bank of China since December 1996.

Non-executive Directors

Mr. ZHANG Taoxuan (張濤軒), 52, has been a non-executive Director of our Bank since May 2012. Mr. Zhang has been general manager of Harbin Economic Development (哈爾濱市經濟開發投資公司), head of the treasury division and general manager of the payment centre of Harbin Municipal Finance Bureau since April 2011. From December 2005 to April 2011, Mr. Zhang was the deputy head of the treasury division and deputy general manager of the payment centre in Harbin Municipal Finance Bureau, and the deputy general manager and general manager of Harbin Microfinance Loan Guarantee Centre for the Laid-off and Unemployed. From November 1996 to December 2005, Mr. Zhang held a number of positions in Harbin Municipal Finance Bureau, including associate chief officer and chief officer of

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budget division, chief officer of the treasury division. From June 1990 to November 1996, Mr. Zhang held a number of positions in Songhuajiang Municipal Finance Bureau, including officer in industry division, chief accountants and deputy general manager in budget division. From March 1981 to June 1990, Mr. Zhang worked at the Harbin Tonghe Sub-branch of Agricultural Bank of China. Mr. Zhang received a master's degree in agriculture popularisation from Northeast Agricultural University in January 2010. He has nine years of experience in banking, and has been an accountant as accredited by the MOF since December 1992.

Mr. CHEN Danyang (陳丹陽), 40, has been a non-executive Director of our Bank since April 2006. Mr. Chen has been vice president of Heilongjiang Tuokai Economic and Trading Company Limited (黑龍江拓凱經貿有限公司) since October 2003. Prior to that, Mr. Chen used to work at the Haikou Office of China Cinda Asset Management Co., Ltd. and China Construction Bank. Mr. Chen received a bachelor's degree in economics from Hunan College of Finance and Economics in June 1995 and has been an accountant as accredited by the MOF since May 1999.

Mr. CUI Luanyi (崔鸞懿), 33, has been a non-executive Director of our Bank since May 2011. Mr. Cui has been chief business officer of Heilongjiang Tiandi Yuanyuan Network Technology Company Limited (黑龍江天地源遠網絡科技有限公司) since May 2006. Prior to that, from September 2003 to May 2006, Mr. Cui worked as a teacher at the Telecommunications School of Tianjin University. Mr. Cui received a bachelor's degree in engineering from Tianjin University in June 2003 and a master's degree in economics from University Of International Business and Economics in June 2009.

Mr. QIN Hongfu (覃紅夫), 36, has been a non-executive Director of our Bank since May 2011. Mr. Qin has been chief financial officer of Harbin Kechuang Xingye Investment Company Limited (哈爾濱科創興業投資有限公司) since September 2004. Prior to that, from July 2000 to August 2004, Mr. Qin was an accountant of Hebei Yongzhengde Accounting Firm. Mr. Qin received a bachelor's degree in management from Shijiazhuang University of Economics in June 2000 and has been an accountant as accredited by the MOF since September 2005.

Independent Non-executive Directors

Mr. MA Yongqiang (馬永強), 38, has been an independent non-executive Director of our Bank since June 2012. Mr. Ma has been executive dean of the School of Accounting of Southwestern University of Finance and Economics since June 2013, and has been its professor and doctoral tutor since September 2006. From September 2006 to June 2013, Mr. Ma worked as deputy dean of the School of Accounting of Southwestern University of Finance and Economics. From July 2004 to August 2006, Mr. Ma worked at the Postdoctoral Studies Centre of Renmin University of China. Mr. Ma received a bachelor's degree in management from Hunan College of Finance and Economics in June 1999, and a doctor's degree in management from Southwestern University of Finance and Economics in June 2004.

Mr. ZHANG Shengping (張聖平), 48, has been an independent non-executive Director of our Bank since June 2012. Mr. Zhang has been independent director of Guangdong No. 2 Hydropower Engineering Company (listed on Shenzhen Stock Exchange, stock code: 002060) since November 2013. Mr. Zhang has been independent director of Huizhou Speed Wireless Technology Co., Ltd. (listed on Shenzhen Stock Exchange, stock code: 300322) since January 2012, independent director of Guangdong Golden Horse Tourism Group Co., Ltd. (previously listed on Shenzhen Stock Exchange, stock code: 000602, has been delisted since 14 August 2013) since August 2011. Mr. Zhang has been member of the Party Committee of Guanghua School of Management of Peking University since July 2011, assistant dean and executive director of the ExEd (Executive Education) of Guanghua School of Management of Peking University since May 2011 and associate professor of Guanghua School of Management of Peking

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University since August 2002. From June 2006 to December 2012, Mr. Zhang was independent director of Yinzuo Group Co., Ltd. (listed on Shanghai Stock Exchange, stock code: 600858). From June 2006 to June 2012, Mr. Zhang was independent non-executive director of Hisense Kelon Electrical Holdings Co., Ltd. (listed on Hong Kong Stock Exchange, stock code: 00921; listed on Shenzhen Stock Exchange, stock code: 000921). Prior to his position as an associate professor of Guanghua School of Management of Peking University, from July 2000 to June 2002, Mr. Zhang was a post doctorate of Guanghua School of Management of Peking University. From July 1987 to June 2000, Mr. Zhang worked as a teaching assistant, lecturer and associate professor at the School of Economics of Shandong University. Mr. Zhang received a doctor's degree in economics from Nankai University in July 2000.

Mr. HE Ping (何平), 48, has been an independent non-executive Director of our Bank since October 2012. Mr. He has been teaching in the School of Finance of Renmin University of China since 1991 and is currently deputy dean, professor and doctoral tutor of the school. Mr. He is also a deputy to the 15th People's Congress of Haidian District of Beijing and a member of its Finance and Economics Working Committee. He studied in Renmin University of China as a master's degree candidate from 1988 to 1991. Prior to that and from July 1985 to August 1988, Mr. He worked at the Enshi Autonomous Prefecture Bureau of Cultural Affairs, Hubei Province. Mr. He received a bachelor's degree in history from Wuhan University in July 1985, a master's degree in history from Renmin University of China in June 1991 and a doctor's degree in history from Renmin University of China in July 1996.

Mr. DU Qingchun (杜慶春), 42, has been an independent non-executive Director of our Bank since October 2012. Mr. Du has been a partner of Beijing Dacheng Law Offices since August 2013. From April 2002 to July 2013, Mr. Du was executive partner and a lawyer of Beijing Weiming Law Firm. From July 1998 to January 2001, Mr. Du worked at China Construction Bank. He studied in Peking University as a master's degree candidate from 1995 to 1998. He worked at the Political Management Cadre School of Heilongjiang Province from July 1992 to July 1995. Mr. Du received a bachelor's degree in law from Peking University in July 1992, and a master's degree in law from Peking University in July 1998.

Mr. WAN Kam To (尹錦滔), 61, has been an independent non-executive Director of our Bank since October 2013. Mr. Wan has been an independent non-executive director of Kerry Logistics Network Limited (listed on Hong Kong Stock Exchange, stock code: 00636) since November 2013, Mr. Wan has been independent non-executive director of Shanghai Pharmaceuticals Holding Co., Ltd. (listed on Hong Kong Stock Exchange, stock code: 02607; listed on Shanghai Stock Exchange, stock code: 601607) since June 2013, independent non-executive director of S.Culture International Holdings Limited (listed on Hong Kong Stock Exchange, stock code: 01255) since May 2013, independent non-executive director of KFM Kingdom Holdings Limited (listed on Hong Kong Stock Exchange, stock code: 03816) since September 2012, independent non-executive director of Dalian Port (PDA) Company Limited (listed on Hong Kong Stock Exchange, stock code: 02880; listed on Shanghai Stock Exchange, stock code: 601880) since June 2011, independent director of RDA Microelectronics, Inc. (listed on NASDAQ Stock Market, stock code: RDA) since November 2010, independent non-executive director of Huaneng Renewables Corporation Limited (listed on Hong Kong Stock Exchange, stock code: 00958) since August 2010, independent non-executive director of Fairwood Holdings Limited (listed on Hong Kong Stock Exchange, stock code: 00052) since September 2009, independent non-executive director of China Resources Land Limited (listed on Hong Kong Stock Exchange, stock code: 01109) since March 2009 and independent director of Mindray Medical International Limited (listed on New York Stock Exchange, stock code: MR) since September 2008. Prior to that, Mr. Wan was independent non-executive director of GreaterChina Professional Services Limited (listed on Hong Kong Stock Exchange, stock code: 08193) from May 2011 to November 2013. From July 1975 to June 2008, Mr. Wan held various positions in PricewaterhouseCoopers Hong Kong, including audit manager, audit director and partner, and was a

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partner of PricewaterhouseCoopers Hong Kong for over 16 years. Mr. Wan received advanced diploma in accounting from the Hong Kong Polytechnic (currently known as the Hong Kong Polytechnic University) in October 1975 and has been a Hong Kong chartered accountant and a member of Hong Kong Institute of Certified Public Accountants since June 1989 and the Association of Chartered Certified Accountants since September 1985. Considering the totality of Mr. Wan's educational background and professional experience, the Board is of the view that Mr. Wan possesses appropriate accounting and related financial management expertise as provided under Rule 3.10(2) of the Hong Kong Listing Rules. Mr. Wan has been named as one of the defendants in one pending defamation lawsuit in Pakistan in connection with an audit report Mr. Wan prepared in his capacity as a volunteering member of the Rotary Foundation Cadre on a project sponsored by the Rotary Foundation in Pakistan. The plaintiff in the lawsuit is only seeking damages in aggregate of PKR50 million (equivalent to approximately HK\$4 million) against the 16 defendants (one of whom is Mr. Wan) and so far as Mr. Wan is aware, there are no other claims (including criminal claims) in relation to this matter. Mr. Wan understands that the Rotary Foundation will apply to remove Mr. Wan as a defendant to such lawsuit. The Bank is of the view that, in light of the facts of this lawsuit, in particular, the alleged defamatory conduct does not directly relate to the audit report prepared by Mr. Wan and Mr. Wan's only involvement is in his performance of his duties to conduct the audit in his capacity as a volunteering member of the Rotary Foundation Cadre and has no direct involvement in the alleged defamatory conduct, the lawsuit has no impact on the character and integrity of Mr. Wan and does not affect the performance by Mr. Wan of his duties as a director of the Bank under Rules 3.08 and 3.09 of the Hong Kong Listing Rules.

Mr. KONG Siu Chee (江紹智), 67, has been an independent non-executive Director of our Bank since October 2013. Mr. Kong has been independent non-executive director of China New Town Development Co., Ltd. (listed on Hong Kong Stock Exchange, stock code: 01278; listed on Singapore Stock Exchange, stock code: D4N) since November 2006. Prior to that, from April 1999 to December 2005, he was director and alternate chief executive officer of CITIC Ka Wah Bank. From 1993 to 1994, he was director of Champion Technology Holdings Limited. Mr. Kong joined Standard Chartered Bank in 1969 and had served the bank for almost 24 years, during this period, he was a senior administrative member. Mr. Kong received a bachelor's degree of arts from The University of Hong Kong in November 1969 and an MBA degree from the Chinese University of Hong Kong in December 1980, and received a diploma in banking from the Chartered Banker Institute in London in December 1973.

Supervisors

Mr. ZHANG Bin (張濱), 55, has been chairman of the Board of Supervisors of our Bank since April 2012. Mr. Zhang joined our Bank in July 1997. From July 1997 to April 2012, he worked as president of the Taiping Sub-branch (governing sub-branch), general manager of the assets management department, vice president of the Dazhi Sub-branch (governing sub-branch), assistant to the president and vice president of our Bank. Prior to joining our bank, from July 1996 to July 1997, Mr. Zhang was director of Harbin Taiping Bridge Urban Credit Cooperatives. From July 1988 to July 1996, Mr. Zhang held various positions in Harbin Taiping District Finance Bureau, including head of the credit division and deputy general manager of the Finance Bureau. Prior to that, Mr. Zhang had worked as accountant and salesman. Mr. Zhang received an MBA degree from Harbin Institution of Technology in July 1999. He has 17 years of experience in banking, and has been a senior accountant and a senior economist as accredited by the Personnel Department of Heilongjiang Province since September 2003 and September 1997, respectively.

Ms. CHENG Yun (程雲), 50, has been an employees representative Supervisor and vice chairman of our Board of Supervisors since April 2012. Ms. Cheng joined our Bank in July 1997. From July 1997 to April 2012, she has held a number of positions in our Bank, including deputy general manager and general manager, respectively, of the finance and accounts department, assistant to the president and vice president. Prior to joining our Bank, Ms. Cheng was a clerk in the finance and accounts department of the

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preparatory office set for the establishment of our Bank from December 1996 to July 1997, and manager of the business department of the Shekou Sub-branch of Shenzhen Commercial Bank from September 1993 to December 1996. Ms. Cheng also worked at the accounts office of the Hexing Sub-branch of Harbin Industrial & Commercial Bank from July 1983 to September 1993. Ms. Cheng received a bachelor's degree in economics from Heilongjiang University in June 2004. She has 30 years of experience in banking, and has been a senior accountant as accredited by the Personnel Department of Heilongjiang Province since September 2006 and a senior finance manager as accredited by Chinese Association for Development Strategy since November 2006.

Ms. WANG Ying (王穎), 42, has been an employees representative Supervisor of our Bank since June 2007 and has also been general manager of the Internal Audit Department of our Bank since September 2012. Ms. Wang joined our Bank in July 1997. From July 1997 to September 2012, she has held several positions in our Bank, including assistant to the general manager of the Office of the Board of Supervisors, deputy general manager and assistant to the general manager of the Internal Audit Department. From August 1992 to July 1997, prior to joining our bank, Ms. Wang worked as cashier and accountant respectively of Harbin Urban Credit Union. Ms. Wang graduated from Renmin University of China in July 1997 majoring in monetary banking and received a master's degree in law from China University of Political Science and Law in January 2010. Ms. Wang has 21 years of experience in banking, and has been an accountant as accredited by the MOF since May 1998.

Mr. CHEN Yutao (陳宇濤), 39, has been an employees representative Supervisor of our Bank since April 2011. Mr. Chen has been concurrently deputy general manager of the financial planning department since January 2011, and general manager of the assets and liabilities management department of our Bank since November 2012. He held positions of deputy general manager and assistant to the general manager of the financial planning department at our Bank since March 2010. Prior to joining our Bank, Mr. Chen was senior business manager of the financial planning department of the Shanghai Branch of Hangzhou Bank from November 2008 to March 2010. He worked at Ping An Bank from June 2005 to November 2008 and previously served as (presiding) assistant to the general manager of the finance and accounting department of the Quanzhou Branch of Ping An Bank. Prior to that, Mr. Chen also has work experience as business manager of the financial planning department of the Heilongjiang Branch of China Construction Bank. Mr. Chen received a bachelor's degree in economics from Heilongjiang Economic Management Cadre College in July 2000 and an EMBA degree from Fudan University in June 2013. He has 18 years of experience in banking, and has been a senior accountant as accredited by the Personnel Department of Guangdong Province since January 2008.

Ms. LU Yujuan (盧育娟), 29 has been the shareholders representative Supervisor of our Bank since September 2013. Ms. Lu has been chief executive officer of Heilongjiang Keruan Software Technologies Company Limited (黑龍江科軟軟件科技有限公司) since June 2010. From December 2008 to June 2010, Ms. Lu was vice manager of the Beijing Office of Heilongjiang Keruan Software Technologies Company Limited. From March 2008 to August 2008, Ms. Lu worked at the office of Television Bureau of Change, Henan Province. From November 2003 to December 2004, Ms. Lu was a first sergeant of Jinan Armed-police Command School. From November 2002 to November 2003, Ms. Lu was a first sergeant of Beidaihe Sanatorium of the Air Force. From September 2002 to November 2002, Ms. Lu was a first sergeant of Third Brigade of the Third Department of the Air Defense. From December 2000 to September 2002, Ms. Lu served in the Telecom Battalion of the 199 Infantry Division. Ms. Lu received a bachelor's degree in arts from Communication University of China in June 2010, and a master's degree of fine arts from Communication University of China in June 2012.

Ms. BAI Fan (白帆), 39, has been an external Supervisor of our Bank since July 2013. Ms. Bai has been an associate professor of Sichuan Staff University of Science and Technology since November 2011

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and assistant to the head of its business administration department since September 2010. From February 2002 to February 2004, Ms. Bai was assistant to the general manager of Sichuan Fangzheng Agriculture Joint Stock Limited Company. Ms. Bai received an MBA degree from Southwestern University of Finance and Economics in December 2001 and a doctor's degree in economics from the School of Economics of Southwestern University of Finance and Economics in December 2012.

Mr. WANG Jiheng (王吉恒), 49, has been an external Supervisor of our Bank since August 2011. Mr. Wang has been a professor at Northeast Agricultural University since August 2003, and was appointed as doctoral tutor in June 2004. From July 1985 to July 2003, he was a teacher of Heilongjiang Bayi Agricultural University. Mr. Wang received a bachelor's degree in science from Heilongjiang University in July 1985 and a doctor's degree in management from Northeast Agricultural University in June 2003.

Ms. MENG Rongfang (孟荣芳), 48, has been an external Supervisor of our Bank since September 2013. Ms. Meng has been director, senior partner, and general manager of the risk management committee of BDO China Shu Lun Pan Certified Public Accountants LLP since January 2000. From August 1988 to December 1999, Ms. Meng worked successively as assistant, registered accountant, assistant to the director and vice director accountant of Shanghai Certified Public Accountants. Ms. Meng was a member of the 10th and 11th Public Offering Review Committee of the CSRC. In July 2003, she graduated from East China College of Political Science and Law (currently known as East China University of Political Science and Law) majoring in law. From December 2006 to December 2008, Ms. Meng studied at the EMPAcc Program jointly held by the Chinese University of Hong Kong and Shanghai National Accounting Institute, and received a master's degree in professional accounting from the Chinese University of Hong Kong. Ms. Meng has been a senior accountant as accredited by Shanghai Human Resources and Social Security Bureau since April 2009.

Senior Management

For the biography of **Ms. GAO Shuzhen**, see “– Directors”.

For the biography of **Mr. LIU Zhuo**, see “– Directors”.

Mr. LI Qiming (李启明), 55, has been a vice president of our Bank since November 2007. Mr. Li joined our Bank in April 1999. From April 1999 to July 2011, he held a number of positions in our Bank, including general manager of personal banking department, general manager of human resources department, general manager of the audit department and deputy secretary-general of the discipline committee of our Bank. From March 1996 to April 1999, Mr. Li was deputy general manager of Harbin Jinqiao Urban Credit Cooperatives whilst also worked successively as deputy general manager of Heilongjiang Patent Centre and Soybean Research and Development Centre. Prior to that, from March 1992 to March 1996, Mr. Li was deputy secretary-general of Heilongjiang Scientific Instruments Company, secretary-general of its discipline committee and chairman and general manager of Heilongjiang Scientific Materials Development Co., Ltd. From July 1984 to July 1988 and from July 1990 to March 1992, Mr. Li worked successively as secretary-general of the Youth League Committee and member of the Party Committee of Heilongjiang Science Committee. From 1988 to 1990, Mr. Li attended the training course for young leaders of Chinese Communist Party held by the Party School of Heilongjiang Province. Prior to that, from January 1982 to July 1984, Mr. Li worked at Harbin Cold Rolled Steel Strip Factory. Mr. Li graduated from Anshan Iron and Steel Institute (currently known as Liaoning University of Technology), with a bachelor degree of Engineering in January 1982. In July 1990, he graduated from the training course for the young leaders of Chinese Communist Party held by the Party School of Heilongjiang Province (equivalent to postgraduate course) majoring in administrative

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management. He has 18 years of experience in banking, and has been a senior engineer as accredited by the Personnel Department of Heilongjiang Province since September 1997.

Mr. ZHANG Qiguang (張其廣), 41, has been a vice president of our Bank since April 2012 and chief financial officer of our Bank since May 2011. Mr. Zhang has been president of our Harbin Branch since March 2012. Mr. Zhang is also currently a member of Harbin Municipal Committee of the 12th Chinese People's Political Consultative Conference, deputy general manager of its economics committee, and a deputy to the 15th People's Congress of Nangang District of Harbin. Mr. Zhang joined our Bank in June 2001. From June 2001 to September 2012, Mr. Zhang held a number of positions in our Bank, including general manager of the business department at the headquarters, executive deputy general manager of the Harbin management department and general manager of the financial planning department of our Bank. Prior to joining our Bank, from November 1993 to June 2001, Mr. Zhang worked at the PBOC Harbin Central Sub-branch. From July 1993 to November 1993, Mr. Zhang worked at Harbin Securities Company. Mr. Zhang received a bachelor's degree in economics from Renmin University of China in January 1998 and received a master's degree in professional accounting from the Chinese University of Hong Kong in December 2008. He has 20 years of experience in banking, and has been a registered accountant as accredited by the MOF since July 2003.

Mr. LV Tianjun (呂天君), 47, has been a vice president of our Bank since April 2012 and chief risk officer of our Bank since May 2011. Mr. Lv joined our Bank in June 2001. From June 2001 to April 2012, Mr. Lv held a number of positions in our Bank, including general manager of the human resources department, general manager of the risk management department and deputy secretary-general of the discipline committee of our Bank. Prior to joining our Bank, from January 1999 to June 2001, Mr. Lv worked at the PBOC Harbin Central Sub-branch as reporter and editor at editorial office, and from July 1988 to December 1998, Mr. Lv worked at the Heilongjiang Branch of the PBOC successively as staff at its treasury division and reporter and editor at its research institute. Mr. Lv graduated from Nankai University in July 1997 majoring in monetary banking (correspondence course). He has 25 years of experience in banking, and has been an economist accredited by the PBOC since October 1996.

Mr. LU Weidong (盧衛東), 43, has been a vice president and chief information officer of our Bank since August 2013. Prior to joining our Bank, from April 2005 to August 2013, Mr. Lu held various positions in Deloitte Consulting (Shanghai) Co., Ltd. including being a partner. From May 2002 to March 2005, he worked at Bearing Point (Shanghai) Management Consulting Co., Ltd. From March 2001 to April 2002, he was senior consultant of Andersen Management Consulting (Shanghai) Co., Ltd. From November 2000 to February 2001, he worked at the Shanghai Branch of China Star Corporation. From December 1999 to October 2000, he worked at Shanghai International Enterprises Cooperative Corp. and from August 1996 to December 1999, he worked at Shanghai Institute of Telecommunication Technology Research. Mr. Lu received a master's degree in science from Fudan University in July 1996.

Mr. XU Shaoguang (徐紹光), 53, has been the chief credit approval officer of our Bank since May 2011. Mr. Xu joined our Bank in July 1997. From July 1997 to September 2012, Mr. Xu held a number of positions in our Bank, including president of the Zhongda Sub-branch, president of the Longjiang Sub-branch, general manager of the risk management department and general manager of the credit approval department of our Bank. Prior to that, from September 1996 to July 1997, Mr. Xu was officer of Zhongda Urban Credit Union. From May 1992 to September 1996, Mr. Xu was officer of the credit department of Harbin Urban Credit Union. From July 1982 to May 1992, Mr. Xu worked in various departments, including technological renovation department, chief engineer office and computer centre, of Harbin Cigarette Factory. Mr. Xu received a bachelor's degree in science from Heilongjiang University in July 1982. He has 21 years of experience in banking, and has been a senior engineer as accredited by the Personnel Department of Heilongjiang Province since September 2000.

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Mr. WANG Haibin (王海濱), 44, has been an assistant to the president of our Bank since April 2012. Mr. Wang has also served concurrently as executive vice president of our Harbin Branch since February 2012 and as general manager of the human resources department of our Bank since June 2011. Mr. Wang joined our Bank in July 1997. From July 1997 to April 2012, Mr. Wang held a number of positions in our Bank, including president of our Dazhi Sub-branch, general manager of the operational management office and general manager of the corporate banking department of our Bank. Prior to joining our Bank, from February 1997 to July 1997, Mr. Wang worked as a general officer of the preparatory office set for the establishment of our bank. From August 1991 to February 1997, he worked as a vice director officer at the Harbin Branch of the PBOC. Mr. Wang received a bachelor's degree in engineering from Jilin Industrial University in July 1991 and a master's degree in engineering from Northeast Forestry University in January 2007. He has 22 years of experience in banking, and has been an economist accredited by the PBOC since September 1996.

Ms. SUN Jiawei (孫嘉巍), 44, has been an assistant to the president of our Bank since April 2012. Ms. Sun joined our Bank in July 1997. From July 1997 to December 2013, Ms. Sun held various positions in our Bank, including vice president of our Dongli Sub-branch, general manager of the personal wealth management department, general manager of the microcredit R&D centre, general manager of small enterprises banking department and general manager of rural banking department. From November 1989 to July 1997, Ms. Sun worked as a deputy general manager of the business department of Longguang Credit Union. Ms. Sun graduated from the Harbin Economic Management Cadre Institute in January 2002 majoring in financial accounting (correspondence course), and received an MBA degree from Harbin Engineering University in December 2011. She has 24 years of experience in banking and has been an economist as accredited by the Ministry of Personnel (currently known as the Ministry of Human Resources and Social Security) since November 2002.

Company Secretary

Ms. SUN Feixia (孫飛霞), 43, has been appointed as the joint company secretary of our Bank since January 2014. Ms. Sun has been the general manager of the Investment Management Office under the Board since November 2012, and the general manager of the Office of the Board since March 2008. Ms. Sun joined our Bank in July 1997 and held positions such as credit general officer of our Wenchang Branch, general officer of the legal department and the Internal Audit Department, as well as assistant to the general manager and the deputy general manager of the Office of the Board from July 1997 to March 2008. From February 1997 to July 1997, Ms. Sun also helped with the preparation for the establishment of our Bank as general officer at the debt clearance office. From July 1993 to February 1997, Ms. Sun was the general manager of the securities department of Harbin Urban Credit Union. Ms. Sun received a bachelor's degree in economics from the Renmin University of China in January 1998 (correspondence course) and received a master's degree in management from Northeast Agricultural University in June 2004, as well as a doctor's degree in management from Northeast Agricultural University in June 2011. Ms. Sun has 20 years of experience in banking, and has been a senior economist as accredited by the Personnel Department of Heilongjiang Province since September 2004.

Dr. NGAI Wai Fung (魏偉峰), 52, FCIS, FCS (PE), CPA and FCCA, joined our Bank since January 2014 as our joint company secretary. Dr. Ngai is also currently director and chief executive officer of SW Corporate Services Group Limited.

Dr. Ngai currently acts as the joint company secretary of China Pacific Insurance (Group) Co., Ltd. (listed on the Hong Kong Stock Exchange, stock code:02601, and the Shanghai Stock Exchange, stock code:601601), China Eastern Airlines Corporation Limited (listed on the Hong Kong Stock Exchange, stock code: 00670, the Shanghai Stock Exchange, stock code: 600115 and the New York Stock Exchange,

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stock code: CEA), China Cinda Asset Management Co., Ltd (listed on the Hong Kong Stock Exchange, stock code: 01359) and Huishang Bank Corporation Limited (listed on the Hong Kong Stock Exchange, stock code: 03698); the company secretary of Anton Oilfield Services Group (listed on the Hong Kong Stock Exchange, stock code: 03337) and Sinosoft Technology Group Limited (listed on the Hong Kong Stock Exchange, stock code: 01297). In January 2013, Dr. Ngai was appointed as a member of the Working Group on Professional Services under the Economic Development Commission led by the Chief Executive of Hong Kong SAR and a member of Qualification and Examinations Board of Hong Kong Institute of Certified Public Accountants. He is also an adjunct professor of law of Hong Kong Shue Yan University.

Dr. Ngai held a number of positions in companies that were listed on the Hong Kong Stock Exchange, including COSCO International Holdings Limited (stock code: 00517), China Unicom (Hong Kong) Limited (stock code: 00762) and Industrial and Commercial Bank of China (Asia) Ltd. (stock code: 00349, which was delisted on 21 December 2010). Dr. Ngai was an independent non-executive director of China Life Insurance Company Limited (listed on the Hong Kong Stock Exchange, stock code: 02628, the Shanghai Stock Exchange, stock code: 601628 and the New York Stock Exchange, stock code: LFC).

Dr. Ngai obtained a master's degree in Business Administration (MBA) from Andrews University of the United States in August 1992 and a bachelor's degree (Honours) in Law from the University of Wolverhampton the United Kingdom in October 1994. Dr. Ngai obtained a master's degree in Corporate Finance from the Hong Kong Polytechnic University in November 2002, and a doctorate in Finance from the Shanghai University of Finance and Economic in June 2011. Dr. Ngai possesses over 25 years of company secretarial experience. He is a vice president of Hong Kong Institute of Chartered Secretaries ("HKICS"). Dr. Ngai was admitted a fellow member of HKICS in November 2000, a fellow member of the Institute of Chartered Secretaries and Administrators in the United Kingdom in November 2000, a member of the Hong Kong Institute of Certified Public Accountants in July 2007 and a fellow member of the Association of Chartered Certified Accountants in the United Kingdom in March 2012.

BOARD

Currently, our Board consists of 13 Directors, six of whom are independent non-executive Directors who meet the independence requirements according to the Hong Kong Listing Rules and the relevant PRC rules and regulations. Our Directors are elected by an ordinary resolution at a shareholders' general meeting to serve a term of three years, renewable upon re-election. Pursuant to the Articles of Association, the appointment of each independent non-executive Directors is limited to a maximum term of six years.

Board Committees

Our Board delegates certain responsibilities to various committees. We have established our Nomination and Remuneration Evaluation Committee, Risk Management and Related Transactions Control Committee, Development Strategy Committee and Audit Committee.

Nomination and Remuneration Evaluation Committee

We have established our Nomination and Remuneration Evaluation Committee with written terms of reference in compliance with the requirements under the Hong Kong Listing Rules. The Nomination and Remuneration Evaluation Committee under our Board consists of one non-executive Director, being Mr. CHEN Danyang, and four independent non-executive Directors, being Mr. HE Ping,

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Mr. MA Yongqiang, Mr. DU Qingchun and Mr. WAN Kam To. Mr. DU Qingchun currently serves as the chairman of the Committee. The Committee is primarily responsible for the following:

- reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually proposing in connection with the change to the Board in accordance with company policy;
- determining the conditions of service, criteria and selection procedures for Directors and senior management;
- conducting preliminary review and providing advice to the Board on the service qualifications and conditions of Directors and senior management;
- assessing the independence of independent Directors;
- making and implementing the Bank's remuneration policy and structure for all directors and senior management;
- reviewing and approving the management's remuneration proposals with reference to the Board's corporate goals and objectives;
- making recommendations to the Board on the remuneration and incentive measures and schemes of our senior management;
- drafting the performance review standards of our senior management, conducting such performance review and reporting the results to the Board; and
- approving the amounts of the annual incentive compensation to be distributed to our senior management, operating and management personnel and employees.

The composition of the Committee is in full compliance with the relevant requirements under the Hong Kong Listing Rules.

Risk Management and Related Transactions Control Committee

The Risk Management and Related Transactions Control Committee under our Board consists of five Directors, being Mr. ZHANG Shengping, Mr. HE Ping, Mr. DU Qingchun, Mr. LIU Zhuo and Mr. CUI Luanyi. Mr. ZHANG Shengping currently serves as the chairman of the Committee. The Committee is primarily responsible for the following:

- supervising the risk control by senior management in respects of, among others, credit, market and operations;
- making regular assessment of our risk status;
- providing advice on improving our risk management and internal control;
- reviewing our asset liability management policies;
- collecting and compiling lists and information of our related parties;
- examining and supervising the control of related party transactions of our Bank, as well as the implementation of related party transactions control system by our Directors, members of our senior management and related parties, and reporting the results to the Board; and
- approving or conducting preliminary review of matters to be approved or preliminarily reviewed by the committee as set out in our Articles of Association and any other internal rules, keeping records of the relevant matters and reporting to the Board in accordance with the rules.

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Development Strategy Committee

The Development Strategy Committee under our Board consists of five Directors, being Mr. GUO Zhiwen, Mr. LIU Zhuo, Ms. GAO Shuzhen, Mr. ZHANG Taoxuan and Mr. KONG Siu Chee. Mr. GUO Zhiwen currently serves as the chairman of the Committee. The Committee is primarily responsible for the following:

- researching and providing advice on our long and medium term development strategies;
- researching and providing advice on material investment and financing programmes, material capital operation and asset operating projects to be approved by the Board as required under our Articles of Association, and other material matters which may affect the development of our Bank;
- drafting our annual business targets; and
- supervising and inspecting the implementation by senior management of our long and medium term development plans, annual business targets, investment and financing programmes and capital operation programmes.

Audit Committee

We have established our Audit Committee with written terms of reference in compliance with the requirements under the Hong Kong Listing Rules. The Audit Committee under our Board consists of one non-executive Director, being Mr. QIN Hongfu, and four independent non-executive Directors, being Mr. MA Yongqiang, Mr. ZHANG Shengping, Mr. WAN Kam To and Mr. KONG Siu Chee. Mr. MA Yongqiang currently serves as the chairman of the Committee. The Committee is primarily responsible for the following:

- examining the accounting policy, financial condition and financial reporting procedure of our Bank;
- reviewing our financial information and its disclosure;
- overseeing our financial reporting system and internal control procedures;
- monitoring and evaluating our Internal Audit Department;
- making recommendations to the Board on the appointment, re-appointment and removal of the external auditor; and
- coordinating internal and external audit work.

The composition of the Committee is in full compliance with the relevant requirements under the Hong Kong Listing Rules.

BOARD OF SUPERVISORS

The PRC Company Law requires a joint stock company to establish a board of supervisors that is responsible for supervising the actions of the board and senior management and monitoring financial matters. Our Board of Supervisors consists of eight Supervisors, including Chairman of the board of Supervisors, one shareholders representative Supervisor, three employees representative Supervisors and three external Supervisors. The chairman and vice chairman are elected by the Board of Supervisors. The term of office for our Supervisors is three years, renewable upon re-election.

Supervisory Board Committees

Our Board of Supervisors delegates certain responsibilities to various committees. We have formed Supervisory Board Nomination Committee and Supervisory Board Supervision and Evaluation Committee, both of which are chaired by external Supervisors.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Supervisory Board Nomination Committee

The Nomination Committee under our Board of Supervisors consists of three Supervisors, being Mr. WANG Jiheng, Ms. BAI Fan and Ms. WANG Ying. Mr. WANG Jiheng currently serves as the chairman of the Committee. The Committee is primarily responsible for the following:

- drafting the conditions of service, criteria and selection procedures for Supervisors;
- conducting preliminary review and providing advice to the Board of Supervisors on the service qualifications and conditions of candidate Supervisors nominated by shareholders;
- nominating qualified candidate external Supervisors and recommending Supervisors to the Board of Supervisors; and
- providing advice to our Board of Supervisors on the size and composition of our Board of Supervisors based on our Banks' operational and management status, total asset value and shareholding structure.

Supervisory Board Supervision and Evaluation Committee

The Supervision and Evaluation Committee under our Board of Supervisors consists of three Supervisors, being Ms. MENG Rongfang, Mr. CHEN Yutao and Ms. LU Yujuan. Ms. MENG Rongfang currently serves as the chairman of the Committee. The Committee is primarily responsible for the following:

- supervising the performance and realisation of duties and responsibilities by Directors, senior management and drafting and submitting relevant rules to our Board of Supervisors for review, and implementing relevant rules upon approval;
- drafting audit plans for the leaving of senior management and implementing such plans as approved by the Board of Supervisors;
- supervising our financial activities, operational decisions, risk management and internal control pursuant to relevant working rules and proposing supervisory recommendations;
- tracking the formulation of the Board's regular reports and relevant material adjustments and reporting the same to our Board of Supervisors; and
- proposing supervisory recommendations on the engagement of accounting firms when necessary.

COMPENSATION OF DIRECTORS, SUPERVISORS AND OFFICERS

We offer our executive Directors, Supervisors and senior management members, who are also employees of our Bank, 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 receive compensation based on their responsibilities (including being members or chairman of Board committees).

The aggregate amounts of pre-tax compensation paid to our Directors, Supervisors and senior management members for the years ended 31 December 2010, 2011 and 2012 and the nine months ended 30 September 2013 were approximately RMB9,258,000, RMB16,927,000, RMB22,671,000 and RMB12,215,000, respectively.

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The aggregate amounts of pre-tax compensation we paid to our five highest paid individuals for the years ended 31 December 2010, 2011 and 2012 and the nine months ended 30 September 2013 were approximately RMB6,255,000, RMB9,348,000, RMB12,662,000 and RMB6,088,000, respectively.

We have not paid any remuneration to our Directors or the five highest paid individuals as an inducement to join or upon joining us or as a compensation for loss of office in respect of the years ended 31 December 2010, 2011 and 2012 and the nine months ended 30 September 2013. Further, none of our Directors waived any remuneration during the same period.

Save as disclosed above, no other payments have been paid or are payable by us to our Directors in respect of the years ended 31 December 2010, 2011 and 2012 and the nine months ended 30 September 2013.

We do not plan to change our remuneration policies after listing.

DIRECTORS' AND SUPERVISORS' INTEREST

Except as disclosed in this prospectus, each of the Directors and Supervisors (i) did not hold other positions in our Bank as of the Latest Practicable Date; (ii) had no other relationship with any Directors, senior management or substantial shareholder or controlling shareholder of our Bank as of the Latest Practicable Date; and (iii) did not hold any other directorship in listed companies in the three years prior to the Latest Practicable Date. See "Appendix VIII – Statutory and General Information" for our Directors' and Supervisors' interests in our shares within the meaning of Part XV of the SFO.

Except as disclosed herein, to the best of the knowledge, information and belief of our Directors and Supervisors, having made all reasonable enquiries, there was no additional matter with respect to the appointment of our Directors or Supervisors that needs to be brought to the attention of the shareholders and there was no additional information relating to our Directors or Supervisors that is required to be disclosed pursuant to Rules 13.51(2)(h) to (v) of the Hong Kong Listing Rules as of the Latest Practicable Date.

WAIVER FROM STRICT COMPLIANCE WITH RULES 8.12 AND 19A.15 OF THE HONG KONG LISTING RULES

Management Presence in Hong Kong

We have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with Rules 8.12 and 19A.15 of the Hong Kong Listing Rules. See "Waivers and Exemption from Compliance with the Hong Kong Listing Rules – Management Presence in Hong Kong".

WAIVER FROM STRICT COMPLIANCE WITH RULE 8.17 OF THE HONG KONG LISTING RULES

Qualification of Company Secretary

We have submitted our application to the Hong Kong Stock Exchange, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with Rule 8.17 of the Hong Kong Listing Rules for an initial period of three years from the Listing Date, provided that Dr. NGAI Wai Fung (魏偉峰博士) will act as a joint company secretary and provide assistance to Ms. SUN Feixia (孫飛霞女士) during this period. Upon the expiry of the three year period, we will make a further evaluation of Ms. Sun's

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

qualifications and experience to determine whether the requirements set out under Rule 3.28 of the Hong Kong Listing Rules are satisfied. See “Waivers and Exemption from Compliance with the Hong Kong Listing Rules – Company Secretary”.

COMPLIANCE ADVISOR

We appointed CMB International Capital Limited as our compliance advisor (the “Compliance Advisor”) upon listing in compliance with Rule 3A.19 of the Hong Kong Listing Rules. We entered into a compliance advisor’s agreement with the Compliance Advisor, the material terms of which are as follow:

- our Bank appointed CMB International Capital Limited as our Compliance Advisor for the purpose of Rule 3A.19 of the Hong Kong Listing Rules for a period commencing on the date of the listing of our H Shares on the Hong Kong Stock Exchange and ending on the date on which our annual report for the first full financial year commencing after the date of listing is published, or until the agreement is terminated, whichever is earlier;
- the Compliance Advisor shall provide us with certain services, including providing guidance and advice as to compliance with the requirements under the Hong Kong Listing Rules and applicable laws, rules, codes and guidelines and advice on the continuing requirements under the Hong Kong Listing Rules and applicable laws and regulations;
- subject to certain conditions, we agreed to indemnify the Compliance Advisor for actions against and losses incurred by the Compliance Advisor arising out of, or in connection with, certain events including the performance by the Compliance Advisor of its duties under the agreement; and
- the Compliance Advisor will act as our Bank’s additional channels of communication with the Hong Kong Stock Exchange.

SUBSTANTIAL SHAREHOLDERS

Immediately following completion of the Global Offering (assuming the Over-allotment Option is not exercised), our total issued share capital will comprise 7,972,029,553 Domestic Shares and 3,023,570,000 H Shares (including 274,870,000 H Shares to be converted from Domestic Shares and transferred to the NSSF pursuant to the relevant PRC regulations relating to reduction of State-owned Shares), representing approximately 72.5% and 27.5% of the total issued share capital of our Bank, respectively. If the Over-allotment Option is exercised in full, our total issued share capital will comprise 7,930,799,553 Domestic Shares and 3,477,100,000 H Shares (including 316,100,000 H Shares to be converted from Domestic Shares and transferred to the NSSF pursuant to the relevant PRC regulations relating to reduction of State-owned Shares), representing approximately 69.52% and 30.48% of the total issued share capital of our Bank, respectively.

So far as the Directors are aware, immediately following completion of the Global Offering, the following persons will have interests or short positions in our shares or relevant shares which would be 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, directly or indirectly, be interested in 10% or more of the nominal value of any class of our share capital which carries voting power at general meetings:

Name of Shareholder	Immediately after completion of the Global Offering (assuming the Over-allotment Option is not exercised)		Immediately after completion of the Global Offering (assuming the Over-allotment Option is exercised in full)	
	Number of Shares	Approximate percentage of total issued share capital (%)	Number of Shares	Approximate percentage of total issued share capital (%)
Harbin Economic Development	2,160,507,748 Domestic Shares	19.65	2,119,917,272 Domestic Shares	18.58
Harbin Kechuang Xingye Investment Company Limited (哈爾濱科創興業投資有限公司)	720,262,554 Domestic Shares	6.55	720,262,554 Domestic Shares	6.31
Tianjin Wenhua Tianhai Industrial Company Limited (天津文華天海實業有限公司)	720,262,554 Domestic Shares	6.55	720,262,554 Domestic Shares	6.31
Baotou Ronghui Trading Company Limited (包頭市榮慧貿易有限責任公司)	720,262,554 Domestic Shares	6.55	720,262,554 Domestic Shares	6.31
Hangzhou Jiela Trading Company Limited (杭州杰拉貿易有限公司)	720,262,554 Domestic Shares	6.55	720,262,554 Domestic Shares	6.31
Jinan Kangze Commercial and Trading Company Limited (濟南康澤商貿有限公司)	720,262,554 Domestic Shares	6.55	720,262,554 Domestic Shares	6.31
Tan Ran (譚燃)	720,262,554 Domestic Shares	6.55	720,262,554 Domestic Shares	6.31
Zhang Yanyong (張衍勇)	720,262,554 Domestic Shares	6.55	720,262,554 Domestic Shares	6.31
Heilongjiang Keruan Software Technologies Company Limited (黑龍江科軟軟件科技有限公司)	719,816,019 Domestic Shares	6.55	719,816,019 Domestic Shares	6.31

SUBSTANTIAL SHAREHOLDERS

Name of Shareholder	Immediately after completion of the Global Offering (assuming the Over-allotment Option is not exercised)		Immediately after completion of the Global Offering (assuming the Over-allotment Option is exercised in full)	
	Number of Shares	Approximate percentage of total issued share capital	Number of Shares	Approximate percentage of total issued share capital
		(%)		(%)
Dalian Yujiixin Technology Company Limited (大連宇嘉信科技有限公司)	719,816,019 Domestic Shares	6.55	719,816,019 Domestic Shares	6.31
Liao Yifeng (梁乙峰)	719,816,019 Domestic Shares	6.55	719,816,019 Domestic Shares	6.31
Diao Xiaoxi (刁小熙)	719,816,019 Domestic Shares	6.55	719,816,019 Domestic Shares	6.31
Heilongjian Xinyongsheng Trading Company Limited (黑龍江鑫永勝商貿有限公司)	639,804,806 Domestic Shares	5.82	639,804,806 Domestic Shares	5.61
Beijing Chengxinfenghui Technology and Trading Company Limited (北京誠信豐滙科貿有限公司)	639,804,806 Domestic Shares	5.82	639,804,806 Domestic Shares	5.61
Liu Kun (劉坤)	639,804,806 Domestic Shares	5.82	639,804,806 Domestic Shares	5.61
Zhao Yonghe (趙永和)	639,804,806 Domestic Shares	5.82	639,804,806 Domestic Shares	5.61
Heilongjiang Tiandi Yuanyuan Network Technology Company Limited (黑龍江天地源遠網絡科技有限公司)	572,253,048 Domestic Shares	5.20	572,253,048 Domestic Shares	5.02
Beijing Huifutong International Investment Company Limited (北京滙富通國際投資有限公司)	572,253,048 Domestic Shares	5.20	572,253,048 Domestic Shares	5.02
Dong Yan (董雁)	572,253,048 Domestic Shares	5.20	572,253,048 Domestic Shares	5.02
Heilongjiang Tuokai Economic and Trading Company Limited (黑龍江拓凱經貿有限公司)	522,447,109 Domestic Shares	4.75	522,447,109 Domestic Shares	4.58
Beijing Tailonghuasheng Technology Company Limited (北京泰隆華勝科技有限公司)	522,447,109 Domestic Shares	4.75	522,447,109 Domestic Shares	4.58
Beijing Jieshengtiancheng Trading Company Limited (北京傑勝天成貿易有限公司)	522,447,109 Domestic Shares	4.75	522,447,109 Domestic Shares	4.58
Guan Wu (管武)	522,447,109 Domestic Shares	4.75	522,447,109 Domestic Shares	4.58
Han Yong (韓永)	522,447,109 Domestic Shares	4.75	522,447,109 Domestic Shares	4.58

SUBSTANTIAL SHAREHOLDERS

As of the Latest Practicable Date and immediately following completion of the Global Offering, our Bank did not have and will not have a controlling shareholder, as such term is defined under the Hong Kong Listing Rules. See “Our Relationships with Our Substantial Shareholder and Connected Transactions – Our Relationships with Our Substantial Shareholder” for our relationships with our substantial shareholder, who can exercise or direct the exercise of 10% or more of voting power at any of our shareholders’ general meetings.

SHARE CAPITAL

This section presents certain information regarding our share capital prior to and following the completion of the Global Offering.

BEFORE THE GLOBAL OFFERING

As of the Latest Practicable Date, our share capital comprised 8,246,899,553 Domestic Shares.

	<u>Number of shares</u>	<u>Approximate percentage of total issued share capital</u>
		(%)
Domestic Shares in issue	8,246,899,553	100.00

UPON COMPLETION OF THE GLOBAL OFFERING

Immediately following completion of the Global Offering, assuming the Over-allotment Option is not exercised, our total issued share capital will be as follows:

	<u>Number of shares</u>	<u>Approximate percentage of total issued share capital</u>
		(%)
Domestic Shares	7,972,029,553	72.5
H Shares	3,023,570,000 ⁽¹⁾	27.5
Total Share Capital	<u>10,995,599,553</u>	<u>100.00</u>

Note:

- (1) Such 3,023,570,000 H Shares are inclusive of (i) 2,748,700,000 new H Shares to be issued pursuant to the Global Offering; and (ii) 274,870,000 H Shares to be converted from Domestic Shares and sold for the benefit of the NSSF pursuant to the relevant PRC regulations relating to reduction of state-owned shares.

Immediately following completion of the Global Offering, assuming the Over-allotment Option is exercised in full, our total issued share capital will be as follows:

	<u>Number of shares</u>	<u>Approximate percentage of total issued share capital</u>
		(%)
Domestic Shares	7,930,799,553	69.52
H Shares	3,477,100,000 ⁽¹⁾	30.48
Total Share Capital	<u>11,407,899,553</u>	<u>100.00</u>

Note:

- (1) Such 3,477,100,000 H Shares are inclusive of (i) 2,748,700,000 new H Shares to be issued pursuant to the Global Offering and 412,300,000 additional new H Shares to be issued upon the exercise of the Over-allotment Option in full; and (ii) 274,870,000 H Shares to be converted from Domestic Shares and sold for the benefit of the NSSF and 41,230,000 additional H Shares to be converted from Domestic Shares and sold for the benefit of the NSSF upon the exercise of the Over-allotment Option in full, pursuant to the relevant PRC regulations relating to reduction of state-owned shares.

SHARE CAPITAL

CONVERSION OF OUR DOMESTIC SHARES FOR LISTING AND TRADING ON THE HONG KONG STOCK EXCHANGE

According to stipulations by the State Council securities regulatory authority and our Articles of Association, our Domestic Shares may be converted into H Shares. Such converted shares may be transferred to overseas investors and may be listed or traded on an overseas stock exchange provided that the conversion and trading of such converted shares shall have duly completed pursuant to any requisite internal approval process and the approval from the relevant PRC regulatory authorities, including the CSRC. In addition, such conversion and trading shall in all respects comply with the regulations prescribed by the State Council securities regulatory authority and the regulations, requirements and procedures prescribed by the relevant overseas stock exchange.

If any of our Domestic Shares are to be converted to H Shares to be traded on the Hong Kong Stock Exchange, such conversion requires the approval of the relevant PRC 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. A vote by the shareholders in separate class meetings is not required for the listing and trading of the converted shares on an overseas 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 any proposed conversion.

After all the requisite approvals have been obtained, the following procedures will need to be completed: the relevant Domestic 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 conditions that (i) 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 despatch of H Share certificates and (ii) the admission of the H Shares to trading on the Hong Kong Stock Exchange complies with the Hong Kong 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 Promoters proposes to convert any of their Domestic Shares into H Shares.

RANKING

Domestic Shares and H Shares are ordinary shares in the share capital of our Bank. However, unless otherwise approved by relevant authorities, H Shares cannot be subscribed for by, or traded between, legal or natural persons of the PRC. Domestic Shares, on the other hand, may only be subscribed for by, and traded between, legal or natural persons of the PRC or qualified foreign institutional investors or eligible foreign strategic investors, and must be traded in Renminbi. All dividends or distributions declared, paid or made in respect of the Domestic Shares and H Shares after the date of this prospectus will rank *pari passu* with each other. All dividends in respect of the H Shares are to be paid by us in Hong Kong dollars whereas all dividends in respect of Domestic Shares are to be paid by us in Renminbi.

Except as described above and in relation to the despatch of notices and financial reports to shareholders, dispute resolution, registration of shares on different registers of shareholders, the method of share transfer and the appointment of dividend receiving agents, are all provided for in our Articles of Association and summarised in Appendix VI in this prospectus.

SHARE CAPITAL

TRANSFER OF SHARES TO THE NSSF

In accordance with the relevant PRC regulations regarding disposal of state-owned shares or their monetary equivalent based on the Offer Price, our 31 state-owned shareholders are required to transfer to the NSSF such number of Domestic Shares, which in aggregate is equivalent to 10% of the number of the Offer Shares to be issued by our Bank (2,748,700,000 H Shares, before the exercise of the Over-allotment Option or 3,161,000,000 H Shares after the exercise in full of the Over-allotment Option), among which the number of Domestic Shares that should have been transferred by Harbin Technology Import & Export Company Limited (哈爾濱技術進出口公司) will be transferred by Harbin Economic Development on its behalf. At the time of the listing of our H Shares on the Hong Kong Stock Exchange, such Domestic Shares will be converted into H Shares on a one-for-one basis. Neither we nor any of these state-owned shareholders will receive any proceeds from the transfer of such Domestic Shares to the NSSF.

The transfer of such Domestic Shares by our state-owned shareholders to the NSSF was approved by the MOF on 19 August 2013. The conversion of those Domestic Shares into H Shares and the offering of the Sale Shares was approved by the CSRC on 4 March 2014. Pursuant to a letter issued by the NSSF (Shebaojijinfa 2014 No.27) on 17 February 2014, the NSSF instructed us to (i) arrange for the sale of the Sale Shares, which represent all of the Domestic Shares that our state-owned shareholders shall sell for the benefit of the NSSF in connection with the Global Offering pursuant to relevant PRC rules; and (ii) remit the proceeds from the sale of the Sale Shares to an account designated by the NSSF. See “Structure of the Global Offering – The Selling Shareholders”. We have been advised by Jun He Law Offices Beijing, our PRC legal advisor, that both the transfer and sale described above and the conversion have been approved by the relevant authorities and comply with PRC law.

GENERAL MEETING AND CLASS MEETING

For details of circumstances under which our shareholders’ general meeting and class shareholders’ general meeting are required, see paragraph “Notice of Meetings and Business to be Conducted Thereat” and “Change of Rights of Existing Shares or Classes of Shares” of “Appendix VI – Summary of Articles of Association”.

OUR CORPORATE INVESTORS

THE CORNERSTONE PLACING

We have entered into cornerstone investment agreements with the following investors (the “Cornerstone Investors”, and each a “Cornerstone Investor”), pursuant to which the Cornerstone Investors in aggregate have agreed to subscribe at the Offer Price for such number of Offer Shares that may be subscribed with US\$512.8 million (approximately HK\$3,979.6 million) (rounded down to the nearest whole board lot) (the “Cornerstone Placing”). Assuming an Offer Price of HK\$2.89 (being the low-end of the Offer Price range shown in this prospectus), the total number of Offer Shares to be subscribed or purchased for by the Cornerstone Investors would be 1,377,015,000, representing approximately (i) 12.52% of the shares in issue upon the completion of the Global Offering, assuming no exercise of the Over-allotment Option; or (ii) 12.07% of the shares in issue upon the completion of the Global Offering, assuming full exercise of the Over-allotment Option. Assuming an Offer Price of HK\$3.11 (being the mid-point of the Offer Price range shown in this prospectus), the total number of H Shares to be subscribed for by the Cornerstone Investors would be 1,279,605,000, representing approximately (i) 11.64% of the shares in issue upon the completion of the Global Offering, assuming no exercise of the Over-allotment Option; or (ii) 11.22% of the shares in issue upon the completion of the Global Offering, assuming full exercise of the Over-allotment Option. Assuming an Offer Price of HK\$3.33 (being the high-end of the Offer Price range shown in this prospectus), the total number of Offer Shares to be subscribed for by the Cornerstone Investors would be 1,195,066,000, representing approximately (i) 10.87% of the shares in issue upon the completion of the Global Offering, assuming no exercise of the Over-allotment Option; or (ii) 10.48% of the shares in issue upon the completion of the Global Offering, assuming full exercise of the Over-allotment Option.

To the best knowledge of the Bank, each of the Cornerstone Investors is an independent third party, independent of each other, not our connected person and not an existing shareholder of the Bank. Details of the actual number of Offer Shares to be allocated to the Cornerstone Investors will be disclosed in the allotment results announcement to be issued by the Bank on or around 28 March 2014.

The Cornerstone Placing forms part of the International Offering. The Offer Shares to be subscribed for by the Cornerstone Investors will rank *pari passu* in all respects with the other fully paid Offer Shares in issue and will be counted towards the public float of the Bank. None of the Cornerstone 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 Cornerstone Investors will have any board representation in our Bank, nor will any of the Cornerstone Investors become a substantial shareholder of the Bank (as defined under the Hong Kong Listing Rules). The Offer Shares to be subscribed for by the Cornerstone 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”.

Cornerstone Investors

We have entered into cornerstone investment agreements with each of the following Cornerstone Investors in respect of the Cornerstone Placing. The information about our Cornerstone Investors set forth below has been provided by the Cornerstone Investors in connection with the Cornerstone Placing:

1. Fubon Life Insurance Co., Ltd.

Fubon Life Insurance Co., Ltd. (“Fubon Life”) has agreed to subscribe for such number of Offer Shares (rounded down to the nearest whole board lot) which may be purchased for an aggregate amount of US\$289 million (approximately HK\$2,242.8 million) at the Offer Price. Assuming the Offer Price is fixed at HK\$2.89, being the low-end of the Offer Price range shown in this prospectus, Fubon Life will

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subscribe for approximately 776,050,000 Offer Shares, representing approximately (i) 7.06% of the shares in issue upon the completion of the Global Offering, assuming no exercise of the Over-allotment Option; or (ii) 6.80% of the shares in issue upon the completion of the Global Offering, assuming full exercise of the Over-allotment Option. Assuming the Offer Price is fixed at HK\$3.11, being the mid-point of the Offer Price range shown in this prospectus, Fubon Life will subscribe for approximately 721,152,000 Offer Shares, representing approximately (i) 6.56% of the shares in issue and outstanding upon the completion of the Global Offering, assuming no exercise of the Over-allotment Option; or (ii) 6.32% of the shares in issue upon the completion of the Global Offering, assuming the full exercise of the Over-allotment Option. Assuming the Offer Price is fixed at HK\$3.33, being the high-end of the Offer Price range shown in this prospectus, Fubon Life will subscribe for approximately 673,508,000 Offer Shares, representing approximately (i) 6.13% of the shares in issue and outstanding upon the completion of the Global Offering, assuming no exercise of the Over-allotment Option; or (ii) 5.90% of the shares in issue upon the completion of the Global Offering, assuming the full exercise of the Over-allotment Option.

Fubon Life is a company incorporated in Taiwan, which is wholly owned and controlled by Fubon Financial Holdings Co., Ltd.. Its principal activities include investment, asset management and life insurance products.

2. CITIC Capital HB Investment L.P.

CITIC Capital HB Investment L.P. (“CITIC Capital HB”) has agreed to subscribe for such number of Offer Shares (rounded down to the nearest whole board lot) which may be purchased for an aggregate amount of US\$150 million (approximately HK\$1,164.1 million) at the Offer Price. Assuming the Offer Price is fixed at HK\$2.89, being the low-end of the Offer Price range shown in this prospectus, CITIC Capital HB will subscribe for approximately 402,794,000 Offer Shares, representing approximately (i) 3.66% of the shares in issue upon the completion of the Global Offering, assuming no exercise of the Over-allotment Option; or (ii) 3.53% of the shares in issue upon the completion of the Global Offering, assuming full exercise of the Over-allotment Option. Assuming the Offer Price is fixed at HK\$3.11, being the mid-point of the Offer Price range shown in this prospectus, CITIC Capital HB will subscribe for approximately 374,300,000 Offer Shares, representing approximately (i) 3.40% of the shares in issue and outstanding upon the completion of the Global Offering, assuming no exercise of the Over-allotment Option; or (ii) 3.28% of the shares in issue upon the completion of the Global Offering, assuming the full exercise of the Over-allotment Option. Assuming the Offer Price is fixed at HK\$3.33, being the high-end of the Offer Price range shown in this prospectus, CITIC Capital HB will subscribe for approximately 349,572,000 Offer Shares, representing approximately (i) 3.18% of the shares in issue and outstanding upon the completion of the Global Offering, assuming no exercise of the Over-allotment Option; or (ii) 3.06% of the shares in issue upon the completion of the Global Offering, assuming the full exercise of the Over-allotment Option.

CITIC Capital HB is a limited partnership incorporated in the Cayman Islands, and is an entity that is managed by CITIC Capital Holdings Limited (“CITIC Capital”). CITIC Capital is an alternative investment management and advisory company primarily engaging in direct investment, real estate funds, structured finance, asset management and ventures with funds under management of over US\$4.3 billion.

3. China Fortune Finance Holdings Limited

China Fortune Finance Holdings Limited (“China Fortune”) has agreed to subscribe for such number of Offer Shares (rounded down to the nearest whole board lot) which may be purchased for an aggregate amount of US\$20 million (approximately HK\$155.2 million) at the Offer Price. Assuming the Offer Price is fixed at HK\$2.89, being the low-end of the Offer Price range shown in this prospectus,

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China Fortune will subscribe for approximately 53,705,000 Offer Shares, representing approximately (i) 0.49% of the shares in issue upon the completion of the Global Offering, assuming no exercise of the Over-allotment Option; or (ii) 0.47% of the shares in issue upon the completion of the Global Offering, assuming full exercise of the Over-allotment Option. Assuming the Offer Price is fixed at HK\$3.11, being the mid-point of the Offer Price range shown in this prospectus, China Fortune will subscribe for approximately 49,906,000 Offer Shares, representing approximately (i) 0.45% of the shares in issue and outstanding upon the completion of the Global Offering, assuming no exercise of the Over-allotment Option; or (ii) 0.44% of the shares in issue upon the completion of the Global Offering, assuming the full exercise of the Over-allotment Option. Assuming the Offer Price is fixed at HK\$3.33, being the high-end of the Offer Price range shown in this prospectus, China Fortune will subscribe for approximately 46,609,000 Offer Shares, representing approximately (i) 0.42% of the shares in issue and outstanding upon the completion of the Global Offering, assuming no exercise of the Over-allotment Option; or (ii) 0.41% of the shares in issue upon the completion of the Global Offering, assuming the full exercise of the Over-allotment Option.

China Fortune is a company incorporated in 2011 under the laws of the Cayman Islands and is principally engaged in international trade (cable and metal materials), research and development of new energy materials and commercialisation of the research findings, and investment operations relating to microfinance. It is wholly and beneficially owned by Ms. Junyi Zhao, a PRC citizen and an independent third party.

4. Wah Tao International Fund Limited

Wah Tao International Fund Limited (“Wah Tao International”) has agreed to subscribe, or through one or more of its subsidiary(ies) to subscribe, for such number of Offer Shares (rounded down to the nearest whole board lot) which may be purchased for an aggregate amount of US\$20 million (approximately HK\$155.2 million) at the Offer Price. Assuming the Offer Price is fixed at HK\$2.89, being the low-end of the Offer Price range shown in this prospectus, Wah Tao International will subscribe for approximately 53,705,000 Offer Shares, representing approximately (i) 0.49% of the shares in issue upon the completion of the Global Offering, assuming no exercise of the Over-allotment Option; or (ii) 0.47% of the shares in issue upon the completion of the Global Offering, assuming full exercise of the Over-allotment Option. Assuming the Offer Price is fixed at HK\$3.11, being the mid-point of the Offer Price range shown in this prospectus, Wah Tao International will subscribe for approximately 49,906,000 Offer Shares, representing approximately (i) 0.45% of the shares in issue and outstanding upon the completion of the Global Offering, assuming no exercise of the Over-allotment Option; or (ii) 0.44% of the shares in issue upon the completion of the Global Offering, assuming the full exercise of the Over-allotment Option. Assuming the Offer Price is fixed at HK\$3.33, being the high-end of the Offer Price range shown in this prospectus, Wah Tao International will subscribe for approximately 46,609,000 Offer Shares, representing approximately (i) 0.42% of the shares in issue and outstanding upon the completion of the Global Offering, assuming no exercise of the Over-allotment Option; or (ii) 0.41% of the shares in issue upon the completion of the Global Offering, assuming the full exercise of the Over-allotment Option.

Wah Tao International is a company incorporated in Hong Kong, which is wholly owned and controlled by Jiang Tao. Its principal activities include investment holdings.

5. Chongqing Tian Tai Real Estate Development Co., Ltd. (重慶天泰房地產開發有限責任公司)

Chongqing Tian Tai Real Estate Development Co., Ltd. (“Chongqing Tian Tai”) has agreed to subscribe, or cause an asset manager and nominee that is a qualified domestic institutional investor (“QDII”) to

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subscribe, for such number of Offer Shares (rounded down to the nearest whole board lot) which may be purchased for an aggregate amount of US\$13.8 million (approximately HK\$107.1 million) at the Offer Price. Assuming the Offer Price is fixed at HK\$2.89, being the low-end of the Offer Price range shown in this prospectus, Chongqing Tian Tai will subscribe for approximately 37,057,000 Offer Shares, representing approximately (i) 0.34% of the shares in issue upon the completion of the Global Offering, assuming no exercise of the Over-allotment Option; or (ii) 0.32% of the shares in issue upon the completion of the Global Offering, assuming full exercise of the Over-allotment Option. Assuming the Offer Price is fixed at HK\$3.11, being the mid-point of the Offer Price range shown in this prospectus, Chongqing Tian Tai will subscribe for approximately 34,435,000 Offer Shares, representing approximately (i) 0.31% of the shares in issue and outstanding upon the completion of the Global Offering, assuming no exercise of the Over-allotment Option; or (ii) 0.30% of the shares in issue upon the completion of the Global Offering, assuming the full exercise of the Over-allotment Option. Assuming the Offer Price is fixed at HK\$3.33, being the high-end of the Offer Price range shown in this prospectus, Chongqing Tian Tai will subscribe for approximately 32,160,000 Offer Shares, representing approximately (i) 0.29% of the shares in issue and outstanding upon the completion of the Global Offering, assuming no exercise of the Over-allotment Option; or (ii) 0.28% of the shares in issue upon the completion of the Global Offering, assuming the full exercise of the Over-allotment Option.

Chongqing Tian Tai is a company incorporated in the PRC. Its ultimate controlling shareholder is Wang Wei. Chongqing Tian Tai is principally engaged in the include real estate development business.

6. Boom Win Holdings Limited

Boom Win Holdings Limited (“Boom Win”) has agreed to subscribe for such number of Offer Shares (rounded down to the nearest whole board lot) which may be purchased for an aggregate amount of US\$10 million (approximately HK\$77.6 million) at the Offer Price. Assuming the Offer Price is fixed at HK\$2.89, being the low-end of the Offer Price range shown in this prospectus, Boom Win will subscribe for approximately 26,852,000 Offer Shares, representing approximately (i) 0.24% of the shares in issue upon the completion of the Global Offering, assuming no exercise of the Over-allotment Option; or (ii) 0.24% of the shares in issue upon the completion of the Global Offering, assuming full exercise of the Over-allotment Option. Assuming the Offer Price is fixed at HK\$3.11, being the mid-point of the Offer Price range shown in this prospectus, Boom Win will subscribe for approximately 24,953,000 Offer Shares, representing approximately (i) 0.23% of the shares in issue and outstanding upon the completion of the Global Offering, assuming no exercise of the Over-allotment Option; or (ii) 0.22% of the shares in issue upon the completion of the Global Offering, assuming the full exercise of the Over-allotment Option. Assuming the Offer Price is fixed at HK\$3.33, being the high-end of the Offer Price range shown in this prospectus, Boom Win will subscribe for approximately 23,304,000 Offer Shares, representing approximately (i) 0.21% of the shares in issue and outstanding upon the completion of the Global Offering, assuming no exercise of the Over-allotment Option; or (ii) 0.20% of the shares in issue upon the completion of the Global Offering, assuming the full exercise of the Over-allotment Option.

Boom Win is a company incorporated in BVI, which is wholly owned and controlled by Mr. Shu Cecheng and Mr. Shu Cewan. Its principal activities include investment holdings. Subsidiaries of Boom Win include Wuzhou International Holdings Limited (“Wuzhou International”), a listed company on the Hong Kong Stock Exchange. Mr. Shu Cecheng and Mr. Shu Cewan are the chairman and chief executive officer of Wuzhou International respectively. Wuzhou International is a market leader in development and operation of logistic industrial parks, specialised wholesale markets and multi-functional commercial complexes in China. Wuzhou International now has projects spread over 20 cities in 10 provinces/direct-controlled municipalities in China.

7. Introwell Limited

Introwell Limited (“Introwell”) has agreed to subscribe for such number of Offer Shares (rounded down to the nearest whole board lot) which may be purchased for an aggregate amount of US\$10 million (approximately HK\$77.6 million) at the Offer Price. Assuming the Offer Price is fixed at HK\$2.89, being the low-end of the Offer Price range shown in this prospectus, Introwell will subscribe for approximately 26,852,000 Offer Shares, representing approximately (i) 0.24% of the shares in issue upon the completion of the Global Offering, assuming no exercise of the Over-allotment Option; or (ii) 0.24% of the shares in issue upon the completion of the Global Offering, assuming full exercise of the Over-allotment Option. Assuming the Offer Price is fixed at HK\$3.11, being the mid-point of the Offer Price range shown in this prospectus, Introwell will subscribe for approximately 24,953,000 Offer Shares, representing approximately (i) 0.23% of the shares in issue and outstanding upon the completion of the Global Offering, assuming no exercise of the Over-allotment Option; or (ii) 0.22% of the shares in issue upon the completion of the Global Offering, assuming the full exercise of the Over-allotment Option. Assuming the Offer Price is fixed at HK\$3.33, being the high-end of the Offer Price range shown in this prospectus, Introwell will subscribe for approximately 23,304,000 Offer Shares, representing approximately (i) 0.21% of the shares in issue and outstanding upon the completion of the Global Offering, assuming no exercise of the Over-allotment Option; or (ii) 0.20% of the shares in issue upon the completion of the Global Offering, assuming the full exercise of the Over-allotment Option.

Introwell is a company incorporated in BVI, which is wholly owned and controlled by Mr. Chunyu Yongxiang. Its principal activities include investment holdings.

Conditions Precedent

The subscription obligation of each Cornerstone Investor is subject to, among other things, the following conditions precedent (i) the Hong Kong Underwriting Agreement and the International Purchase Agreement having been entered into and having become unconditional (in accordance with their respective original terms or as subsequently varied by agreement of the parties thereto) and not having been terminated; and (ii) the Listing Committee of the Hong Kong Stock Exchange having granted the Listing of, and permission to deal in, the H shares and that such approval or permission has not been revoked.

Restrictions on the Cornerstone Investors’ Investment

Each of the Cornerstone Investors has agreed that, without the prior written consent of the Bank and the relevant underwriter(s), it will not, whether directly or indirectly, at any time during the period of six (6) months following the Listing Date, dispose of (as defined in the relevant placing agreement) any of the H Shares or any interest in any company or entity holding any of the relevant H Shares, other than in certain limited circumstances such as transfers to any wholly owned subsidiary of such Cornerstone Investor provided that, among others, such wholly owned subsidiary undertakes to, and the Cornerstone Investor undertakes to procure that such subsidiary will, abide by the terms and restrictions imposed on the Cornerstone Investor.

ASSETS AND LIABILITIES

The following discussion and analysis should be read in conjunction with our consolidated financial statements, together with the accompanying notes, included in Appendix I to this prospectus. Our consolidated financial statements have been audited and prepared in accordance with IFRS. You should also read the following discussion and analysis in conjunction with the unaudited preliminary financial information of our Bank for the year ended 31 December 2013 and the accompanying notes, as well as the “Management’s Discussion and Analysis of Financial Condition and Results of Operations” set forth in Appendix IV to this prospectus.

ASSETS

As of 31 December 2010, 2011 and 2012 and 30 September 2013, our total assets amounted to RMB125,833.9 million, RMB206,661.4 million, RMB270,090.2 million and RMB261,660.1 million, respectively. Our assets primarily comprise (i) loans and advances to customers, (ii) investment securities and other financial assets, (iii) cash and balances with central bank, (iv) due from banks and other financial institutions, and (v) financial assets held under reverse repurchase agreements.

The following table sets forth, as of the dates indicated, the components of our total assets.

	As of 31 December						As of 30 September	
	2010		2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)								
Loans and advances to customers, gross	54,024.6	43.0	68,483.8	33.1	87,264.4	32.3	105,010.4	40.1
Allowance for impairment losses . . .	(824.1)	(0.7)	(1,465.6)	(0.7)	(1,966.3)	(0.7)	(2,372.0)	(0.9)
Loans and advances to customers, net	53,200.5	42.3	67,018.2	32.4	85,298.1	31.6	102,638.4	39.2
Investment securities and other financial assets, net ⁽¹⁾	18,249.2	14.5	36,054.3	17.4	51,180.1	18.9	51,846.6	19.8
Cash and balances with central bank	23,413.2	18.6	30,935.7	15.0	51,858.5	19.2	40,729.7	15.6
Due from banks and other financial institutions ⁽²⁾	9,837.9	7.8	15,907.0	7.7	19,946.8	7.4	27,730.0	10.6
Financial assets held under reverse repurchase agreements	17,863.5	14.2	49,973.6	24.2	51,745.6	19.2	27,783.5	10.6
Other assets ⁽³⁾	3,269.6	2.6	6,772.6	3.3	10,061.1	3.7	10,931.9	4.2
Total assets	<u>125,833.9</u>	<u>100.0</u>	<u>206,661.4</u>	<u>100.0</u>	<u>270,090.2</u>	<u>100.0</u>	<u>261,660.1</u>	<u>100.0</u>

Notes:

- (1) Investment securities and other financial assets include financial investments (including investments in receivables, held-to-maturity investments and available-for-sale financial assets) and financial assets held for trading. As of 31 December 2010, 2011 and 2012 and 30 September 2013, there were no allowances for impairment losses of investment securities.
- (2) Due from banks and other financial institutions are net of the allowances for impairment losses in the amount of RMB6.0 million as of 31 December 2010 and nil as of 31 December 2011 and 2012 and 30 September 2013.
- (3) Other assets include investments in associates, property and equipment, deferred income tax assets and other assets.

As of 30 September 2013, we had total assets of RMB261,660.1 million, representing a decrease of 3.1% from total assets of RMB270,090.2 million as of 31 December 2012. The decrease in our total assets from 31 December 2012 to 30 September 2013 was mainly attributable to a decrease in financial assets held under reverse repurchase agreements and cash and balances with central bank.

ASSETS AND LIABILITIES

Our total assets increased by 64.2% from RMB125,833.9 million as of 31 December 2010 to RMB206,661.4 million as of 31 December 2011, and further increased by 30.7% to RMB270,090.2 million as of 31 December 2012. The increase in our total assets from 31 December 2010 to 31 December 2012 was mainly due to an increase in our loans and advances to customers, investment securities and other financial assets, and financial assets held under reverse repurchase agreements.

Loans and Advances to Customers

Loans and advances to customers are the largest component of our assets. As of 31 December 2010, 2011 and 2012 and 30 September 2013, our total loans and advances to customers, net of allowance for impairment losses, accounted for 42.3%, 32.4%, 31.6% and 39.2%, respectively, of our total assets. We provide a variety of loan products to customers through our distribution network, and substantially all of our loan products are denominated in Renminbi.

Unless otherwise indicated in this prospectus, the following discussion is based on our total loans and advances to customers, before taking into account the related allowance for impairment losses, rather than our net 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.

Our total loans and advances to customers increased by 26.8% from RMB54,024.6 million as of 31 December 2010 to RMB68,483.8 million as of 31 December 2011, and further increased by 27.4% to RMB87,264.4 million as of 31 December 2012. As of 30 September 2013, our total loans and advances to customers amounted to RMB105,010.4 million, representing an increase of 20.3% compared to 31 December 2012. The steady increase in our loans and advances to customers from 31 December 2010 to 30 September 2013 was mainly due to (i) strong market demand for credit facilities attributable to the stable growth of the PRC economy and (ii) our efforts to increase corporate loans and develop our personal loans business.

Distribution of Loans by Business Lines

For a description of the products we offer, see “Business – Our Principal Business Activities”. The following table sets forth a breakdown of our loans and advances to customers by business lines as of the dates indicated.

	As of 31 December						As of 30 September	
	2010		2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)								
Corporate loans	23,420.8	43.4	35,601.1	52.0	51,108.1	58.6	61,639.4	58.7
Personal loans	23,668.2	43.8	29,139.7	42.5	34,810.1	39.9	40,869.4	38.9
Discounted bills	6,935.6	12.8	3,743.0	5.5	1,346.2	1.5	2,501.6	2.4
Total loans and advances to customers⁽¹⁾	54,024.6	100.0	68,483.8	100.0	87,264.4	100.0	105,010.4	100.0

Note:

- (1) As of 31 December 2010, 2011 and 2012 and 30 September 2013, the balance of our microcredit business (including loans to Small Enterprises, loans to Small Enterprise Owners, loans to farmers and personal consumption loans) amounted to RMB32,730.8 million, RMB44,311.6 million, RMB58,448.1 million and RMB72,527.0 million, respectively, representing 60.6%, 64.7%, 67.0% and 69.1%, respectively, of our total loans and advances to customers.

As of 31 December 2010, 2011 and 2012 and 30 September 2013, our corporate loans accounted for 43.4%, 52.0%, 58.6% and 58.7%, respectively, of our total loans and advances to customers, and our personal loans accounted for 43.8%, 42.5%, 39.9% and 38.9%, respectively, of our total loans and advances to customers.

ASSETS AND LIABILITIES

During the Track Record Period, we experienced relatively fast growth in terms of the total size of our corporate loans. Our corporate loans increased by 52.0% from RMB23,420.8 million as of 31 December 2010 to RMB35,601.1 million as of 31 December 2011, and further increased by 43.6% to RMB51,108.1 million as of 31 December 2012. As of 30 September 2013, our total corporate loans were RMB61,639.4 million, representing an increase of 20.6% compared to 31 December 2012. During the Track Record Period, we increased loans to corporate customers, especially those companies whose businesses were supported by the PRC government's policy on promoting the development of SMEs. We improved our operations through a number of measures, such as establishing a marketing mechanism, classifying marketing services, setting up a "parallel operating" system and "cross-selling" and other featured marketing and sales models, to provide on-going after-sales services and promote the rapid growth of our overall corporate loan business.

Our personal loans maintained steady growth during the Track Record Period. Our total personal loans increased by 23.1% from RMB23,668.2 million as of 31 December 2010 to RMB29,139.7 million as of 31 December 2011, and further increased by 19.5% to RMB34,810.1 million as of 31 December 2012. As of 30 September 2013, our total loans to customers were RMB40,869.4 million, representing an increase of 17.4% compared to 31 December 2012. The steady growth of our total personal loans was mainly attributable to our continued development of personal loans as a response to the PRC government's policies to support and encourage financial institutions to develop financial services for SMEs (including financial services for proprietary business), financial services for rural areas and personal credit services. In addition, the CBRC decreased the risk weighting of personal loans to encourage banks to extend more loans to Small Enterprise Owners and individual customers.

Discounted bills is an important component of our portfolio of loans to customers. As of 31 December 2010, 2011 and 2012 and 30 September 2013, our total discounted bills accounted for 12.8%, 5.5%, 1.5% and 2.4%, respectively, of our total loans and advances to customers. As of 30 September 2013, the balance of our discounted bills increased by 85.8% to RMB2,501.6 million from RMB1,346.2 million as of 31 December 2012 and, as a percentage of our total loans and advances to customers, our discounted bills also increased as of 30 September 2013 compared to 31 December 2012. As of 30 September 2013, we increased the allocation of discounted bill assets and controlled the scale of our lending. Our discounted bills decreased by 46.0% from RMB6,935.6 million as of 31 December 2010 to RMB3,743.0 million as of 31 December 2011, and further decreased by 64.0% to RMB1,346.2 million as of 31 December 2012 and the proportion of discounted bills to our total loans and advances to customers decreased as well. The decrease was primarily due to our sales of part of our discounted bills balances at the end of the respective financial periods to respond to the changes in national macroeconomic policies and control of lending scale in the PRC.

ASSETS AND LIABILITIES

Corporate Loans

Distribution of Corporate Loans by Customer Type

The following table sets forth the breakdown of our corporate loans by customer type as of the dates indicated.

	As of 31 December						As of 30 September	
	2010		2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)								
Loans to Small Enterprises	9,062.6	38.7	15,171.9	42.6	23,638.0	46.3	31,657.6	51.4
Other corporate loans excluding loans to Small Enterprises . .	14,358.2	61.3	20,429.2	57.4	27,470.1	53.7	29,981.8	48.6
Total corporate loans	23,420.8	100.0	35,601.1	100.0	51,108.1	100.0	61,639.4	100.0

Our loans to Small Enterprises increased by 67.4% from RMB9,062.6 million as of 31 December 2010 to RMB15,171.9 million as of 31 December 2011, and further increased by 55.8% to RMB23,638.0 million as of 31 December 2012. Our loans to Small Enterprises further increased by 33.9% to RMB31,657.6 million as of 30 September 2013 compared to 31 December 2012. The increase in our loans to Small Enterprises during the Track Record Period was primarily due to the following reasons: (i) SMEs and private business owners had significant demand for loans as a result of China's steady economic growth; (ii) we actively responded to the national policy on promoting the development of SMEs required by regulatory authorities to increase our loans to small enterprises and micro enterprises (especially small enterprises); (iii) we implemented our strategy of focusing on the development of featured microcredit business; (iv) we placed continuous emphasis on research and development relating to loans to Small Enterprises with the aim of diversifying our featured Renminbi-denominated credit products for Small Enterprises Customers and to satisfy their needs; and (v) we improved our business management model of loans to Small Enterprises, established more professional marketing teams and increased our marketing efforts. As of 31 December 2010, 2011 and 2012 and 30 September 2013, our loans to Small Enterprises accounted for 38.7%, 42.6%, 46.3% and 51.4%, respectively, of our total corporate loans.

Distribution of Corporate Loans by Loan Maturity

The following table sets forth, as of the dates indicated, our corporate loans by loan maturity.

	As of 31 December						As of 30 September	
	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⁾ . . .	17,285.9	73.8	27,324.3	76.8	39,524.7	77.3	47,891.6	77.7
Medium- and long-term loans ⁽²⁾	6,134.9	26.2	8,276.8	23.2	11,583.4	22.7	13,747.8	22.3
Total corporate loans	23,420.8	100.0	35,601.1	100.0	51,108.1	100.0	61,639.4	100.0

Notes:

- (1) Short-term loans represent our corporate loans that have a maturity of 12 months or less according to the respective loan contracts.
- (2) Medium- and long-term loans represent our corporate loans that have a maturity of more than 12 months according to the respective loan contracts.

ASSETS AND LIABILITIES

Our corporate loans mainly consist of short-term loans. As of 31 December 2010, our short-term corporate loans amounted to RMB17,285.9 million, and increased by 58.1% to RMB27,324.3 million as of 31 December 2011. Our short-term corporate loans further increased by 44.7% to RMB39,524.7 million as of 31 December 2012, and further increased by 21.2% to RMB47,891.6 million as of 30 September 2013. As of 31 December 2010, 2011 and 2012 and 30 September 2013, our short-term corporate loans accounted for 73.8%, 76.8%, 77.3% and 77.7%, respectively, of our total corporate loans.

As of 31 December 2010, our medium- and long-term corporate loans amounted to RMB6,134.9 million and increased by 34.9% to RMB8,276.8 million as of 31 December 2011. Medium- and long-term corporate loans further increased by 40.0% to RMB11,583.4 million as of 31 December 2012, and increased by 18.7% to RMB13,747.8 million as of 30 September 2013. As of 31 December 2010, 2011 and 2012 and 30 September 2013, our medium- and long-term corporate loans accounted for 26.2%, 23.2%, 22.7% and 22.3%, respectively, of our total corporate loans.

During the Track Record Period, our short-term and medium- and long-term corporate loans both increased. Our short-term corporate loans as a percentage of our total corporate loans increased primarily because a majority of our corporate loan customers were SMEs. We believe these customers used loans to fund daily operations and replenish working capital, and such loans generally mature within one year. In addition, we increased short-term corporate loans in order to increase the liquidity of our assets and reduce the mismatch between the maturities of our loans and deposits.

Distribution of Corporate Loans by Single Loan Size

The following table sets forth a breakdown of our corporate loans by single loan balance as of the dates indicated.

	As of 31 December						As of 30 September	
	2010		2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)								
Up to RMB10 million	5,244.4	22.3	8,744.2	24.6	11,837.0	23.1	15,928.4	25.8
Over RMB10 million to								
RMB50 million	7,141.6	30.5	12,393.5	34.8	18,865.1	36.9	22,311.1	36.2
Over RMB50 million to								
RMB100 million	4,090.0	17.5	4,607.5	12.9	8,117.0	15.9	8,129.2	13.2
Over RMB100 million to								
RMB500 million	5,844.8	25.0	7,585.9	21.3	11,739.0	23.0	14,270.7	23.2
Over RMB500 million . . .	1,100.0	4.7	2,270.0	6.4	550.0	1.1	1,000.0	1.6
Total corporate loans . . .	23,420.8	100.0	35,601.1	100.0	51,108.1	100.0	61,639.4	100.0

As of 31 December 2010, 2011 and 2012 and 30 September 2013, 52.8%, 59.4%, 60.0% and 62.0%, respectively, of our corporate loans had a single loan balance less than RMB50 million. This was primarily the result of our focus on developing our microcredit business.

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Distribution of Loans by Industry

The following table sets forth the distribution of our corporate loans by industry as of the dates indicated.

	As of 31 December						As of 30 September	
	2010		2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)								
Agriculture, forestry, husbandry and fishery	590.2	2.5	955.2	2.7	2,277.9	4.5	3,130.6	5.1
Mining	97.5	0.4	111.5	0.3	880.1	1.7	893.1	1.4
Manufacturing	5,433.1	23.2	7,653.5	21.5	10,793.9	21.1	13,384.4	21.7
Production and supply of electricity, gas and water	634.0	2.7	1,730.7	4.9	1,460.9	2.9	1,929.5	3.1
Construction	1,850.8	7.9	1,312.8	3.7	3,269.6	6.4	5,540.8	9.0
Transportation, storage and postal services	665.2	2.8	1,362.9	3.8	966.3	1.9	1,914.5	3.1
Information transmission, computer services and software	292.6	1.2	512.5	1.4	636.7	1.2	540.2	0.9
Wholesale and services ...	6,831.6	29.2	15,533.1	43.6	18,512.6	36.2	22,199.2	36.0
Accommodation and catering	445.7	1.9	766.3	2.2	880.5	1.7	1,033.0	1.7
Finance	10.0	0.0	5.0	0.0	671.7	1.3	424.0	0.7
Real estate	469.8	2.0	907.9	2.6	2,443.9	4.8	1,782.6	2.9
Rental, commercial services	2,175.9	9.3	1,518.9	4.3	2,562.8	5.0	3,980.5	6.5
Scientific research, technical services and geological prospecting	63.0	0.3	140.7	0.4	138.9	0.3	200.9	0.3
Water conservation, environment and public utility management and investment	2,872.0	12.3	2,253.2	6.3	3,059.6	6.0	2,767.8	4.5
Residential and other services	235.0	1.0	208.3	0.6	1,013.9	2.0	1,057.0	1.7
Education	560.9	2.4	332.8	0.9	518.3	1.0	387.0	0.6
Health, social security and social welfare	133.5	0.6	248.8	0.7	379.6	0.7	280.4	0.5
Culture, sports and entertainment	60.0	0.3	47.0	0.1	140.5	0.3	188.8	0.3
Public administration and social organisation	—	—	—	—	500.4	1.0	5.1	0.0
Total corporate loans ...	23,420.8	100.0	35,601.1	100.0	51,108.1	100.0	61,639.4	100.0

As of 30 September 2013, a majority of our corporate loan customers operated in the (i) wholesale and services, (ii) manufacturing, (iii) construction, (iv) rental and commercial services, and (v) agriculture, forestry, husbandry and fishery industries, which accounted for 36.0%, 21.7%, 9.0%, 6.5% and 5.1%, respectively, of our total corporate loans as of that date. As of 31 December 2010, 2011 and 2012 and 30 September 2013, the balance of our corporate loans in these five industries in aggregate accounted for 72.1%, 75.8%, 73.2% and 78.3%, respectively, of our total corporate loans.

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In line with our risk preferences, our business development plans and changes in national macroeconomic policies, we have improved our credit policies for different industries to properly direct the flows of credits and refine our credit portfolio. These credit policies set out the requirements for loan approval, selection criteria for customers and credit quotas for particular industries.

Corporate borrowers in the wholesale and service sectors constituted the largest portion of our corporate loans during the Track Record Period and as of 31 December 2010, 2011 and 2012 and 30 September 2013, accounted for 29.2%, 43.6%, 36.2% and 36.0%, respectively, of our total corporate loans.

Corporate borrowers in the manufacturing sector constituted the second largest portion of our corporate loans during the Track Record Period and as of 31 December 2010, 2011 and 2012 and 30 September 2013, accounted for 23.2%, 21.5%, 21.1% and 21.7%, respectively, of our total corporate loans. This was generally attributable to our efforts to maintain and develop customers in the manufacturing industry, which is a key industry in Northern China.

As of 31 December 2010, 2011 and 2012 and 30 September 2013, our corporate loans in the construction sector accounted for 7.9%, 3.7%, 6.4% and 9.0%, respectively, of our total corporate loans. Our corporate loans in the construction sector increased since 2011 as the sector gradually recovered from the adverse impact of the global financial crisis.

Personal Loans

The following table sets forth a breakdown of our personal loans by product type as of the dates indicated.

	As of 31 December						As of 30 September	
	2010		2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)								
Loans to Small Enterprise								
Owners	8,443.6	35.7	11,540.0	39.6	13,731.2	39.4	14,966.8	36.6
Personal consumption								
loans	7,363.2	31.1	8,909.6	30.6	11,203.3	32.2	14,294.4	35.0
Loans to farmers	7,861.4	33.2	8,690.1	29.8	9,875.6	28.4	11,608.2	28.4
Total personal loans	23,668.2	100.0	29,139.7	100.0	34,810.1	100.0	40,869.4	100.0

Loans to Small Enterprise Owners are the largest component of our personal loans. Our loans to Small Enterprise Owners increased by 36.7% from RMB8,443.6 million as of 31 December 2010 to RMB11,540.0 million as of 31 December 2011, and further increased by 19.0% to RMB13,731.2 million as of 31 December 2012. As of 30 September 2013, our loans to Small Enterprise Owners totalled RMB14,966.8 million, representing a 9.0% increase compared to 31 December 2012. The increases in our loans to Small Enterprise Owners during the Track Record Period were primarily due to our implementation of national policies that supported financial services for SMEs, rural areas and personal credit services during the Track Record Period. Among the personal loans offered by us, loans to Small Enterprise Owners are services supported by the PRC government. In response to the PRC government's policies, we have focused on the development of our featured microcredit business as part our strategy, and have actively developed financial services for Small Enterprise Owners.

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Our personal consumption loans increased by 21.0% from RMB7,363.2 million as of 31 December 2010 to RMB8,909.6 million as of 31 December 2011, and further increased by 25.7% to RMB11,203.3 million as of 31 December 2012. As of 30 September 2013, our personal consumption loans totalled RMB14,294.4 million, representing an increase of 27.6% from RMB11,203.3 million as of 31 December 2012. Our personal consumption loans increased during the Track Record Period mainly because (i) we diversified our consumer credit product portfolio to satisfy the growing needs of customers; and (ii) we strengthened our marketing capabilities in developing our personal consumption loans business. We leveraged on our specialised sub-branches, which provide residential mortgage loans, car loans, civil servant loans and other loan products, and conducted various marketing activities in our business outlets and districts to actively promote our consumer credit products.

Our loans to farmers increased by 10.5% from RMB7,861.4 million as of 31 December 2010 to RMB8,690.1 million as of 31 December 2011, and further increased by 13.6% to RMB9,875.6 million as of 31 December 2012. As of 30 September 2013, loans to farmers totalled RMB11,608.2 million, representing an increase of 17.5% compared to 31 December 2012. In recent years, the PRC government has focused on improving financial services for rural areas and encouraging commercial banks to develop their lending business to farmers. In response to these government initiatives, we adhered to our strategy to focus on the development of our featured microcredit business and diversified our loan products to farmers. During the Track Record Period, our loans to farmers expanded from the Harbin region to most of the areas in Heilongjiang Province, and further extended to Northwest, Southwest and other regions in the PRC, which increased the customer base of our loans to farmers.

Discounted Bills

The following table sets forth a breakdown of our discounted bills by type of obligors as of the dates indicated.

	As of 31 December						As of 30 September	
	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	6,726.0	97.0	3,433.4	91.7	1,319.5	98.0	2,485.3	99.3
Commercial acceptance bills	209.6	3.0	309.6	8.3	26.7	2.0	16.3	0.7
Total discounted bills	6,935.6	100.0	3,743.0	100.0	1,346.2	100.0	2,501.6	100.0

We engage in discounted bills business in compliance with the PRC's national financial policies, industrial policies and our credit policies and principles of operation, and have integrated the business into our credit management and risk control systems. In the process of our commercial acceptance bills business, we generally require the acceptors to have good credit, solvency and profitability. During the Track Record Period, substantially all of our discounted bill portfolios were bank acceptance bills. As of 31 December 2010, 2011 and 2012 and 30 September 2013, bank acceptance bills accounted for 97.0%, 91.7%, 98.0% and 99.3%, respectively, of our total discounted bills. Our discounted bills decreased during the Track Record Period primarily because we adjusted our lending portfolios to respond to the changes in the national macroeconomic policies to control the scale of bank lending in the PRC.

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Distribution of Loans by Geographical Region

We classify loans geographically based on the geographical location of the outlets that originate the loans. Our outlets generally originate loans to borrowers located in the same geographical regions where they are located. The following table sets forth, as of the dates indicated, the distribution of our loan portfolio by geographical region.

	As of 31 December						As of 30 September	
	2010		2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)								
Heilongjiang region ⁽¹⁾	41,843.4	77.5	48,178.0	70.3	43,112.1	49.4	54,665.3	52.0
Other Northeast region ⁽²⁾	5,578.4	10.3	8,545.6	12.5	23,787.5	27.2	17,189.7	16.4
Southwest region ⁽³⁾	2,946.7	5.5	6,433.9	9.4	11,834.1	13.6	21,713.9	20.7
Northern China ⁽⁴⁾	3,366.0	6.2	4,326.9	6.3	6,273.8	7.2	8,142.5	7.8
Other regions ⁽⁵⁾	290.1	0.5	999.4	1.5	2,256.9	2.6	3,299.0	3.1
Total loans to customers	<u>54,024.6</u>	<u>100.0</u>	<u>68,483.8</u>	<u>100.0</u>	<u>87,264.4</u>	<u>100.0</u>	<u>105,010.4</u>	<u>100.0</u>

Notes:

- (1) Heilongjiang region: our headquarters, Harbin Branch, Shuangyashan Branch, Jixi Branch, Hegang Branch, Suihua Branch, Daqing Branch, Qitaihe Branch, Mudanjiang Branch, Jiamusi Branch and Qiqihar Branch and the Village and Township Banks operating in Heilongjiang Province.
- (2) Other Northeast region: Dalian Branch, Shenyang Branch and the Village and Township Banks operating in the Northeast region excluding Heilongjiang Province.
- (3) Southwest region: Chengdu Branch, Chongqing Branch and the Village and Township Banks operating in Southwest region, mainly including Sichuan Province and the city of Chongqing.
- (4) Northern China: Tianjin Branch and the Village and Township Banks operating in Northern China, mainly including the city of Beijing and Hebei Province.
- (5) Other regions: other Village and Township Banks except those operating in the above regions.

Our loan business is focused in the Heilongjiang region. Loans in the Heilongjiang region increased by 15.1% from RMB41,843.4 million as of 31 December 2010 to RMB48,178.0 million as of 31 December 2011, but decreased by 10.5% to RMB43,112.1 million as of 31 December 2012. The proportion of loans in the Heilongjiang region to our total loans and advances to customers decreased from 77.5% as of 31 December 2010 to 70.3% as of 31 December 2011, and further decreased to 49.4% as of 31 December 2012. The fluctuation in our loans in the Heilongjiang region and the decrease in our loans in the Heilongjiang region relative to our total loans and advances to customers were primarily due to the expansion of our lending business to areas outside of the Heilongjiang region. Our loans in the Heilongjiang region increased by 26.8% from RMB43,112.1 million as of 31 December 2012 to RMB54,665.3 million as of 30 September 2013, and their proportion to our total loans and advances to customers increased from 49.4% as of 31 December 2012 to 52.0% as of 30 September 2013. These increases were mainly attributable to (i) an increase in demand for loans in the Heilongjiang region during the above-mentioned period; and (ii) growth in our business outlets in the Heilongjiang region.

Our loans in Other Northeast region increased by 53.2% from RMB5,578.4 million as of 31 December 2010 to RMB8,545.6 million as of 31 December 2011, and further increased by 178.4% to RMB23,787.5 million as of 31 December 2012. The proportion of these loans to our total loans and advances to customers increased from 10.3% as of 31 December 2010 to 12.5% as of 31 December 2011,

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and further increased to 27.2% as of 31 December 2012. These increase were mainly due to the expansion of our business and expansion of our network of business outlets in the region. Our loans in the Other Northeast region decreased by 27.7% from RMB23,787.5 million as of 31 December 2012 to RMB17,189.7 million as of 30 September 2013, and their proportion to our total loans and advances to customers decreased from 27.2% as of 31 December 2012 to 16.4% as of 30 September 2013. These decreases were primarily due to a slowdown in the expansion of our branch outlets in the Other Northeast region during this period and the concentrated extension of new loans to other regions such as Heilongjiang region and the Southwest region upon maturity of the existing loans.

During the Track Record Period, our loan business in the Southwest region grew rapidly. Loans extended in the Southwest region increased by 118.3% as of 31 December 2011 compared to 31 December 2010, and further increased by 83.9% compared to 31 December 2011. As of 30 September 2013, our credit business in the Southwest region increased by 83.5% compared to 31 December 2012. The growth in our loans in the Southwest region during the Track Record Period was mainly due to business growth of our Chongqing branch and Chengdu branch as a result of the development of local economies. The proportion of our loans in the Southwest region to our total loans and advances to customers increased from 5.5% as of 31 December 2010 to 20.7% as of 30 September 2013.

Distribution of Loans by Collateral

Loans secured by mortgages, pledges and guarantees, in aggregate, represented 95.7%, 95.1%, 94.8%, and 96.3% of our total loans and advances to customers as of 31 December 2010, 2011 and 2012 and 30 September 2013, respectively. If a loan is secured by more than one form of security, it is allocated to the category representing the primary form of security. The following table sets forth, as of the dates indicated, the distribution of our loans by collateral.

	As of 31 December						As of 30 September	
	2010		2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)								
Unsecured loans	2,338.8	4.3	3,358.8	4.9	4,547.3	5.2	3,892.2	3.7
Guaranteed loans	20,309.8	37.6	29,474.7	43.0	35,397.0	40.6	46,590.2	44.4
Collateralised								
loans	20,156.9	37.3	23,137.9	33.8	31,953.4	36.6	40,889.7	38.9
Pledged loans	11,219.1	20.8	12,512.4	18.3	15,366.7	17.6	13,638.3	13.0
Total loans to								
customers	<u>54,024.6</u>	<u>100.0</u>	<u>68,483.8</u>	<u>100.0</u>	<u>87,264.4</u>	<u>100.0</u>	<u>105,010.4</u>	<u>100.0</u>

During the Track Record Period, loans that were guaranteed or secured by collateral accounted for a significant portion of our total loans to customers. We extend unsecured loans to customers with relatively high credit ratings based on our internal customer rating criteria. In order to effectively manage and control potential risks associated with unsecured loans, we have implemented stringent conditions for granting unsecured loans. We generally require certain conditions to be met for granting unsecured loans to a corporate loan applicant, such as the credit rating and financial ratios of the customers, business relationship with us and the size of the loan.

Borrower Concentration

In accordance with applicable PRC banking laws and regulations, we are subject to a lending limit of 10% of our net capital to any single borrower.

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We extended a loan to Harbin Qunli New District Real Estate Development Company Limited (哈爾濱市群力新區房地產開發有限責任公司), a wholly state-owned enterprise under the Harbin City government, for the development of infrastructure facilities of a piece of land in Harbin. As of 31 May 2010, this loan balance was RMB3,000 million and exceeded 10% of our net capital. This loan was reported to the relevant regulatory authority. Since June 2010, the borrower started to repay the loan and the loan balance was reduced to RMB550.0 million as of 30 June 2010, representing 9.82% of our net capital. This loan was fully repaid in July 2012. Throughout the duration of this loan, we were not notified by the relevant PRC regulatory authorities of non-compliance with the 10% lending limit. As of the Latest Practicable Date, we had not been subject to any penalty from the PRC regulatory authorities, nor had any PRC regulatory authorities raised any issue during any of their past inspections of our Bank or in any of the regulatory reports issued by them in connection with this non-compliance. Our Directors believe that the above incident did not have any material adverse effect on our business, financial condition or results of operations.

Save as disclosed above, during the Track Record Period, our Bank was in compliance with the lending limit of 10% of our net capital to any single borrower.

The following table sets forth, as of 30 September 2013, our 10 largest single borrowers (excluding group borrowers) in terms of loan balance, none of which was a non-performing loan as of 30 September 2013.

		As of 30 September 2013		
	Industry	Loan balance	% of total loans ⁽¹⁾	% of net capital ⁽²⁾
(In millions of RMB, except percentages)				
Borrower A	Wholesale and services	1,000.0	0.94	4.64
Borrower B	Water conservation, environment and public utility management and investment	500.0	0.48	2.32
Borrower C	Transportation, storage and postal services	500.0	0.48	2.32
Borrower D	Water conservation, environment and public utility management and investment	500.0	0.48	2.32
Borrower E	Real estate	500.0	0.48	2.32
Borrower F	Agriculture, forestry, husbandry and fishery	450.0	0.43	2.09
Borrower G	Wholesale and services	440.0	0.42	2.04
Borrower H	Rental, commercial services	435.0	0.41	2.02
Borrower I	Water conservation, environment and public utility management and investment	410.0	0.39	1.90
Borrower J	Wholesale and services	400.0	0.38	1.86
Total		5,135.0	4.89	23.83

Notes:

- (1) Represents loan balances as a percentage of our total loans.
- (2) Represents loan balances as a percentage of our net capital. Our net capital as of 30 September 2013 was calculated in accordance with the requirements of New Capital Adequacy Measures. See “Financial Information – Capital Resources – Capital Adequacy”.

Under applicable PRC banking laws and regulations, we are subject to a lending limit of 15% of our net capital to any group borrower. We may identify borrowers belonging to the same group in accordance with the CBRC guidelines. We established and implemented relevant policies and procedures to identify loan applicants belonging to the same group in the course of credits extensions. As of 31 December 2010, 2011 and 2012 and 30 September 2013, none of our credits to any group borrowers exceeded 15% of our net capital.

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The following table sets forth, as of 30 September 2013, our 10 largest group borrowers (excluding single borrowers), in terms of credit facility balances, none of which was a non-performing loan as of 30 September 2013.

		As of 30 September 2013			
	Industry	Credit balance ⁽¹⁾	% of net capital ⁽²⁾	Loan balance	% of total loans ⁽³⁾
(In millions of RMB, except percentages)					
Borrower A	Agriculture, forestry, husbandry and fishery	1,270.4	5.90	978.4	0.93
Borrower B	Wholesale and services	1,118.0	5.19	1,118.0	1.05
Borrower C	Wholesale and services	1,000.0	4.64	1,000.0	0.95
Borrower D	Residential and other services	767.6	3.56	829.0	0.79
Borrower E	Wholesale and services	625.0	2.90	805.0	0.77
Borrower F	Real estate	527.0	2.45	527.0	0.50
Borrower G	Water conservation, environment and public utility management and investment	500.0	2.32	500.0	0.48
Borrower H	Real estate	500.0	2.32	500.0	0.48
Borrower I	Water conservation, environment and public utility management and investment	500.0	2.32	500.0	0.48
Borrower J	Transportation, storage and postal services	500.0	2.32	500.0	0.48
Total		7,308.0	33.92	7,257.4	6.91

Notes:

- (1) Represents credit balance net of the amount of margin deposit provided by a client, bank deposit receipts and treasury bonds.
- (2) Represents credit balance as a percentage of our net capital. Our net capital as of 30 September 2013 was calculated in accordance with the requirements of New Capital Adequacy Measures. See “Financial Information – Capital Resources – Capital Adequacy”.
- (3) Represents loan balances as a percentage of our total loans.

Maturity Profile of Loans to Customers

The following table sets forth, as of 30 September 2013, our loan products by remaining maturity.

As of 30 September 2013						
	Due within three months	Due between three months to one year	Due between one to five years	Due more than five years	Overdue ⁽¹⁾	Total
(in millions of RMB)						
Corporate loans	11,692.2	39,230.0	7,386.4	2,785.1	545.7	61,639.4
Personal loans	4,459.0	18,952.9	4,695.8	12,009.9	751.8	40,869.4
Discounted bills	2,264.2	237.3	—	—	0.1	2,501.6
Total loans to customers	18,415.4	58,420.2	12,082.2	14,795.0	1,297.6	105,010.4

Note:

- (1) Overdue loans include loans to customers with designated repayment date, which are categorised as overdue loans when the principal or interest is past due. For instalment loans, the entire loans are categorised as overdue if part of the instalments is overdue.

As of 30 September 2013, 73.2% of our total loans and advances to customers had maturities of less than one year. We may renew certain loans that come due upon request by borrowers with good credit records. Renewal of such loans is considered as new loans and is subject to the credit approval policies and procedures for issuing new loans.

Loan Interest Rate Profile

In recent years, as part of the overall reform of the PRC banking system, the PBOC has implemented a series of initiatives to gradually liberalise interest rates and move towards a more market-based interest rate regime. In July 2013, the PBOC removed the lower limit of the floating range of lending interest rates, providing more flexibility to the commercial banks in the PRC to determine their own lending interest rates. To manage interest rate risk, we usually set a floating interest rate for loans with a maturity period of more than one year. We generally set a fixed interest rate for loans with a maturity period equal to or less than one year. For loans with floating interest rates, we generally adjust our interest rates on the first day of the year or month that is subsequent to the year or month in which the benchmark interest rates are adjusted.

Since 27 October 2008, the interest rates of personal home mortgage loans have been set at a level of not less than 70% of the PBOC benchmark lending rate. According to the relevant notice issued by the State Council, since 17 April 2010 the interest rate of personal home mortgage loans to second-home buyers may not be lower than 110% of the PBOC benchmark lending rate. See “Supervision and Regulation – PRC Banking Supervision and Regulation – Pricing of Products and Services”.

Asset Quality of Our Loan Portfolio

We measure and monitor the asset quality of our loan portfolio using a five-category loan classification system in compliance with the CBRC guidelines. See “Supervision and Regulation – PRC Banking Supervision and Regulation – Loan Classification, Allowances and Write-offs – Loan Classification”. In order to further strengthen our category management of lending risk and implement dynamic management of lending risk and risk measurement, we have adopted refined risk-based classification criteria for various types of loans. See “Risk Management – Major Risk Management – Credit Risk Management”.

Loan Classification Criteria

We classify our loan portfolio based on a series of criteria that are 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 loans.

Corporate Loan and Discounted Bills

We classify our corporate loans and discounted bills into five categories, and we further classify our corporate loans into more detailed sub-categories, to strengthen our risk management of corporate loans. When classifying our corporate loans (other than the Small Enterprises with a credit limit of less than RMB20 million), we mainly consider the following factors: the operation, cash flow and financial condition of borrowers and the overdue time for repayment of principal or interest. Key factors we consider in classifying our corporate loans, include, among others, the following:

Pass. A loan is classified as “pass” if the borrower is able to perform the contract, and there is no other reason to doubt its ability to repay the loan in full on a timely basis.

Special Mention. A loan is classified as “special mention” if the borrower is currently able to repay its loans, but there have been factors that may adversely affect the borrower’s ability to repay the loans. For example:

- the status of borrower’s business operations, revenue principal businesses and operating cash flow are relatively average;

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- the key financial indicators are volatile to a certain extent and show a tendency to decline, but have not directly led to any effect upon the loan repayment;
- the industry where the borrower operates is in a downturn, and that macroeconomic change, the industry cycle and adjustment policies are all unfavourable to the borrower's operations;
- the secondary repayment resource is unstable; or
- the payment for the principal or interest is overdue for not more than 90 days.

Substandard. A loan is classified as “substandard” if there are obvious problems with the borrower's ability to repay its loans. The borrower cannot rely entirely on revenues to repay its loans, and losses may ensue even when collateral or guarantees are invoked. For example:

- the borrower has experienced an operating loss, and it is uncertain whether the business of the borrower can be sustained;
- the financial indicators of the borrower have deteriorated significantly, and the borrower has financial difficulty such that its cash flow generated from operating activities cannot fully cover the payment for the principal and interest when they are due;
- the borrower does not have sufficient ability to repay or does not have sufficient collateral, which indicates an existing problem with its full payment for the principal and interest; or
- the payment for the principal or interest is overdue for more than 90 days but no more than 360 days.

Doubtful. A loan is classified as “doubtful” if the borrower cannot repay loans in full and significant losses will be incurred even when collateral or guarantees are enforced. For example:

- the borrower suffers a serious loss, and is unable to maintain its business operations nor can it pay the principal and interest;
- the borrower's operations have been suspended, and the construction of the project underlying its fixed asset loan is halted or delayed;
- the guarantor is unable to provide the guarantee;
- the payment remains overdue after restructuring or the borrower remains unable to repay; or
- the payment for the principal or interest is overdue for more than 360 days.

Loss. A loan is classified as “loss” if no principal or interest or only a very small portion thereof can be recovered after all possible measures have been taken and all legal remedies have been exhausted. For example:

- the borrower and guarantor are both insolvent, their status as corporate entities has been terminated, and they are unable to repay the principal or interest; or
- the estimated ratio of loan loss is more than 90%.

We put emphasis on the control over the quality of loans to Small Enterprises. For any loan to Small Enterprises with a credit limit below RMB20 million, we apply a more tailored set of criteria to classify such loans based on the possibility of full and due payment by Small Enterprises for the principal of and interest on such loans, the overdue period of the payment for the principal of or interest on such loans, and the status of the guarantee for such loans, in accordance with the requirements set by the CBRC.

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The following table sets forth the classification of our loans to Small Enterprises with credit facilities below RMB20 million in terms of the overdue periods of the loans.

		Overdue between one and 30 days	Overdue between 31 and 90 days	Overdue between 91 and 180 days	Overdue between 181 and 360 days	Overdue for 361 days
	Not due					
Unsecured . . .	Pass	Special mention	Substandard	Doubtful	Doubtful	Loss
Guarantee	Pass	Pass	Special mention	Substandard	Doubtful	Loss
Mortgage	Pass	Pass	Special mention	Special mention	Substandard	Doubtful
Pledge	Pass	Pass	Special mention	Special mention	Substandard	Doubtful

Personal Loans

We refer to our risk-based criteria used in classifying loans to Small Enterprises in classifying our loans to Small Enterprise Owners. In applying relevant risk-based classification criteria to personal consumption loans and loans to farmers, we mainly consider the overdue period of the principal or interest and the status of the guarantee relating to the loan.

The following table sets forth the classification of our personal loans in terms of the overdue periods of the loans.

		Overdue between 1 and 30 days	Overdue between 31 and 60 days	Overdue between 61 and 90 days	Overdue between 91 and 120 days	Overdue between 121 and 180 days	Overdue between 181 and 270 days	Overdue between 271 and 360 days	Overdue for 361 days and above
	Not due								
Unsecured	Pass	Special mention	Special mention	Substandard	Substandard	Doubtful	Doubtful	Doubtful	Loss
Guarantee	Pass	Pass	Special mention	Special mention	Substandard	Substandard	Doubtful	Doubtful	Loss
Mortgage	Pass	Pass	Special mention	Special mention	Special mention	Special mention	Substandard	Substandard	Doubtful
Pledge	Pass	Pass	Special mention	Special mention	Special mention	Special mention	Substandard	Substandard	Doubtful

Credit Cards

The following table sets forth the classification of our credit card overdraft business in terms of the overdue periods of the loans:

Not due	Overdue between 1 and 90 days	Overdue between 91 and 120 days	Overdue between 121 and 180 days	Overdue for 181 days and above
Pass	Special mention	Substandard	Doubtful	Loss

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Distribution of Loans by Loan Classification

The following table sets forth, as of the dates indicated, our loans to customers in each category of our five-category loan classification. We use the term “non-performing loans” and “impaired loans” synonymously to refer to the loans identified as “impaired loans and advances to customers” in Note 22 to the Accountants’ Report in Appendix I to this prospectus. Under our five-category loan classification system, our non-performing loans are classified as substandard, doubtful and loss, as applicable.

	As of 31 December						As of 30 September	
	2010		2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)								
Pass	53,028.4	98.2	66,711.1	97.4	86,128.3	98.7	102,751.5	97.9
Special mention	568.3	1.1	1,350.5	2.0	579.9	0.7	1,357.0	1.3
Substandard	22.5	0.0	89.5	0.1	377.6	0.4	471.3	0.4
Doubtful	284.2	0.5	246.0	0.4	94.9	0.1	244.3	0.2
Loss	121.2	0.2	86.7	0.1	83.7	0.1	186.3	0.2
Total loans and advances to customers	54,024.6	100.0	68,483.8	100.0	87,264.4	100.0	105,010.4	100.0
NPLs and NPL ratio⁽¹⁾	427.9	0.79%	422.2	0.62%	556.2	0.64%	901.9	0.86%

Note:

(1) NPL ratio is calculated by dividing non-performing loans by total loans and advances to customers.

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The following table sets forth, as of the dates indicated, the distribution of our loans by business type under the five-category loan classification system.

	As of 31 December						As of 30 September	
	2010		2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)								
Corporate loans								
Pass	22,848.2	97.6%	34,999.2	98.4%	50,562.9	98.9%	60,693.2	98.5%
Special mention	358.7	1.5%	420.8	1.2%	423.4	0.8%	734.7	1.2%
Substandard	0.5	0.0%	52.5	0.1%	29.4	0.1%	99.8	0.2%
Doubtful	118.6	0.5%	44.4	0.1%	9.8	0.0%	26.5	0.0%
Loss	94.8	0.4%	84.2	0.2%	82.6	0.2%	85.2	0.1%
Subtotal	<u>23,420.8</u>	<u>100.0%</u>	<u>35,601.1</u>	<u>100.0%</u>	<u>51,108.1</u>	<u>100.0%</u>	<u>61,639.4</u>	<u>100.0%</u>
NPLs and NPL ratio⁽¹⁾								
	213.9	0.91%	181.1	0.51%	121.8	0.24%	211.5	0.34%
Personal loans								
Pass	23,244.6	98.2%	27,968.9	96.0%	34,219.2	98.4%	39,556.7	96.9%
Special mention	209.6	0.9%	929.7	3.2%	156.5	0.4%	622.3	1.5%
Substandard	22.0	0.1%	37.0	0.1%	348.2	1.0%	371.5	0.9%
Doubtful	165.6	0.7%	201.6	0.7%	85.1	0.2%	217.8	0.5%
Loss	26.4	0.1%	2.5	0.0%	1.1	0.0%	101.1	0.2%
Subtotal	<u>23,668.2</u>	<u>100.0%</u>	<u>29,139.7</u>	<u>100.0%</u>	<u>34,810.1</u>	<u>100.0%</u>	<u>40,869.4</u>	<u>100.0%</u>
NPLs and NPL ratio⁽¹⁾								
	214.0	0.90%	241.1	0.83%	434.4	1.25%	690.4	1.69%
Discounted bills								
Pass	6,935.6	100.0%	3,743.0	100.0%	1,346.2	100.0%	2,501.6	100.0%
Special mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—	—
Subtotal	<u>6,935.6</u>	<u>100.0%</u>	<u>3,743.0</u>	<u>100.0%</u>	<u>1,346.2</u>	<u>100.0%</u>	<u>2,501.6</u>	<u>100.0%</u>
Total loans and advances to customers								
	<u>54,024.6</u>		<u>68,483.8</u>		<u>87,264.4</u>		<u>105,010.4</u>	
NPL and NPL ratio⁽¹⁾								
	427.9	0.79%	422.2	0.62%	556.2	0.64%	901.9	0.86%

Note:

(1) NPL ratio is calculated by dividing non-performing loans of each business type by total loans and advances to customers.

As of 31 December 2010, 2011 and 2012 and 30 September 2013, the non-performing loan ratios of our total loan portfolio were 0.79%, 0.62%, 0.64% and 0.86%, respectively. Our non-performing loan ratios were maintained at a relatively low level during the Track Record Period, which was primarily due to the following reasons:

- we formulated our risk management policies every year and adjusted our relevant risk management policies and loan extensions from time to time according to market conditions and our business objectives;
- we continued improving our credit risk management capabilities, strengthened the management and guidance at different stages of our lending businesses, such as pre-approval

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investigation, credit review and credit approval, and adopted tailored credit risk management measures for different business lines, sectors and regions;

- we continued enhancing post-disbursement management by improving the early intervention mechanism of non-performing loans and optimising staffing to strengthen the forward-extended management as well as tracking, pre-warning and notification of non-performing loans, which contributed to more timely detection and control of non-performing loans; and
- we increased our efforts to recover non-performing loans as requested by our headquarters.

Our non-performing loan ratio increased from 0.64% as of 31 December 2012 to 0.86% as of 30 September 2013. This increase was mainly due to the impact of floods in Heilongjiang in the summer of 2013 and the fluctuation of grain prices, resulting in an increase of overdue loans to farmers and a consequent increase in our non-performing loans.

Distribution of Non-Performing Loans by Business Lines

The following table sets forth, as of the dates indicated, our non-performing loans by business lines.

	As of 31 December									As of 30 September		
	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												
Loans to Small Enterprises	26.7	6.3	0.30%	64.1	15.2	0.42%	46.0	8.3	0.19%	140.8	15.7	0.44%
Other corporate loans excluding loans to Small Enterprises	187.2	43.7	1.30%	117.0	27.7	0.57%	75.8	13.6	0.28%	70.7	7.8	0.24%
Subtotal	213.9	50.0	0.91%	181.1	42.9	0.51%	121.8	21.9	0.24%	211.5	23.5	0.34%
Personal loans												
Loans to Small Enterprise Owners	82.5	19.3	0.98%	60.9	14.4	0.53%	119.1	21.5	0.87%	149.1	16.5	1.00%
Personal consumption loans	45.1	10.5	0.61%	52.9	12.5	0.59%	68.1	12.2	0.61%	95.6	10.6	0.67%
Loans to farmers	86.4	20.2	1.10%	127.3	30.2	1.46%	247.2	44.4	2.50%	445.7	49.4	3.84%
Subtotal	214.0	50.0	0.90%	241.1	57.1	0.83%	434.4	78.1	1.25%	690.4	76.5	1.69%
Discounted bills	—	—	—	—	—	—	—	—	—	—	—	—
NPL and NPL ratio	427.9	100.0	0.79%	422.2	100.0	0.62%	556.2	100.0	0.64%	901.9	100.0	0.86%

Note:

(1) NPL ratio is calculated by dividing non-performing loans of each business line by total loans and advances to customers.

The non-performing loan ratio of corporate loans decreased from 0.91% as of 31 December 2010 to 0.51% as of 31 December 2011, and further decreased to 0.24% as of 31 December 2012. The amounts of non-performing loans also declined during the three years ended 31 December 2012. These declines were primarily because (i) we continued improving the overall credit risk management capacity of our corporate loans to ensure a relatively high quality of new loans; (ii) we increased our efforts to recover non-performing corporate loans since 2010; and (iii) we increased our lending scale. Among our corporate loans, the non-performing loan ratios of loans to Small Enterprises increased from 0.30% as of 31 December 2010 to 0.42% as of 31 December 2011. The amounts of non-performing loans also increased, mainly because of loan delinquency by certain Small Enterprises along with an increase in our

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loans to Small Enterprises. We have enhanced our credit risk management capabilities to seek to control further increases in the non-performing loan ratios of our corporate loans to Small Enterprises. As of 30 September 2013, our non-performing loan ratio of corporate loans was 0.34%, representing an increase over 0.24% as of 31 December 2012. The increase was primarily due to a slowdown of the development of the PRC's economy, which caused the financial condition of some of the Small Enterprises to deteriorate resulting in increases in accounts receivable and non-performing loans.

The non-performing loan ratios of personal loans decreased from 0.90% as of 31 December 2010 to 0.83% as of 31 December 2011, mainly because we (i) adjusted our personal loan portfolios and reduced the proportion of loans that had relatively high non-performing loan ratios; and (ii) continued improving our overall credit risk management capabilities of personal loans. In particular, we strengthened our post-disbursement management capabilities of personal loans by improving the early intervention mechanism of non-performing loans and increased staffing. The overall non-performing loan ratios of personal loans increased from 0.83% as of 31 December 2011 to 1.25% as of 31 December 2012, primarily as a result of the financial condition of some of our individual customers deteriorating in the economic downturn in the PRC, contributing to increases in accounts receivable and our non-performing loans. The overall non-performing loan ratios of personal loans increased from 1.25% as of 31 December 2012 to 1.69% as of 30 September 2013. The increase was mainly due to the impact of floods in Heilongjiang in the summer of 2013 and the fluctuation of grain prices, which resulted in an increase of overdue loans to farmers and a consequent increase in our non-performing personal loans.

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Distribution of Non-performing Corporate Loans by Industry

The following table sets forth, as of the dates indicated, the distribution of our non-performing corporate loans (excluding discounted bills) by industry.

	As of 31 December									As of 30 September		
	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)												
Agriculture, forestry, husbandry and fishery	—	—	—	—	—	—	—	—	—	—	—	—
Mining	—	—	—	—	—	—	—	—	—	—	—	—
Manufacturing	27.9	13.1	0.51%	45.4	25.1	0.59%	35.0	28.8	0.32%	69.7	33.0	0.52%
Production and supply of electricity, gas and water	—	—	—	—	—	—	—	—	—	—	—	—
Construction	—	—	—	—	—	—	9.4	7.7	0.29%	10.4	4.9	0.19%
Transportation, storage and postal services	0.3	0.1	0.05%	—	—	—	—	—	—	—	—	—
Information transmission, computer services and software	—	—	—	—	—	—	—	—	—	1.0	0.5	0.19%
Wholesale and services	63.8	29.8	0.93%	60.0	33.1	0.39%	73.2	60.1	0.40%	126.6	59.8	0.57%
Accommodation and catering	35.9	16.8	8.05%	33.9	18.7	4.42%	—	—	—	—	—	—
Finance	—	—	—	—	—	—	—	—	—	—	—	—
Real Estate	5.6	2.6	1.19%	41.6	23.0	4.58%	3.8	3.1	0.15%	3.4	1.6	0.19%
Rental, commercial services	—	—	—	—	—	—	0.4	0.3	0.02%	0.4	0.2	0.01%
Scientific research, technical services and geological prospecting	—	—	—	—	—	—	—	—	—	—	—	—
Water conservation, environment and public utility management and investment	—	—	—	—	—	—	—	—	—	—	—	—
Residential and other services	80.4	37.6	34.21%	0.2	0.1	0.10%	—	—	—	—	—	—
Education	—	—	—	—	—	—	—	—	—	—	—	—
Health, social security and social welfare	—	—	—	—	—	—	—	—	—	—	—	—
Culture, sports and entertainment	—	—	—	—	—	—	—	—	—	—	—	—
Public administration and social organisation	—	—	—	—	—	—	—	—	—	—	—	—
NPLs and NPL ratio	213.9	100.0	0.91%	181.1	100.0	0.51%	121.8	100.0	0.24%	211.5	100.0	0.34%

Note:

(1) NPL ratio is calculated by dividing non-performing loans in each industry by total loans and advances to customers.

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The non-performing loan ratios of our loans in the accommodation and catering sector, and in the residential and other services sectors dropped from 8.05% and 34.21%, respectively, as of 31 December 2010 to nil, in each case, as of 30 September 2013, primarily as a result of the effective recovery and write-off of such non-performing loans by analysing the causes of such non-performing loans extended to those sectors.

The non-performing loan ratio of our loans in the real estate sector increased from 1.19% as of 31 December 2010 to 4.58% as of 31 December 2011, primarily due to the effects of the austerity measures implemented by the PRC government in the real estate sector. This ratio declined from 4.58% as of 31 December 2011 to 0.15% as of 31 December 2012, mainly due to the recovery of the PRC real estate market and improvement of the financial condition of our customers in the real estate sector. As of 30 September 2013, our non-performing loan ratio of loans extended to the real estate sector was 0.19%, similar to that of 0.15% as of 31 December 2012.

The non-performing loan ratios of our loans in the manufacturing sector increased from 0.51% as of 31 December 2010 to 0.59% as of 31 December 2011, primarily due to the unstable global economic environment, a decrease in China's manufacturing exports and the challenges faced by the manufacturing sector as a result of structural adjustment of the domestic economy. These factors contributed to a slowdown in the manufacturing sector, and the weakening of the operational capability of certain customers in the manufacturing sector. The non-performing loan ratio of our loans in the manufacturing sector declined from 0.59% as of 31 December 2011 to 0.32% as of 31 December 2012, primarily because we continued improving the credit policies for lending in this sector, controlled the quality of new loans and increased our efforts to recover the non-performing loans in this sector by analysing the causes of such non-performing loans extended to this sector. As of 30 September 2013, our non-performing loan ratio of loans extended to the manufacturing sector was 0.52%, representing an increase compared to 0.32% as of 31 December 2012. The increase was mainly due to the economic downturn in the PRC, resulting in a slowdown in the domestic manufacturing sector.

The non-performing loan ratio of our loans in the wholesale and services sector decreased from 0.93% as of 31 December 2010 to 0.39% as of 31 December 2011. The decrease was primarily due to our improving the credit policies for this sector by analysing the causes of such non-performing loans extended this sector. The non-performing loan ratio of our loans in the wholesale and services sector was 0.40% as of 31 December 2012, similar to that of 0.39% as of 31 December 2011. As of 30 September 2013, the non-performing loan ratio of our loans extended to the wholesale and services sector increased to 0.57%. The increase in the non-performing loan ratio of our loans extended to the wholesale and services sector in 2013 was mainly due to the global economic downturn and inflation of commodity prices, which affected the financial condition of small- and medium-sized wholesale and services enterprises.

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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. For our definitions of geographical regions, see “– Distribution of Loans by Geographical Region”.

	As of 31 December									As of 30 September		
	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)												
Heilongjiang region	417.4	97.6	1.00%	401.2	95.0	0.83%	508.8	91.5	1.18%	840.8	93.3	1.54%
Other Northeast region	10.4	2.4	0.19%	18.9	4.5	0.22%	31.6	5.7	0.13%	39.1	4.3	0.23%
Southwest region	–	–	–	1.2	0.3	0.02%	–	–	–	3.0	0.3	0.01%
Northern China	0.1	0.0	0.00%	0.1	0.0	0.00%	8.0	1.4	0.13%	11.0	1.2	0.14%
Other regions	–	–	–	0.8	0.2	0.08%	7.8	1.4	0.35%	8.0	0.9	0.24%
NPLs and NPL ratio	427.9	100.0	0.79%	422.2	100.0	0.62%	556.2	100.0	0.64%	901.9	100.0	0.86%

Note:

(1) NPL ratio is calculated by dividing non-performing loans in each region by total loans and advances to customers.

A majority of our non-performing loans was concentrated in the Heilongjiang region, primarily because loans and advances to customers in the Heilongjiang region constituted the largest portion of our loans and advances to customers during the Track Record Period. In addition, our loans in the Heilongjiang region generally had higher NPL ratios than loans in other regions because loans to farmers, which typically have higher NPL ratios, accounted for a larger portion of our total loans in the Heilongjiang region than other regions. See “Risk Factors – Risks Relating to Our Loan Portfolio – We have a concentration of loans to certain industries and customers and if the condition of these industries or customers significantly deteriorates, our asset quality, financial condition and results of operations may be materially and adversely affected”.

Distribution of Non-performing Loans by Collateral

The following table sets forth the distribution of our non-performing loans by collateral as of the dates indicated.

	As of 31 December									As of 30 September		
	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)												
Collateralised loans	239.6	56.0	1.19%	182.2	43.2	0.79%	190.3	34.2	0.60%	280.8	31.1	0.69%
Pledged loans	57.8	13.5	0.52%	58.0	13.7	0.46%	59.5	10.7	0.39%	57.7	6.4	0.42%
Guaranteed loans	121.2	28.3	0.60%	174.0	41.2	0.59%	258.4	46.5	0.73%	528.1	58.6	1.13%
Unsecured loans	9.3	2.2	0.40%	8.0	1.9	0.24%	48.0	8.6	1.06%	35.3	3.9	0.91%
NPLs and NPL ratio	427.9	100.0	0.79%	422.2	100.0	0.62%	556.2	100.0	0.64%	901.9	100.0	0.86%

Note:

(1) NPL ratio is calculated by dividing non-performing loans of each security profile by total loans to customers.

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Ten Largest Non-performing Borrowers

The following table sets forth, as of 30 September 2013, our ten borrowers with the largest non-performing loan balances outstanding and the balances of their respective loans.

As of 30 September 2013					
	Industry	Amount	Classification	% of total NPLs	% of total net capital ⁽¹⁾
(in millions of RMB, except percentages)					
Borrower A	Wholesale and service	57.7	Loss	6.41	0.27
Borrower B	Wholesale and service	23.9	Substandard	2.65	0.11
Borrower C	Individual	20.5	Doubt	2.27	0.10
Borrower D	Individual	17.0	Doubt	1.88	0.08
Borrower E	Manufacturing	13.0	Loss	1.44	0.06
Borrower F	Wholesale and service	9.1	Substandard	1.01	0.04
Borrower G	Manufacturing	9.0	Substandard	1.00	0.04
Borrower H	Construction	9.0	Doubt	1.00	0.04
Borrower I	Wholesale and service	8.7	Substandard	0.96	0.04
Borrower J	Individual	6.7	Substandard	0.74	0.03
Total		<u>174.6</u>		<u>19.36</u>	<u>0.81</u>

Note:

- (1) Represents loans as a percentage of our net capital. We calculated our net capital as of 30 September 2013 in accordance with the New Capital Adequacy Measures. See “Financial Information – Capital Resources – Capital Adequacy”.

Distribution of Loans by Maturity

The following table sets forth, as of the dates indicated, the distribution of our loans and advances to customers by maturity.

	As of 31 December						As of 30 September	
	2010		2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)								
Current loans	53,209.5	98.5	67,788.9	99.0	86,629.7	99.3	103,712.9	98.8
Loans past due ⁽¹⁾ :								
For 1 to 90 days	210.0	0.4	119.6	0.2	126.8	0.1	427.0	0.4
For 91 days to 1 year	367.2	0.7	290.0	0.4	329.6	0.4	427.2	0.4
For 1 year and above	237.9	0.4	285.3	0.4	178.3	0.2	443.3	0.4
Subtotal	<u>815.1</u>	<u>1.5</u>	<u>694.9</u>	<u>1.0</u>	<u>634.7</u>	<u>0.7</u>	<u>1,297.5</u>	<u>1.2</u>
Total loans to customers . . .	<u>54,024.6</u>	<u>100.0</u>	<u>68,483.8</u>	<u>100.0</u>	<u>87,264.4</u>	<u>100.0</u>	<u>105,010.4</u>	<u>100.0</u>

Note:

- (1) Loans to customers with specific repayment date are classified as overdue when the principal or interest becomes overdue. For instalment loans, if any portion of the loans is overdue, the full amount of such loans is classified as overdue.

Allowance for Impairment Losses on Loans to Customers

We assess our loans for impairment, determine the level of allowance for impairment losses and recognise any related provisions made in a year based on the guidelines for impairment under IAS 39. Our loans are reported net of the allowance for impairment losses on our consolidated balance sheet. Where there is objective evidence of possible impairment as a result of events occurring after the initial

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recognition of loans that may affect the estimated future cash flows of the loans, we perform assessments on individually significant loans to determine the allowance for impairment losses. The allowance for impairment losses of each of the loans is measured as the difference between the carrying value and the estimated recoverable amounts of the loans. The estimated recoverable amounts represent the present value of the estimated future cash flows of the loans, including, among other things, the recoverable value of the collateral.

Individually significant loans for which no evidence of impairment has been identified consist of loans classified as pass and special mention. These loans are assessed collectively for the purpose of determining the allowance for impairment losses. Personal loans that are not considered individually significant and have similar nature are also collectively assessed for the purpose of determining the allowance for impairment losses. The allowance for impairment losses of the collectively assessed loans is determined primarily based on our historical loss experience in similar portfolios and the prevailing economic conditions.

For a description of our methods in calculating the estimated recoverable amount of loans, see “Financial Information – Critical Accounting Judgements and Accounting Estimates – Impairment Losses on Loans to Customers, Due from and Placements with Banks and Investments in Receivables” in this prospectus and Note 45(a) to our consolidated financial statements included in Appendix I to this prospectus.

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 31 December									As of 30 September		
	2010			2011			2012			2013		
	Amount	% of total	Allowance for loans ⁽¹⁾	Amount	% of total	Allowance for loans ⁽¹⁾	Amount	% of total	Allowance for loans ⁽¹⁾	Amount	% of total	Allowance for loans ⁽¹⁾
(in millions of RMB, except percentages)												
Pass	462.8	56.2	0.87%	1,129.1	77.0	1.69%	1,653.1	84.0	1.92%	1,877.0	79.1	1.83%
Special mention	11.4	1.4	2.00%	45.1	3.1	3.34%	27.2	1.4	4.69%	86.8	3.7	6.40%
Substandard ..	7.8	0.9	34.29%	26.6	1.8	29.78%	134.7	6.9	35.66%	106.5	4.5	22.60%
Doubtful	220.9	26.8	77.69%	178.1	12.2	72.39%	67.6	3.4	71.23%	115.4	4.9	47.24%
Loss	121.2	14.7	100.00%	86.7	5.9	100.00%	83.7	4.3	100.00%	186.3	7.8	100.00%
Total allowance for impairment losses of loans	<u>824.1</u>	<u>100.0</u>	1.53%	<u>1,465.6</u>	<u>100.0</u>	2.14%	<u>1,966.3</u>	<u>100.0</u>	2.25%	<u>2,372.0</u>	<u>100.0</u>	2.26%

Note:

- (1) Calculated by dividing the amount of the allowance for impairment losses on loans in each category by the total amount of loans in that category.

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The following table sets forth, as of the dates indicated, the distribution of our allowance for impairment losses by our five-category loan classification.

	As of 31 December									As of 30 September		
	2010			2011			2012			2013		
	% of Allowance			% of Allowance			% of Allowance			% of Allowance		
	Amount	total	for loans ⁽¹⁾	Amount	total	for loans ⁽¹⁾	Amount	total	to loans ⁽¹⁾	Amount	total	for loans ⁽¹⁾
(in millions of RMB, except percentages)												
Corporate loans and discounted bills												
Pass	230.3	27.9	0.77%	539.8	36.8	1.39%	978.3	49.7	1.88%	1,157.4	48.7	1.83%
Special												
mention	7.2	0.9	2.00%	10.5	0.7	2.50%	18.1	0.9	4.26%	46.9	2.0	6.38%
Substandard	0.2	0.0	31.46%	13.3	0.9	25.34%	7.3	0.4	24.84%	28.8	1.2	28.89%
Doubtful	116.7	14.2	98.37%	42.8	2.9	96.35%	6.9	0.4	70.24%	23.1	1.0	87.17%
Loss	94.8	11.5	100.00%	84.2	5.8	100.00%	82.6	4.2	100.00%	85.2	3.6	100.00%
Subtotal	449.2	54.5	1.48%	690.6	47.1	1.76%	1,093.2	55.6	2.08%	1,341.4	56.5	2.09%
Personal loans												
Pass	232.5	28.3	1.00%	589.3	40.2	2.11%	674.8	34.2	1.97%	719.6	30.3	1.82%
Special												
mention	4.2	0.5	2.00%	34.6	2.4	3.72%	9.1	0.5	5.83%	39.9	1.7	6.41%
Substandard	7.6	0.9	34.36%	13.3	0.9	36.06%	127.4	6.5	36.57%	77.7	3.3	20.91%
Doubtful	104.2	12.6	62.89%	135.3	9.2	67.10%	60.7	3.1	71.35%	92.3	3.9	42.38%
Loss	26.4	3.2	100.00%	2.5	0.2	100.00%	1.1	0.1	100.00%	101.1	4.3	100.00%
Subtotal	374.9	45.5	1.58%	775.0	52.9	2.66%	873.1	44.4	2.51%	1,030.6	43.5	2.52%
Total allowance for impairment losses of loans												
loans	824.1	100.0	1.53%	1,465.6	100.0	2.14%	1,966.3	100.0	2.25%	2,372.0	100.0	2.26%

Note:

- (1) Calculated by dividing the amount of the allowance for impairment losses on loans in each category by the total amount of loans in that category.

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Distribution of Allowance for Impairment Losses by Business Line

The following table sets forth, as of the dates indicated, the distribution of our allowance for impairment losses on loans to customers by business line.

	As of 31 December									As of 30 September		
	2010			2011			2012			2013		
	% of Allowance			% of Allowance			% of Allowance			% of Allowance		
	Amount	total	for loans ⁽¹⁾	Amount	total	for loans ⁽¹⁾	Amount	total	to loans ⁽¹⁾	Amount	total	for loans ⁽¹⁾
(in millions of RMB, except percentages)												
Corporate loans												
Loans to Small												
Enterprises	106.1	12.9	1.17%	194.4	13.3	1.28%	512.0	26.0	2.17%	654.2	27.6	2.07%
Other corporate loans excluding loans to Small												
Enterprises	341.0	41.4	2.37%	492.0	33.5	2.41%	572.3	29.1	2.08%	643.5	27.1	2.15%
Subtotal	447.1	54.3	1.91%	686.4	46.8	1.93%	1,084.3	55.1	2.12%	1,297.7	54.7	2.11%
Personal loans												
Loans to Small												
Enterprise Owners	130.3	15.8	1.54%	229.0	15.7	1.98%	255.5	13.0	1.86%	329.7	13.9	2.20%
Personal consumption loans	140.3	17.0	1.91%	338.7	23.1	3.80%	367.4	18.7	3.28%	310.1	13.1	2.17%
Loans to farmers	104.3	12.7	1.33%	207.3	14.1	2.39%	250.2	12.7	2.53%	390.8	16.5	3.37%
Subtotal	374.9	45.5	1.58%	775.0	52.9	2.66%	873.1	44.4	2.51%	1,030.6	43.5	2.52%
Discounted bills	2.1	0.2	0.03%	4.2	0.3	0.11%	8.9	0.5	0.66%	43.7	1.8	1.75%
Total allowance for impairment losses of loans	824.1	100.0	1.53%	1,465.6	100.0	2.14%	1,966.3	100.0	2.25%	2,372.0	100.0	2.26%

Note:

- (1) Calculated by dividing the amount of the allowance for impairment losses on loans in each category by the total amount of loans in that category.

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Distribution of Allowance for Impairment Losses by Geographical Region

The following table sets forth, as of the dates indicated, the distribution of our allowance for impairment losses on loans to customers by geographical region. For our definitions of geographical regions, see “– Distribution of Loans by Geographical Region”.

	As of 31 December									As of 30 September		
	2010			2011			2012			2013		
	% of Allowance			% of Allowance			% of Allowance			% of Allowance		
	Amount	total	for loans ⁽¹⁾	Amount	total	for loans ⁽¹⁾	Amount	total	to loans ⁽¹⁾	Amount	total	for loans ⁽¹⁾
(in millions of RMB, except percentages)												
Heilongjiang region	697.2	84.6	1.67%	1,184.9	80.9	2.46%	1,296.1	65.9	3.01%	1,408.9	59.5	2.58%
Other northeast region	64.0	7.8	1.15%	112.0	7.6	1.31%	235.4	12.0	0.99%	354.1	14.9	2.06%
Southwest region	28.9	3.5	0.98%	84.8	5.8	1.32%	254.1	12.9	2.15%	394.2	16.6	1.82%
Northern China ..	31.7	3.8	0.94%	71.9	4.9	1.66%	135.6	6.9	2.16%	156.8	6.6	1.93%
Other regions	2.3	0.3	0.78%	12.0	0.8	1.20%	45.1	2.3	2.00%	58.0	2.4	1.76%
Total allowance for impairment losses of loans	824.1	100.0	1.53%	1,465.6	100.0	2.14%	1,966.3	100.0	2.25%	2,372.0	100.0	2.26%

Note:

- (1) Calculated by dividing the amount of the allowance for impairment losses on loans in each category by the total amount of loans in that category.

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Distribution of Allowance for Impairment Losses on Corporate Loans by Industry

The following table sets forth, as of the dates indicated, the distribution of our allowance for impairment losses on corporate loans (excluding discounted bills) by industry.

	As of 31 December									As of 30 September		
	2010			2011			2012			2013		
	% of Allowance			% of Allowance			% of Allowance			% of Allowance		
	Amount	total	for loans ⁽¹⁾	Amount	total	for loans ⁽¹⁾	Amount	total	to loans ⁽¹⁾	Amount	total	for loans ⁽¹⁾
(in millions of RMB, except percentages)												
Agriculture, forestry, husbandry and fishery	6.8	1.5	1.15%	15.1	2.2	1.58%	42.2	3.9	1.85%	56.8	4.4	1.81%
Mining	1.0	0.2	1.01%	1.9	0.3	1.72%	16.9	1.6	1.92%	16.4	1.3	1.84%
Manufacturing	80.8	18.1	1.49%	156.4	22.8	2.04%	230.6	21.3	2.11%	298.9	23.0	2.23%
Production and supply of electricity, gas and water	7.3	1.6	1.15%	29.2	4.3	1.69%	32.4	3.0	2.22%	35.7	2.8	1.85%
Construction	17.3	3.9	0.93%	22.5	3.3	1.72%	72.3	6.7	2.21%	110.7	8.5	2.00%
Transportation, storage and postal services	6.9	1.5	1.03%	22.5	3.3	1.65%	18.8	1.7	1.93%	35.2	2.7	1.84%
Information transmission, computer services and software	1.5	0.3	0.50%	8.4	1.2	1.64%	10.7	1.0	1.68%	10.1	0.8	1.87%
Wholesale and services	135.2	30.4	1.98%	272.3	39.7	1.75%	437.6	40.2	2.36%	496.4	38.3	2.24%
Accommodation and catering	40.3	9.0	9.04%	46.1	6.7	6.02%	17.5	1.6	1.99%	19.1	1.5	1.85%
Finance	0.1	0.0	1.01%	0.1	0.0	2.00%	0.1	0.0	0.01%	7.8	0.6	1.84%
Real Estate	13.0	2.9	2.76%	29.0	4.2	3.20%	58.6	5.4	2.40%	42.6	3.2	2.39%
Rental, commercial services	19.2	4.3	0.88%	25.4	3.7	1.67%	47.2	4.4	1.84%	74.3	5.7	1.87%
Scientific research, technical services and geological prospecting	0.6	0.1	0.93%	2.4	0.3	1.72%	2.5	0.2	1.80%	3.7	0.3	1.84%
Water conservation, environment and public utility management and investment	28.6	6.4	1.00%	40.8	5.9	1.81%	39.1	3.6	1.28%	54.5	4.2	1.97%
Residential and other services	80.9	18.1	34.44%	3.7	0.6	1.75%	12.9	1.2	1.27%	19.4	1.5	1.84%
Education	5.7	1.3	1.01%	5.7	0.8	1.72%	9.5	0.9	1.83%	7.2	0.6	1.86%
Health, social security and social welfare	1.4	0.3	1.03%	4.2	0.6	1.68%	7.4	0.7	1.97%	5.2	0.3	1.85%
Culture, sports and entertainment	0.5	0.1	0.84%	0.7	0.1	1.49%	1.8	0.2	1.28%	3.6	0.3	1.91%
Public administration and social organisation	0.0	0.0	0.00%	0.0	0.0	0.00%	26.2	2.4	5.24%	0.1	0.0	1.96%
Total allowance for impairment losses of loans	447.1	100.0	1.91%	686.4	100.0	1.93%	1,084.3	100.0	2.12%	1,297.7	100.0	2.11%

Note:

- (1) Calculated by dividing the amount of the allowance for impairment losses on loans in each category by the total amount of loans in that category.

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Changes of Allowance for Impairment Losses of Loans

The following table sets forth, for the years indicated, the changes of our allowance for impairment losses of loans to customers.

	Amount (in millions of RMB)
As of 1 January 2010	692.6
Charge-offs for the year ⁽¹⁾	238.7
Recoveries of loans written off in previous years	1.9
Amount written off during the year	(103.8)
Unwinding of discounts ⁽²⁾	(5.2)
Exchange difference	(0.1)
As of 31 December 2010	824.1
Charge-offs for the year ⁽¹⁾	876.0
Recoveries of loans written off in previous years	8.8
Amount written off during the year	(232.7)
Unwinding of discounts ⁽²⁾	(10.4)
Exchange difference	(0.2)
As of 31 December 2011	1,465.6
Charge-offs for the year ⁽¹⁾	837.2
Recoveries of loans written off in previous years	23.3
Amount written off during the year	(342.7)
Unwinding of discounts ⁽²⁾	(17.1)
Exchange difference	(0.0)
As of 31 December 2012	1,966.3
Charge-offs for the year ⁽¹⁾	422.1
Recoveries of loans written off in previous years	12.6
Amount written off during the year	(0.4)
Unwinding of discounts ⁽²⁾	(28.3)
Exchange difference	(0.3)
As of 30 September 2013	2,372.0

Notes:

- (1) Represent the total amount of impairment losses of loans (increase of allowance for impairment losses of loans), after deducting the amount of reversal (releases from allowance for impairment losses of loans).
- (2) Represent the interest income we recognise on impaired loans as a result of subsequent increases in their present values due to the passage of time.

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Investment Securities and Other Financial Assets

We classify our investment securities and other financial assets into (i) investments in receivables; (ii) held-to-maturity investments; (iii) available-for-sale financial assets; and (iv) financial assets held for trading, primarily based on our intentions with respect to these assets and pursuant to the requirements of IAS 39. As of 31 December 2010, 2011 and 2012 and 30 September 2013, our investment securities and other financial assets accounted for 14.5%, 17.4%, 18.9% and 19.8%, respectively, of our total assets. The following table sets forth, as of the dates indicated, the components of our investment securities and other financial assets.

	As of 31 December						As of 30 September	
	2010		2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Investments in receivables	4,205.6	23.0	13,635.5	37.8	22,733.3	44.4	18,037.3	34.8
Held-to-maturity investments	5,862.0	32.2	12,286.8	34.1	12,323.5	24.1	14,350.0	27.7
Available-for-sale financial assets	2,863.0	15.7	5,351.2	14.8	8,244.3	16.1	12,257.7	23.6
Financial assets held for trading	5,318.6	29.1	4,780.8	13.3	7,879.0	15.4	7,201.6	13.9
Total investment securities and other financial assets	18,249.2	100.0	36,054.3	100.0	51,180.1	100.0	51,846.6	100.0

Our investment securities and other financial assets increased by 1.3% from RMB51,180.1 million as of 31 December 2012 to RMB51,846.6 million as of 30 September 2013, primarily due to increases in held-to-maturity investments and financial assets held for sale, which were partially offset by a decrease in investments in receivables and financial assets held for trading.

Our investment securities and other financial assets increased by 97.6% from RMB18,249.2 million as of 31 December 2010 to RMB36,054.3 million as of 31 December 2011, and further increased by 42.0% to RMB51,180.1 million as of 31 December 2012. These increases were mainly because of our efforts to increase various types of deposits, continued expansion of our capital operating channels and an increased proportion of credit products, which improved the efficiency of our use of funds.

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Distribution of Our Investment Securities and Other Financial Assets by Investment Category

The following table sets forth, as of the dates indicated, the distribution of our investment securities and other financial assets by bond investments and equity investments.

	As of 31 December						As of 30 September	
	2010		2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)								
Debt investments:								
Bond investments	15,513.8	85.0	23,386.8	64.9	29,011.5	56.7	33,985.1	65.6
Debt instruments ⁽¹⁾								
issued by								
financial								
institutions	2,710.8	14.9	12,642.9	35.0	22,144.0	43.3	17,836.9	34.4
Subtotal	18,224.6	99.9	36,029.7	99.9	51,155.5	100.0	51,822.0	100.0
Equity investment	24.6	0.1	24.6	0.1	24.6	0.0	24.6	0.0
Total investment securities and other financial assets	18,249.2	100.0	36,054.3	100.0	51,180.1	100.0	51,846.6	100.0

Note:

(1) Include fund trust plans and structured wealth management products.

Debt Investments

Debt investments account for a majority of our investment securities and other financial assets. Our debt investments comprise bonds investments and debt instruments issued by financial institutions.

Investments in Debt Instruments issued by Financial Institutions

Our total investments in debt instruments issued by financial institutions increased from RMB2,710.8 million as of 31 December 2010 to RMB12,642.9 million as of 31 December 2011 and further increased to RMB22,144.0 million as of 31 December 2012, and the proportion of our total investments in debt instruments issued by financial institutions to our total investment securities and other financial assets increased from 14.9% as of 31 December 2010 to 35.0% as of 31 December 2011, and further increased to 43.3% as of 31 December 2012. We significantly increased our investment in debt instruments issued by financial institutions due to the following reasons. First, we are able to attract more customers who need financing through trust companies and securities companies. Second, we have made more efforts to increase various types of deposits and thus have received more funds for investments. Debt instruments issued by financial institutions generally have higher returns than other investment products in the market. In addition, for the investment in fund trust plans and directional asset management plans where commercial banks in the PRC provide guarantees, the risk-weighted ratio of risk-weighted assets calculated in accordance with applicable our capital requirements is 25%, which improves the efficiency of capital utilisation.

Our total investments in debt instruments issued by financial institutions decreased by 19.5% from RMB22,144.0 million as of 31 December 2012 to RMB17,836.9 million as of 30 September 2013, and the proportion to our total investment securities and other financial assets decreased from 43.3% as of 31 December 2012 to 34.4% as of 30 September 2013. The decreases were primarily due to the expiration

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of some of our existing investments in debt instruments issued by financial institutions and a decrease in new investments in these products.

Bond Investments

The following table sets forth, as of the dates indicated, the components of our bond investments.

	As of 31 December						As of 30 September	
	2010		2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)								
Government bonds	4,655.8	30.0	2,752.2	11.8	3,117.3	10.7	3,198.8	9.4
Bonds issued by financial institutions	—	—	—	—	—	—	329.0	1.0
Corporate bonds	1,962.7	12.7	4,951.4	21.2	6,906.3	23.8	8,320.7	24.5
Bonds issued by policy banks	8,895.3	57.3	15,683.2	67.0	18,987.9	65.5	22,136.6	65.1
Total bond investments	15,513.8	100.0	23,386.8	100.0	29,011.5	100.0	33,985.1	100.0

Equity Investments

Our equity investments primarily consist of our investments in China UnionPay Co., Ltd. and Clearing Centre for City Commercial Banks. As of 31 December 2010, 2011 and 2012 and 30 September 2013, our total equity investments amounted to RMB24.6 million.

Maturity Profile of Investment Portfolio

The following table sets forth, as of 30 September 2013, our investment securities and other financial assets (excluding equity investments) by remaining maturity.

	As of 30 September 2013					
	Due within three months	Due between three months and one year	Due between one and five years	Due more than five years	Without a fixed term	Total
	(in millions of RMB)					
Investments in receivables	332.5	6,729.9	10,974.9	—	—	18,037.3
Held-to-maturity investments . . .	823.8	2,951.1	5,947.4	4,627.7	—	14,350.0
Available-for-sale financial assets	1,028.8	1,317.5	6,875.2	2,991.6	20.0	12,233.1
Financial assets held for trading	<u>250.0</u>	<u>307.2</u>	<u>5,042.4</u>	<u>1,602.0</u>	<u>—</u>	<u>7,201.6</u>
Total investment securities and other financial assets	2,435.1	11,305.7	28,839.9	9,221.3	20.0	51,822.0

Carrying amount and fair value

Our assets classified as available-for-sale financial assets (other than equity investments) and financial assets held for trading are stated at fair value. The fair value of our equity investments in available-for-sale financial assets are stated at cost less allowance for impairment losses. Investments in receivables and held-to-maturity investments are stated at historical cost. The following table sets forth

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the carrying amount and fair value of our investment securities and other financial assets which were not reflected or disclosed at fair value as of the dates indicated.

	As of 31 December						As of 30 September	
	2010		2011		2012		2013	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
(in millions of RMB)								
Investments in receivables	4,205.6	4,109.7	13,635.5	13,583.7	22,733.3	22,686.7	18,037.3	18,023.1
Held-to-maturity investments	5,862.0	5,698.9	12,286.8	12,149.5	12,323.5	12,082.1	14,350.0	13,901.4
Equity investments in available-for-sale financial assets	24.6	–	24.6	–	24.6	–	24.6	–

Investment Concentration

The following table sets forth, as of 30 September 2013, our 10 largest positions of debt investments in terms of the carrying amount of the investments.

	As of 30 September 2013			
	Carrying amount	% of total debt investments	% of total shareholders' equity ⁽¹⁾	Market/fair value
(in millions of RMB, except percentages)				
Investment A	2,003.2	3.9	10.5	1,960.6
Investment B	2,000.4	3.9	10.5	1,996.4
Investment C	1,783.6	3.4	9.4	1,783.6
Investment D	1,290.0	2.5	6.8	1,290.0
Investment E	992.1	1.9	5.2	946.6
Investment F	988.7	1.9	5.2	951.0
Investment G	800.0	1.5	4.2	800.0
Investment H	795.0	1.5	4.2	795.0
Investment I	780.5	1.5	4.1	780.5
Investment J	761.1	1.5	4.0	704.9
Total	<u>12,194.6</u>	<u>23.3</u>	<u>64.1</u>	<u>12,008.6</u>

Note:

(1) For the calculation of total shareholders' equity, see "Financial Information – Capital Resources – Shareholders' Equity".

Other Components of Our Assets

Other components of our assets primarily consist of (i) cash and balances with central bank, (ii) due from banks and other financial institutions, and (iii) financial assets held under reverse repurchase agreements.

Cash and balances with central bank primarily consist of cash, statutory deposit reserves and surplus deposit reserves. Statutory 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 required by the PBOC. Surplus deposit reserves are our deposits with the PBOC in excess of statutory deposit reserves, which are used primarily for the purpose of clearing. As of 30 September

ASSETS AND LIABILITIES

2013, our cash and balances with central bank amounted to RMB40,729.7 million, a decrease of 21.5% from RMB51,858.5 million as of 31 December 2012, which was attributable to the decrease in surplus deposit reserves deposited with central bank. As of 31 December 2010, 2011 and 2012, our cash and balances with central bank amounted to RMB23,413.2 million, RMB30,935.7 million and RMB51,858.5 million, respectively. The increases were primarily due to increases in our customer deposits, which resulted in corresponding rises in our statutory deposit reserves.

Due from banks and other financial institutions increased by 61.7% from RMB9,837.9 million as of 31 December 2010 to RMB15,907.0 million as of 31 December 2011, and further increased by 25.4% to RMB19,946.8 million as of 31 December 2012. As of 30 September 2013, due from banks and other financial institutions amounted to RMB27,730.0 million, an increase of 39.0% from RMB19,946.8 million as of 31 December 2012. The increase in the our due from banks and other financial institutions during the Track Record Period was primarily because we adjusted the proportion of non-credit assets based on the capital and changes in liquidity in the market, so as to ensure the efficiency of capital utilisation with sufficient liquidity. We were able to adjust the proportion of such assets we held based on our liquidity level in order to meet the liquidity requirement and to realise higher yields. We believe that these assets are able to help us to control mismatch between the maturities of loans and deposits. As the counterparties of such assets are banks, such transactions are generally of lower risks and higher returns compared to our lending to corporate and individual customers. The risk-weighted ratio of such assets is low when measured as risk-weighted assets according to the Measures on Administration on Capital.

Our financial assets held under reverse repurchase agreements include purchases of securities, bills, and trust beneficiary rights. Our financial assets held under reverse repurchase agreements significantly increased by 179.8% from RMB17,863.5 million as of 31 December 2010 to RMB49,973.6 million as of 31 December 2011 and further increased by 3.5% from RMB49,973.6 million as of 31 December 2011 to RMB51,745.6 million as of 31 December 2012. Our financial assets held under reverse repurchase agreements then decreased by 46.3% to RMB27,783.5 million as of 30 September 2013. The increase in these financial assets for the first three years of the Track Record Period was primarily because we adjusted the proportion of non-credit assets based on our capital and in response to changes in market liquidity, so as to ensure the efficiency of capital utilisation with sufficient liquidity. Furthermore, the increase in these financial assets was to ease the difference between the maturities of loans and deposits. The credit risk and risk-weighted ratio of such assets were relatively low. The decrease in these financial assets as of 30 September 2013 compared to 31 December 2012 was because we reduced these assets in light of changes in market liquidity. During the nine months ended 30 September 2013, market liquidity was tightened due to, among other things, the adjustment of regulatory policies.

Among our other assets, investments in associates mainly includes our investment in Guangdong Huaxing Bank Co., Ltd. (廣東華興銀行股份有限公司). Through this investment, we indirectly entered the Pearl River Delta region (which provided us with opportunities for future development and enhancement of our market influence. See “Our History and Operational Reform – Our Shareholding and Corporate Structure”.

LIABILITIES AND SOURCES OF FUNDS

Our total liabilities as of 31 December 2010, 2011 and 2012 and 30 September 2013 amounted to RMB120,695.2 million, RMB195,131.0 million, RMB253,153.2 million and RMB242,651.7 million, respectively. Our liabilities comprise (i) due to customers, (ii) due to banks and other financial institutions, (iii) financial assets sold under repurchase agreements, (iv) debt securities issued and (v) due to central bank.

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The following table sets forth, as of the dates indicated, the components of our total liabilities.

	As of 31 December						As of 30 September	
	2010		2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)								
Due to customers	112,891.6	93.6	145,962.4	74.8	186,642.4	73.8	191,130.0	78.8
Due to banks and other financial institutions	2,594.2	2.1	18,051.1	9.3	36,523.5	14.4	37,208.1	15.3
Financial assets sold under repurchase agreements	2,871.7	2.4	27,972.5	14.3	22,832.7	9.0	6,289.8	2.6
Debt securities issued	1,000.0	0.8	1,000.0	0.5	3,500.0	1.4	3,500.0	1.4
Due to central bank	—	—	174.8	0.1	594.9	0.2	756.0	0.3
Other liabilities ⁽¹⁾	1,337.7	1.1	1,970.2	1.0	3,059.7	1.2	3,767.8	1.6
Total liabilities	<u>120,695.2</u>	<u>100.0</u>	<u>195,131.0</u>	<u>100.0</u>	<u>253,153.2</u>	<u>100.0</u>	<u>242,651.7</u>	<u>100.0</u>

Note:

- (1) Other liabilities primarily consist of income tax payable and other taxes payable, interest payable, items in the process of clearance and settlement as well as staff salaries payable.

Our total liabilities increased by 61.7% from RMB120,695.2 million as of 31 December 2010 to RMB195,131.0 million as of 31 December 2011, and increased further by 29.7% to RMB253,153.2 million as of 31 December 2012. The increases in our liabilities were mainly attributable to an increase in due to customers and due to banks and other financial institutions.

Our total liabilities decreased by 4.1% from RMB253,153.2 million as of 31 December 2012 to RMB242,651.7 million as of 30 September 2013. The decrease was primarily due to a significant decrease in our financial assets sold under repurchase agreements, which was partially offset by increases in due to customers and other liabilities.

Due to customers is our primary source of funding and represented 93.6%, 74.8%, 73.8% and 78.8% of our total liabilities as of 31 December 2010, 2011 and 2012 and 30 September 2013, respectively.

ASSETS AND LIABILITIES

Due to Customers

We provide demand and time deposit products to our customers. The following table sets forth, as of the dates indicated, our deposits from customers by product type and maturity term of our deposits.

	As of 31 December						As of 30 September	
	2010		2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)								
Corporate deposits								
Demand deposits ..	58,850.2	52.1	70,284.4	48.2	69,981.5	37.5	62,369.8	32.6
Time deposits	21,741.0	19.3	33,414.8	22.9	61,058.3	32.7	71,766.0	37.5
Subtotal	80,591.2	71.4	103,699.2	71.1	131,039.8	70.2	134,135.8	70.1
Personal deposits								
Demand deposits ..	14,505.0	12.8	19,292.7	13.2	27,107.2	14.5	24,399.3	12.8
Time deposits	17,795.4	15.8	22,970.5	15.7	28,495.4	15.3	32,594.9	17.1
Subtotal	32,300.4	28.6	42,263.2	28.9	55,602.6	29.8	56,994.2	29.9
Total due to customers	112,891.6	100.0	145,962.4	100.0	186,642.4	100.0	191,130.0	100.0

Due to customers increased by 29.3% from RMB112,891.6 million as of 31 December 2010 to RMB145,962.4 million as of 31 December 2011, and increased further by 27.9% to RMB186,642.4 million as of 31 December 2012. As of 30 September 2013, due to customers totalled RMB191,130.0 million, representing an increase of 2.4% compared to 31 December 2012. During the Track Record Period, we expanded our business within and outside the Heilongjiang region by opening additional outlets and Village and Township Banks to penetrate different markets. In addition, we improved the quality and efficiency of our service through business process refinement and IT system upgrading. We engaged in marketing activities such as cross-selling, joint marketing, waiving of charges on remote withdrawals from an ATM and other promotional measures.

As of 30 September 2013, our corporate deposits represented 70.1% of our total due to customers, and our personal deposits represented 29.9% of our total due to customers. The proportion of corporate deposits decreased from 71.4% as of 31 December 2010 to 70.2% as of 31 December 2012, and to 70.1% as of 30 September 2013. The decrease was primarily because we optimised our deposit structure by increasing our efforts to increase personal deposits and increase the proportion of personal deposits, in view of the higher stability of personal deposits.

As of 30 September 2013, our time deposits represented 54.6% of our total due to customers, and our demand deposits represented 45.4% of our total due to customers. The proportion of demand deposits decreased from 64.9% as of 31 December 2010 to 52.0% as of 31 December 2012, and then further decreased to 45.4% as of 30 September 2013. The decrease was primarily attributable to the fact that we moderately increased the proportion of time deposits, as we aimed to optimise the maturity profile of our deposits and improve the stability of our deposits.

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Distribution of Deposits by Geographical Region

We classify our deposits based on the geographical location where our outlets take deposits. Our outlets usually originate deposit business in the areas where they operate. The following table sets forth the deposits from customers by geographical region as of the dates indicated. For our definitions of geographical regions, see “– Distribution of Loans by Geographical Region”.

	As of 31 December						As of 30 September	
	2010		2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)								
Heilongjiang region ⁽¹⁾	89,952.8	79.7	105,473.7	72.3	120,652.0	64.6	118,188.9	61.8
Other northeast region ⁽²⁾	11,598.5	10.3	17,654.4	12.1	25,333.8	13.6	26,893.5	14.1
Southwest region ⁽³⁾	5,111.1	4.5	12,501.7	8.6	24,616.7	13.2	30,378.0	15.9
Northern China ⁽⁴⁾	5,883.7	5.2	9,114.3	6.2	13,449.5	7.2	12,646.1	6.6
Other regions ⁽⁵⁾	345.5	0.3	1,218.3	0.8	2,590.4	1.4	3,023.5	1.6
Total due to customers	<u>112,891.6</u>	<u>100.0</u>	<u>145,962.4</u>	<u>100.0</u>	<u>186,642.4</u>	<u>100.0</u>	<u>191,130.0</u>	<u>100.0</u>

Distribution of Deposits by Remaining Maturity

The following table sets forth, as of 30 September 2013, the maturity profile of our deposits from customers in terms of remaining tenor.

	As of 30 September 2013					
	Repayable on demand	Due within three months	Due over three months up to one year	Due over one year up to five years	Due over five years	Total
(in millions of RMB)						
Corporate deposits	64,567.8	24,494.2	31,005.9	14,067.9	–	134,135.8
Personal deposits	<u>26,967.9</u>	<u>10,616.2</u>	<u>14,844.3</u>	<u>4,565.8</u>	<u>–</u>	<u>56,994.2</u>
Total due to customers	<u>91,535.7</u>	<u>35,110.4</u>	<u>45,850.2</u>	<u>18,633.7</u>	<u>–</u>	<u>191,130.0</u>

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Distribution of Deposits by Currency

Substantially all of our deposits are RMB-denominated deposits. The following table sets forth, as of 30 September 2013, the distribution of our deposits from customers by currency.

	As of 31 December						As of 30 September	
	2010		2011		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)								
RMB-denominated deposits	112,752.2	99.88	145,778.4	99.88	186,103.9	99.71	190,565.9	99.71
USD-denominated deposits	124.1	0.11	165.4	0.11	514.2	0.28	501.8	0.26
Other foreign currency-denominated deposits	15.3	0.01	18.6	0.01	24.3	0.01	62.3	0.03
Total due to customers	112,891.6	100.00	145,962.4	100.00	186,642.4	100.00	191,130.0	100.00

Other Components of Our Liabilities

Other components of our liabilities primarily consist of (i) due to banks and other financial institutions, and (ii) financial assets sold under repurchase agreements.

Due to banks and other financial institutions significantly increased by 595.8% from RMB2,594.2 million as of 31 December 2010 to RMB18,051.1 million as of 31 December 2011, and increased further by 102.3% to RMB36,523.5 million as of 31 December 2012. Due to banks and other financial institutions further increased by 1.9% to RMB37,208.1 million as of 30 September 2013. During the Track Record Period, the increases in these liabilities mainly reflected that we proactively took deposits from other banks and broadened our sources of liabilities in order to increase return in response to the changes in market liquidity and the need to match assets and liabilities. Further, we believe that these liabilities are able to help us to control mismatch of the difference between the maturity of loans and deposits. In addition, with the expansion of our operations and our growing recognition, our relationships with other banks were enhanced and in many cases they increased the credit granted to us.

Our financial assets sold under repurchase agreements significantly increased by 874.1% from RMB2,871.7 million as of 31 December 2010 to RMB27,972.5 million as of 31 December 2011. Our financial assets sold under repurchase agreements decreased by 18.4% to RMB22,832.7 million as of 31 December 2012 and further decreased by 72.5% to RMB6,289.8 million as of 30 September 2013. The changes in our financial assets sold under repurchase agreements reflected adjustments to the proportion of financial assets sold under repurchase agreements to our liabilities based on market liquidity and our capital needs in view of the need to match assets and liabilities. The changes also reflected such liabilities' function in easing the difference between the maturity of loans and deposits, as well as our increased interaction with other banks.

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

OVERVIEW

We were the second largest commercial bank in Heilongjiang Province and the largest commercial bank in Harbin in terms of total assets and net profit as of 31 December 2012. Our total assets were RMB270,090.2 million as of 31 December 2012, representing 11.5% of the total assets of all banking institutions in Heilongjiang Province. Our net profit was RMB2,871.5 million for the year ended 31 December 2012, representing approximately 11.2% of the net profit of all banking institutions in Heilongjiang Province for the same year, according to the record of the CBRC Heilongjiang Bureau. In recent years, our Bank has experienced rapid growth in profits. Our net profit increased from RMB1,227.2 million for the year ended 31 December 2010 to RMB2,871.5 million for the year ended 31 December 2012, representing a CAGR of 53.0%. For the nine months ended 30 September 2013, our net profit was RMB2,371.3 million.

We possess strong core competitiveness in the microcredit market. As of 31 December 2012 and 30 September 2013, the total balance of our microcredit business amounted to RMB58,448.1 million and RMB72,527.0 million, respectively, representing 67.0% and 69.1%, respectively, of our total loans to customers as of those dates.

GENERAL FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Economic Condition of the PRC and Heilongjiang Province

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

In recent years, the PRC government has implemented a series of macroeconomic and monetary policies, including (i) changing the benchmark interest rates and the PBOC statutory deposit reserve ratio applicable to commercial banks; (ii) imposing lending limits to control the growth of bank borrowings; (iii) imposing restrictions on personal residential mortgage loans and loans to property developers to prevent overheating real estate market; and (iv) promoting the growth of certain industries or controlling

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overheating and overcapacity in certain other industries by giving industry development guidelines. Many of these policies have had a significant impact on lending activities and the demand for and access to bank financing, which in turn has materially affected our financial condition and results of operations.

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

Interest Rate Environment

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

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

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a second-home buyer shall not be lower than 110% of the PBOC benchmark lending rate. Adjustments to the PBOC benchmark rates have significantly affected the average interest rates for our loans and deposits, which in turn have impacted our net interest income.

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

Regulatory Environment

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

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

Competitive Landscape in the Banking Industry in the PRC

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

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SUMMARY OF KEY FINANCIAL AND OPERATING INDICATORS OF OUR BANK

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

	For the year ended 31 December			For the nine months ended 30 September
	2010	2011	2012	2013
Profitability indicators				
Return on average total assets ⁽¹⁾⁽³⁾	1.17%	1.12%	1.20%	1.19%
Return on average equity ⁽²⁾⁽³⁾	27.64%	22.57%	20.35%	17.67%
Net interest spread ⁽³⁾⁽⁴⁾	3.38%	3.27%	3.06%	2.49%
Net interest margin ⁽³⁾⁽⁵⁾	3.34%	3.29%	3.09%	2.55%
Net fee and commission income to operating income ratio	3.58%	7.61%	8.80%	14.71%
Cost-to-income ratio ⁽⁶⁾	39.11%	33.80%	34.51%	34.23%
	As of 31 December			As of 30 September
	2010	2011	2012	2013
Capital adequacy indicators⁽⁷⁾				
Core capital adequacy ratio	9.04%	11.37%	11.94%	12.04%
Capital adequacy ratio	11.75%	12.61%	12.97%	13.04%
Assets quality indicators				
Non-performing loans ratio ⁽⁸⁾	0.79%	0.62%	0.64%	0.86%
Impairment coverage ratio ⁽⁹⁾	192.60%	347.16%	353.52%	263.01%
Impairment losses on loans ⁽¹⁰⁾	1.53%	2.14%	2.25%	2.26%
Other indicators				
Loan-to-deposit ratio	47.86%	46.92%	46.75%	54.94%

Notes:

- (1) Represents the net profit for a period as a percentage of the average balance of total assets at the beginning and the end of that period.
- (2) Represents the net profit attributable to our equity shareholders for a period as a percentage of the average balance of total equity attributable to equity holders of the parent company at the beginning and at the end of that period.
- (3) Calculated with the annualised benchmark.
- (4) Calculated as the difference between the average yield on total interest-earning assets and the average cost on total interest-bearing liabilities, calculated based on the daily average of the interest-earning assets and interest-bearing liabilities.
- (5) Calculated by dividing net interest income by average interest-earning assets, calculated based on the daily average of the interest-earning assets.
- (6) Calculated with the operating cost after the business tax and surcharges and divided by the operating income.
- (7) Calculated pursuant to the Capital Adequacy Measures and other relevant regulations in the PRC and in accordance with the PRC GAAP. Core capital adequacy ratio = (core capital – core capital deductions) / (risk-weighted assets + 12.5 x capital charge for market risk); capital adequacy ratio = (capital – capital deductions) / (risk-weighted assets + 12.5 x capital charge for market risk). Since 2013, we have calculated and disclosed the capital adequacy ratio in accordance with the New Capital Adequacy Measures. Core tier 1 capital adequacy rate = (core tier 1 capital – corresponding capital deductions) / risk-weighted assets; tier 1 capital adequacy rate = (tier 1 capital – corresponding capital deductions) / risk-weighted assets; capital adequacy ratio = (total capital – corresponding capital deductions) / risk-weighted assets. According to the New Capital Adequacy Measures, our core tier 1 capital adequacy ratio, tier 1 capital adequacy ratio and capital adequacy ratio were 11.65%, 11.65% and 13.24%, respectively, as of 30 September 2013.
- (8) Calculated with the total non-performing loans divided by the total loan to customers.
- (9) Calculated with the allowance for impairment loss divided by the total non-performing loans.
- (10) Calculated with the allowance for impairment loss on loan divided by the total loan to customers.

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

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

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

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

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RESULTS OF OPERATIONS

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

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

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

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

Net Interest Income

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

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

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

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

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

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

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

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Notes:

- (1) Include available-for-sale financial assets, held-to-maturity investments and investments in receivables.
- (2) Include due from banks and other financial institutions and financial assets held under reverse repurchase agreements.
- (3) Include due to banks and other financial institutions and financial assets sold under reverse repurchase agreements.
- (4) Net interest spread represents the difference between the average yield on total interest-earning assets and the average cost on total interest-bearing liabilities, calculated based on the daily average of the interest-earning assets and interest-bearing liabilities.
- (5) Net interest margin is calculated by dividing annual net interest income per year by the average interest-earning assets, calculated based on the daily average of the interest-earning assets.
- (6) Calculated as the average of our daily balances.
- (7) Calculated on an annualised basis.

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

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

Notes:

- (1) Represents the average balance for the period minus the average balance for the previous period, multiplied by the average yield/cost for such previous period.
- (2) Represents the average yield/cost for the period minus the average yield/cost for the previous period, multiplied by the average balance for such period.
- (3) Represents interest income/expense for the period minus interest income/expense for the previous period.

Interest Income

Our interest income for the nine months ended 30 September 2013 was RMB10,326.8 million, representing an increase of 10.0% compared to RMB9,389.1 million for the nine months ended 30 September 2012. The increase in our interest income was primarily due to an increase of 25.2% in the average balance of interest-earning assets from RMB205,921.8 million for the nine months ended 30 September 2012 to RMB257,858.8 million for the same period in 2013, which in turn was mainly the result of an increase in our loans and advances to customers. This increase was partially offset by a

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decrease in the average yield of interest-earning assets from 6.08% for the nine months ended 30 September 2012 to 5.34% for the same period in 2013 primarily attributable to decreases in the average yields of our loans and advances to customers, investments in debt securities, cash and balances with central bank and due from banks and other financial institutions.

Interest Income from Loans and Advances to Customers

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

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

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

Notes:

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

(2) Calculated on an annualised basis.

Interest Income from Corporate Loans

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

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Interest Income from Personal Loans

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

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

Interest Income from Debt Securities Investments

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

Interest Income from Cash and Balances with Central Bank

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

Interest Income from Due from Banks and Other Financial Institutions

Due from banks and other financial institutions consist of due from banks and other financial institutions, and financial assets held under reverse repurchase agreements. Interest income from due from banks and other financial institutions for the nine months ended 30 September 2013 was RMB2,871.5 million, representing an increase of 13.3% compared to RMB2,535.5 million for

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

Interest Expense

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

Interest Expense on Due to Customers

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

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

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

Notes:

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

(2) Calculated on an annualised basis.

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

Interest Expense on Due to Banks and Other Financial Institutions

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

Interest Expense on Debt Securities Issued

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

Interest Expense on Due to Central Bank

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

Net Interest Spread and Net Interest Margin

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

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

Fee and Commission Income

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

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

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

Advisory and Consultancy Fee

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

Settlement Fee

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

Agency and Custodian Fee

Agency and custodian fee income consists primarily of income from trust fund custody business, income from wealth management business as well as fee income from underwriting of bonds and from the sale of insurances and funds for other financial institutions as their agent. Fee income from our agency

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and custodian services increased by 48.4% from RMB295.7 million for the nine months ended 30 September 2012 to RMB438.8 million for the nine months ended 30 September 2013, mainly as a result of the development of our trust fund custody business and wealth management business.

Bank Card Fee

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

Others

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

Fee and Commission Expense

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

Net Fee and Commission Income

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

Net Trading Income

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

Net Gain or Loss on Financial Investments

We had net losses on financial investments of RMB34.2 million for the nine months ended 30 September 2013, representing a 53.4% decrease compared to net losses of RMB73.4 million for the

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same period in 2012. The decrease in our net loss on financial investment was due to fluctuations of the bond market and a decrease of bond trading volumes.

Other Operating Income, Net

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

Operating Expenses

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

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

Note:

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

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

Staff Costs

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

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

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

Note:

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

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

Business Tax and Surcharges

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

Depreciation and Amortisation

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

Other Expenses

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

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

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

Impairment Losses

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

	For the nine months ended 30 September	
	2012	2013
	(unaudited)	
	(in millions of RMB)	
Loans and advances to customers	809.7	422.1
Others ⁽¹⁾	—	—
Total impairment losses	<u>809.7</u>	<u>422.1</u>

Note:

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

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

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

Profit Before Tax

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

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Income Tax Expense

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

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

Notes:

- (1) Represent the non-deductible losses from write-offs.
 (2) Consists primarily of income from the PRC treasury bonds, which are exempted from income tax under the PRC tax regulations.

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

Profit for the Period

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

Years Ended 31 December 2010, 2011 and 2012

Net Interest Income

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

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

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

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

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

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

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

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

Notes:

- (1) Include available-for-sale financial assets, held-to-maturity investments and investments in receivables.
- (2) Include due from banks and other financial institutions and financial assets held under reverse repurchase agreements.
- (3) Include due to banks and other financial institutions and financial assets sold under repurchase agreements.
- (4) Net interest spread represents the difference between the average yield on total interest-earning assets and the average cost on total interest-bearing liabilities, calculated based on the daily average of the interest-earning assets and interest-bearing liabilities.
- (5) Net interest margin is calculated dividing net interest income by the average interest-earning assets, calculated based on the daily average of the interest-earning assets.
- (6) Calculated as the average of our daily balances.

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

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

Notes:

- (1) Represents the average balance for the year minus the average balance for the previous year, multiplied by the average yield/cost for such previous year.
- (2) Represents the average yield/cost for the year minus the average yield/cost for the previous year, multiplied by the average balance for such year.
- (3) Represents interest income/expense for the year minus interest income/expense for the previous year.

Interest Income

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

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

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yields of our loans and advances to customers, debt securities investments and due from banks and other financial institutions.

Interest Income from Loans to Customers

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

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

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

Note:

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

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

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

Interest income from corporate loans

Interest income from corporate loans for the year ended 31 December 2012 was RMB3,086.8 million, representing an increase of 67.0% compared to RMB1,848.7 million for the year ended 31 December 2011, primarily due to an increase of 57.2% in the average balance of our corporate loans to RMB41,246.7 million in 2012 from RMB26,244.8 million in 2011, and an increase in the average yield of corporate loans from 7.04% in 2011 to 7.48% in 2012. The growth in our average

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balance of corporate loans principally resulted from an increase in our loans to corporate customers. In particular, we increased loans to SMEs, following the national policy on promoting the development of SMEs. The increase in the average yield of corporate loans was primarily due to (i) increases in the average lending rates of certain of our corporate loans we re-priced in 2012 as a result of the increased benchmark lending rate of Renminbi-denominated loans, and (ii) an increase in the scale and proportion of loans with higher average yields, such as loans to Small Enterprises.

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

Interest income from personal loans

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

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

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Interest income from discounted bills

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

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

Interest Income from Debt Securities Investments

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

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

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

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Interest Income from Cash and Balances with Central Bank

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

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

Interest Income from Due from Banks and Other Financial Institutions

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

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

Interest Expense

Our interest expense for the year ended 31 December 2012 was RMB6,334.8 million, representing an increase of 86.4% compared to RMB3,398.7 million for the year ended 31 December 2011, primarily due to an increase of 47.2% in the average interest-bearing liabilities from RMB145,053.7 million in 2011 to RMB213,528.5 million in 2012, and an increase in the average cost of interest-bearing liabilities from 2.34% in 2011 to 2.97% in 2012. The increase in the average cost of interest-bearing liabilities was

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primarily due to an increase in the average cost of our due to customers, partially offset by a decrease in the average cost of due to banks and other financial institutions and debt securities issued.

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

Interest Expense on Due to Customers

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

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

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

Note:

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

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

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

Interest Expense on Due to Banks and Other Financial Institutions

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

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

Interest Expense on Debt Securities Issued

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

Interest Expense on Due to Central Bank

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

Net Interest Spread and Net Interest Margin

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

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

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

Net Fee and Commission Income

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

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

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

Advisory and Consultancy Fee

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

Settlement Fee

Settlement fee income increased by 27.5% from RMB45.9 million for the year ended 31 December 2010 to RMB58.5 million for the year ended 31 December 2011, and further increased by 62.9% to RMB95.3 million for the year ended 31 December 2012. These increases were primarily due to our

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commitment to improving the quality of our customer service and stable expansion of our business scale and customer base, which resulted in growth of the transaction volume of our settlement businesses.

Agency and Custodian Fee

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

Bank Card Fee

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

Others

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

Fee and Commission Expense

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

Net Trading Income

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

Net Gain or Loss on Financial Investments

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

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Other Operating Income, Net

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

Operating Expenses

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

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

Note:

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

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

Staff Costs

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

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

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

Note:

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

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

Business Tax and Surcharges

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

Depreciation and Amortisation

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

Other Expenses

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

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

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

Impairment Losses

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

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

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

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

Note:

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

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

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

Profit Before Tax

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

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Income Tax Expense

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

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

Notes:

- (1) Represents primarily the non-deductible losses from write-offs.
- (2) Consists primarily of interest income from the PRC treasury bonds, which are exempted from income tax under the PRC tax regulations.

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

Net Profit for the Year

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

Summary of Segment Operating Results

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

Summary of Business Segment Data

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

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

	For the year ended 31 December						For the nine months ended 30 September			
	2010		2011		2012		2012		2013	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
(unaudited)										
(in millions of RMB, except percentages)										
Corporate banking										
business	1,502.5	46.3	2,000.2	36.9	2,585.6	33.5	1,722.4	31.4	2,034.7	34.3
Personal banking										
business	1,309.0	40.3	1,947.6	36.0	2,228.7	28.9	1,808.8	33.0	1,761.4	29.7
Treasury business	377.4	11.6	1,425.6	26.3	2,808.6	36.4	1,907.1	34.8	2,111.8	35.7
Other businesses ⁽¹⁾ . . .	56.5	1.8	40.6	0.8	88.4	1.2	40.7	0.8	15.7	0.3
Total operating income	3,245.4	100.0	5,414.0	100.0	7,711.3	100.0	5,479.0	100.0	5,923.6	100.0

Note:

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

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

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

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

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	For the year ended 31 December				
	2012				
	Corporate banking	Personal banking	Treasury	Other businesses ⁽¹⁾	Total
	(in millions of RMB)				
External net interest income / (expense) ⁽²⁾	1,499.4	1,939.2	3,219.8	–	6,658.4
Inter-segment interest income / (expense) ⁽³⁾	1,003.5	286.0	(1,289.5)	–	–
Net fee and commission income	65.6	3.5	609.6	–	678.7
Other net income ⁽⁴⁾	17.1	–	268.7	88.4	374.2
Operating income	<u>2,585.6</u>	<u>2,228.7</u>	<u>2,808.6</u>	<u>88.4</u>	<u>7,711.3</u>
	For the year ended 31 December				
	2011				
	Corporate banking	Personal banking	Treasury	Other businesses ⁽¹⁾	Total
External net interest income / (expense) ⁽²⁾	1,127.4	1,761.3	1,929.4	–	4,818.1
Inter-segment interest income / (expense) ⁽³⁾	843.2	193.5	(1,036.7)	–	–
Net fee and commission income	40.1	(7.2)	378.9	–	411.8
Other net income ⁽⁴⁾	(10.5)	–	154.0	40.6	184.1
Operating income	<u>2,000.2</u>	<u>1,947.6</u>	<u>1,425.6</u>	<u>40.6</u>	<u>5,414.0</u>
	For the year ended 31 December				
	2010				
	Corporate banking	Personal banking	Treasury	Other businesses ⁽¹⁾	Total
External net interest income / (expense) ⁽²⁾	914.6	1,208.2	833.1	–	2,955.9
Inter-segment interest income / (expense) ⁽³⁾	555.7	106.9	(662.6)	–	–
Net fee and commission income	39.8	(6.1)	82.5	–	116.2
Other net income ⁽⁴⁾	(7.6)	–	124.4	56.5	173.3
Operating income	<u>1,502.5</u>	<u>1,309.0</u>	<u>377.4</u>	<u>56.5</u>	<u>3,245.4</u>

Notes:

- (1) Include net trading income, net gain or loss on financial investments and other net operating income.
- (2) Represents net interest income and expense from third parties.
- (3) Represents net interest income and expenses from transfer of capital between segments.
- (4) Include net trading income, net gain or loss on financial investments and other net operating income.

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

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Summary of Segment Information by Geographical Regions

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

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

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

	For the year ended 31 December						For the nine months ended 30 September			
	2010		2011		2012		2012		2013	
		% of		% of		% of		% of		% of
	Amount	total	Amount	total	Amount	total	Amount	total	Amount	total
(Unaudited)										
(in millions of RMB, except percentages)										
Heilongjiang region	2,779.3	85.6	4,224.5	78.0	5,020.0	65.1	3,932.2	71.8	3,840.3	64.8
Other Northeast region	246.8	7.6	424.3	7.8	872.2	11.3	541.2	9.9	656.1	11.1
Southwest region	59.4	1.8	352.1	6.5	1,122.7	14.6	611.7	11.2	897.0	15.1
Northern China	147.7	4.6	370.7	6.9	559.6	7.3	302.4	5.5	376.9	6.4
Other regions	12.2	0.4	42.4	0.8	136.8	1.7	91.5	1.6	153.3	2.6
Total operating income	3,245.4	100.0	5,414.0	100.0	7,711.3	100.0	5,479.0	100.0	5,923.6	100.0

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

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

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

CASH FLOW

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

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

Cash Flows From (Used in) Operating Activities

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

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sold under repurchase agreements amounted to RMB5,139.9 million for the year ended 31 December 2012. For the years ended 31 December 2010 and 2011, our cash inflows attributable to net increase in amounts under repurchase agreements were RMB2,871.6 million and RMB25,100.8 million, respectively.

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

Cash Flows From (Used in) Investing Activities

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

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

Cash Flows From (Used in) Financing Activities

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

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LIQUIDITY

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

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

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

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

CAPITAL RESOURCES

Shareholders' Equity

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

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

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

Capital Adequacy

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

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

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

Note:

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

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

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

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

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

INDEBTEDNESS

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

- (a) the callable subordinated bonds issued in December 2009 with a total principal amount of RMB1,000 million at a coupon rate of 6.00% due on 9 December 2019;
- (b) the financial bonds issued in May 2012 with a total principal amount of RMB2,500 million at a coupon rate of 4.55% due on 16 May 2017;
- (c) deposits from customers and other banks and position in the monetary market, as well as the balance of financial assets sold under repurchase agreements arising from our ordinary course of business; and
- (d) loan commitments, acceptances, letters of credit and guarantees issued, other operating and leasing commitments and contingencies arising from our ordinary course of business.

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

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

OFF-BALANCE SHEET COMMITMENTS

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

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

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

Notes:

- (1) Refers to the future minimum rentals payable under the non-cancellable operating lease contracts.
- (2) We were commissioned by the MOF as issuance agency for its treasury bonds. Holders of treasury bonds might at any time request early redemption of the treasury bonds held by them, and we were liable for acceptance and repayment of such treasury bonds for the amounts of their principals and interests payable up to the redemption date. We expect that the amounts of the treasury bonds to be redeemed by us prior to maturity would be insignificant.
- (3) We became a member of the Asia Financial Cooperation Association on 31 December 2012. The risk cooperation fund established by the association was divided into equal portions with each portion amounting to RMB100 million at its establishment. We subscribed for two portions with 10% of the consideration made by cash contribution and 90% made by fulfilment of cooperation obligation, pursuant to which we have the obligation to provide assistance to members, to the extent of RMB180 million in the form of due to banks and other financial institutions or otherwise determined by the Asia Financial Cooperation Association.

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

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

RELATED PARTY TRANSACTIONS

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

QUANTITATIVE AND QUALITATIVE ANALYSIS OF MARKET RISK

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

Interest Rate Risk

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

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

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

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Interest Rate Repricing Analysis

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

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

Sensitivity Analysis

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

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

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

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

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

Foreign Exchange Risk

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

FINANCIAL INFORMATION

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

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

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Sensitivity analysis

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

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

Financial Derivatives

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

CAPITAL EXPENDITURES

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

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

CRITICAL ACCOUNTING JUDGEMENTS AND ACCOUNTING ESTIMATES

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

Classification of Held-to-maturity Investments

Held-to-maturity investments are the non-derivative financial assets which we have an explicit intention and ability to hold to maturity, and which have fixed or determinable recoverable amounts and

FINANCIAL INFORMATION

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

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

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

Income Taxes

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

Fair Value of Financial Instruments

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

Early-Retirement Benefit Liabilities

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

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RECENT ACCOUNTING PRONOUNCEMENTS

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

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

Notes:

- (1) Effective for annual periods beginning on or after 1 January 2014.
(2) Effective for annual periods beginning on or after 1 January 2015.

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

RULES 13.13 TO 13.19 OF THE HONG KONG LISTING RULES

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

DIVIDEND POLICY

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

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

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

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

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

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

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

FINANCIAL INFORMATION

UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

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

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

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

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

Notes:

- (1) The consolidated net tangible assets attributable to shareholders of our Bank as of 30 September 2013 is compiled based on the Accountants' Report set out in "Appendix I – Accountants' Report" to this prospectus, which is calculated according to the audited consolidated net assets attributable to shareholders of our Bank at 30 September 2013 of RMB18,816 million with an adjustment for intangible assets of RMB37,493 thousand as of 30 September 2013, respectively.
- (2) The estimated net proceeds from the Global Offering are based on the Offer Prices of HK\$2.89 per Offer Share and HK\$3.33 per Offer Share after deduction of the underwriting fees and other related expenses payable by our Bank, and do not take into account any offer shares which may be issued upon the exercise of the Over-allotment Option.
- (3) The unaudited pro forma adjusted consolidated net tangible assets attributable to shareholders of our Bank do not take into account the effect of the profit for the period from and including 1 October 2013 to the date immediately preceding the date of the Global Offering and the distribution of such profit to the shareholders during that period.
- (4) The unaudited pro forma adjusted consolidated net tangible assets per share are arrived at adjustments referred to in note (2) above on the basis that 10,995,599,553 shares (comprising 8,246,899,553 shares issued and outstanding on 30 September 2013 and 2,748,700,000 shares to be newly issued pursuant to the Global Offering) are issued and outstanding following the completion of the Global Offering and that the Over-allotment Option is not exercised.
- (5) The translation of Renminbi into Hong Kong dollars has been made at the rate of RMB0.79004 to HK\$1.00, the medium rate set by SAFE for foreign exchange transactions prevailing on 10 March 2014. No representation is made that the Hong Kong dollar amounts have been, could have been or could be converted to Renminbi, or *vice versa*, at that rate or at any other rates or at all.

NO MATERIAL ADVERSE CHANGE

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

WORKING CAPITAL

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

FUTURE PLANS AND USE OF PROCEEDS

OUR FUTURE PLANS AND PROSPECTS

See “Business – Our Strategies” for a detailed description of our future plans and strategies.

USE OF PROCEEDS

- Assuming an Offer Price of HK\$2.89, being the low-end of the proposed Offer Price range, we estimate that the net proceeds of the Global Offering accruing to us (after deduction of underwriting commissions and estimated expenses payable by us in relation to the Global Offering) and the net proceeds from the sale of H shares by the Selling Shareholders in the Global Offering to be approximately HK\$7,695.1 million and HK\$786.4 million, respectively, if the Over-allotment Option is not exercised; or approximately HK\$8,860.4 million and HK\$904.3 million, respectively, if the Over-allotment Option is exercised in full.
- Assuming an Offer Price of HK\$3.11, being the mid-point of the proposed Offer Price range of HK\$2.89 to HK\$3.33, we estimate that the net proceeds of the Global Offering accruing to us (after deduction of underwriting commissions and estimated expenses payable by us in relation to the Global Offering) and the net proceeds from the sale of H shares by the Selling Shareholders in the Global Offering to be approximately HK\$8,286.5 million and HK\$846.2 million, respectively, if the Over-allotment Option is not exercised; or to be approximately HK\$9,540.5 million and HK\$973.2 million, respectively, if the Over-allotment Option is exercised in full.
- Assuming an Offer Price of HK\$3.33, being the high-end of the proposed Offer Price range, we estimate that the net proceeds of the Global Offering accruing to us (after deduction of underwriting commissions and estimated expenses payable by us in relation to the Global Offering) and the net proceeds from the sale of H shares by the Selling Shareholders in the Global Offering to be approximately HK\$8,877.9 million and HK\$906.1 million, respectively, if the Over-allotment Option is not exercised; or to be approximately HK\$10,220.7 million and HK\$1,042.0 million, respectively, if the Over-allotment Option is exercised in full.

In each of the above scenarios, we will not receive any of the proceeds from the sale of the Sale Shares by the Selling Shareholders in the Global Offering. See “Share Capital – Transfer of Shares to the NSSF”.

We expect to use the net proceeds from the Global Offering to strengthen our capital base to support the on-going growth of our business.

UNDERWRITING

HONG KONG UNDERWRITERS

China International Capital Corporation Hong Kong Securities Limited
Credit Suisse (Hong Kong) Limited
BOCI Asia Limited
ABCI Securities Company Limited
Deutsche Bank AG, Hong Kong Branch
DBS Asia Capital Limited
Haitong International Securities Company Limited
CIMB Securities Limited
BOCOM International Securities Limited
China Merchants Securities (HK) Co., Limited
CCB International Capital Limited
Oriental Patron Securities Limited
CMB International Capital Limited
RHB OSK Securities Hong Kong Limited
Convoy Investment Services Limited
Core Pacific – Yamaichi International (H.K.) Limited
Prudential Brokerage Limited
Shenyin Wanguo Capital (H.K.) Limited
Tung Shing Securities (Brokers) Limited
Guosen Securities (HK) Capital Company Limited
Bright Smart Securities International (H.K.) Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Hong Kong Public Offering

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, our Bank is offering initially 302,358,000 Hong Kong Offer Shares for subscription by the public in Hong Kong on and subject to the terms and conditions of this prospectus and the Application Forms. Subject to the Listing Committee granting listing of, and permission to deal in, our H Shares in issue and to be offered as mentioned herein and to certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have agreed severally and not jointly to subscribe or procure subscribers for their respective applicable proportions of the Hong Kong Offer Shares now being offered which are not taken up under the Hong Kong Public Offering on and subject to the terms and conditions of this prospectus, the Application Forms and the Hong Kong Underwriting Agreement. The Hong Kong Underwriting Agreement is conditional upon and subject to, among other things, the International Underwriting Agreement having been signed and becoming unconditional and not having been terminated in accordance with its terms.

One of the conditions is that the Offer Price must be agreed between us and the Joint Global Coordinators, on behalf of the Hong Kong Underwriters. For applicants applying under the Hong Kong Public Offering, this prospectus and the Application Forms contain the terms and conditions of the Hong Kong Public Offering. The International Offering will be fully underwritten by the International Underwriters. If, for any reason, the Offer Price is not agreed between us and the Joint Global Coordinators, on behalf of the Hong Kong Underwriters, the Global Offering will not proceed.

Grounds for Termination

The obligations of the Hong Kong Underwriters to subscribe or procure subscribers for the Hong Kong Offer Shares under the Hong Kong Underwriting Agreement are subject to termination, if, at any

UNDERWRITING

time prior to 8:00 a.m. on the day that trading in our H Shares commences on the Hong Kong Stock Exchange any of the events set out below shall occur:

- any new law or regulation or any change or development involving a prospective change in existing law or regulation, or any change or development involving a prospective change in the interpretation or application thereof by any court or other competent authority in or affecting Hong Kong, the PRC, Singapore, Russia, the United States, the United Kingdom, the European Union (or any member thereof) or Japan (each a “Relevant Jurisdiction”);
- any change or development involving a prospective change or development, or any event or series of events likely to result in or representing a change or development, or prospective change or development, in local, national, regional or international financial, political, military, industrial, economic, currency market, fiscal or regulatory or market conditions or any monetary or trading settlement system (including, without limitation, conditions in stock and bond markets, money and foreign exchange markets and inter-bank markets, a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States or a devaluation of the Hong Kong dollars or an appreciation of the Renminbi against any foreign currencies) in or affecting any Relevant Jurisdiction;
- any event or series of events in the nature of force majeure (including, without limitation, acts of government, labour disputes, strikes, lock-outs, fire, explosion, flooding, civil commotion, riots, public disorder, acts of war, acts of terrorism (whether or not responsibility has been claimed), acts of God, accident or interruption in transportation, outbreak of diseases or epidemics including, but not limited to, SARS, swine or avian flu, H5N1, H1N1, H1N7, H7N9 and such related/mutated forms, economic sanction, in whatever form) in or directly or indirectly affecting any Relevant Jurisdiction;
- any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared) or other state of emergency or calamity or crisis in or affecting any Relevant Jurisdiction;
- any moratorium, suspension or limitation (including, without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) on trading in shares or securities generally on the Hong Kong Stock Exchange, the New York Stock Exchange, the Nasdaq Global Market, the London Stock Exchange, the Singapore Stock Exchange, the Shanghai Stock Exchange, the Shenzhen Stock Exchange or the Tokyo Stock Exchange;
- any moratorium, suspension or restriction (including, without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) in or on trading in any securities of any other member of the Group listed or quoted on a stock exchange or an over-the-counter market;
- any general moratorium on commercial banking activities in Hong Kong (imposed by the Financial Secretary or the Hong Kong Monetary Authority or other competent Governmental Authority), New York (imposed at Federal or New York State level or other competent Governmental Authority), Russia, London, Singapore, the PRC, the European Union (or any member thereof), Japan or any disruption in commercial banking or foreign exchange trading or securities settlement or clearance services, procedures or matters in any Relevant Jurisdiction;
- any change or prospective change in exchange controls, currency exchange rates or foreign investment regulations, or any change or prospective change in Taxation (as defined in the Hong Kong Underwriting Agreement) in any Relevant Jurisdiction adversely affecting an investment in the H Shares;

UNDERWRITING

- the issue or requirement to issue by the Bank of a supplemental or amendment to this prospectus, Application Forms, preliminary offering circular or offering circular of the Bank or other documents in connection with the offer and sale of the H Shares pursuant to the Companies (Winding up and Miscellaneous Provisions) Ordinance or the Hong Kong Listing Rules or upon any requirement or request of the Hong Kong Stock Exchange or the SFC, in circumstances where the matter to be disclosed could, in the opinion of the Joint Global Coordinators, adversely affect the marketing for or implementation of the Global Offering;
- any litigation or claim being threatened or instigated against any member of the Group, any Director or any Supervisor;
- a Governmental Authority (as defined in the Hong Kong Underwriting Agreement) or a regulatory body or organisation in any Relevant Jurisdiction commencing any investigation or other action or proceedings, or announcing an intention to investigate or take other action or proceedings, against any member of the Group, any Director or any Supervisor;
- any of the chairman or president vacating his office, any Director or Supervisor being charged with an indictable offence or prohibited by operation of any laws, rules, regulations, guidelines, opinions, notices, circulars, orders, codes, policies, consents, judgments, decrees or rulings of any court, government, law enforcement agency, governmental or regulatory authority whether national, provincial, municipal or local, domestic or foreign (including, without limitation, the Hong Kong Stock Exchange and the SFC) of all relevant jurisdictions (including, without limitation, Hong Kong and the PRC) or otherwise disqualified from taking part in the management of a company;
- any material adverse change or prospective material adverse change in the earnings, results of operations, business, business prospects, financial or trading position, conditions (financial or otherwise) or prospects of any member of the Group (including any litigation or claim of any third party being threatened or instigated against any member of the Group);
- any petition being presented for the winding-up or liquidation of any member of the Group, or any member of the Group making any composition or arrangement with its creditors or entering into a scheme of arrangement or any resolution being passed for the winding-up of any member of the Group or a provisional liquidator, receiver or manager being appointed over all or part of the assets or undertaking of any member of the Group or anything analogous thereto occurs in respect of any member of the Group;
- a governmental or regulatory prohibition on the Bank for whatever reason from allotting or selling the H Shares (including the H Shares which may be issued upon exercise of the Over-allotment Option) pursuant to the terms of the Global Offering; or

which, in any such case individually or in the aggregate, in the sole and absolute opinion of the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters):

- is or will be or may be materially adverse to, or materially and prejudicially affects, the assets, liabilities, business, general affairs, management, shareholder's equity, profit, losses, results of operations, position or condition (financial or otherwise), or prospects of the Bank or the Group as a whole;
- has or will have or may have a material adverse effect on the success of the Global Offering or the level of Offer Shares being applied for or accepted or subscribed for or purchased or the distribution of Offer Shares and/or has made or is likely to make or may make it impracticable or inadvisable or incapable for any material part of the Hong Kong Underwriting Agreement,

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the Hong Kong Public Offering or the Global Offering to be performed or implemented as envisaged;

- makes or will make it or may make it impracticable or inadvisable or incapable to proceed with the Hong Kong Public Offering and/or the Global Offering or the delivery of the Offer Shares on the terms and in the manner contemplated by this prospectus, the Application Forms or the formal notice of the Bank;
- would have or may 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

there has come to the notice of the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, or any of the Hong Kong Underwriters:

- that any statement contained in the Hong Kong Public Offering Documents (as defined in the Hong Kong Underwriting Agreement), the PHIP (as defined in the Hong Kong Underwriting Agreement) and/or any notices, announcements, advertisements, communications issued or used by or on behalf of the Bank in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) was or has become untrue, incomplete, incorrect or misleading or any forecasts, estimate, expressions of opinion, intention or expectation expressed in the Hong Kong Public Offering Documents, the PHIP and/or any notices, announcements, advertisements, communications so issued or used are not fair and honest and made on reasonable grounds or, where appropriate, based on reasonable assumptions, when taken as a whole;
- any contravention by any Group member or any Director or any Supervisor of the Companies (Winding up and Miscellaneous Provisions) Ordinance or the Hong Kong Listing Rules or any material contravention by any Group member or any Director or any Supervisor of the Companies Ordinance or the PRC Company Law;
- 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 Hong Kong Listing Rules or any other applicable law or regulation;
- any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, not having been disclosed in this prospectus, constitutes a material omission therefrom;
- either (i) there has been a breach of any of the representations, warranties, undertakings or provisions of the Hong Kong Underwriting Agreement or the International Underwriting Agreement, as applicable, by the Bank or (ii) any of the representations, warranties and undertakings given by the Bank in the Hong Kong Underwriting Agreement or the International Underwriting Agreement, as applicable, is (or would when repeated be) untrue, incorrect, incomplete or misleading;
- any of Ernst & Young, or any of the counsel or advisor of the Bank or other experts has withdrawn its respective consent to the issue of this prospectus with the inclusion of its reports, letters, summaries of valuations and/or legal opinions (as the case may be) and references to its name included in the form and context in which it respectively appears;
- any event, act or omission which gives or is likely to give rise to any liability of the Bank pursuant to the indemnities given by the Bank under the Hong Kong Underwriting Agreement

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if such liability materially and adversely affects the business or financial positions of the Group;

- any litigation or dispute or potential litigation or dispute, which would materially and adversely affect the operation, financial condition, reputation of the Group, or the composition of the board of the Bank;
- any breach of any of the obligations of the Bank under the Hong Kong Underwriting Agreement or the International Underwriting Agreement;
- the investment commitments by any cornerstone investors after signing of agreements with such cornerstone investors, have been withdrawn, terminated or cancelled;
- any person (other than the Joint Sponsors) has withdrawn its consent to being named in any of the Hong Kong Public Offering Documents or to the issue of any of the Hong Kong Public Offering Documents;
- any material adverse change or prospective material adverse change or development involving a prospective material adverse change in the assets, business, general affairs, management, shareholder's equity, profits, losses, properties, results of operations, in the position or condition (financial or otherwise) or prospects of the Bank and its subsidiaries; or
- the Bank has withdrawn this prospectus (and/or any other documents issued or used in connection with the Global Offering) or the Global Offering.

Undertakings to the Hong Kong Stock Exchange pursuant to the Hong Kong Listing Rules

Undertakings by Us

We have undertaken to the Hong Kong Stock Exchange that, except in certain circumstances prescribed by Rule 10.08 of the Hong Kong Listing Rules, the Global Offering and the Over-allotment Option, no further shares or securities convertible into securities of our Bank (whether or not of a class already listed) 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 securities will be completed within six months from the Listing Date).

Undertakings pursuant to the Hong Kong Underwriting Agreement

Undertakings by Us

We have also undertaken to each of the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters (and are expected to undertake to the International Underwriters) that, except pursuant to the Global Offering (including pursuant to the Over-allotment Option or pursuant to any transfer of H shares to NSSF), at any time from the date of the Hong Kong Underwriting Agreement until the expiry of six months from the Listing Date (the "First Six-month Period"), we will not without the prior written consent of the Joint Sponsors and the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Hong Kong Listing Rules:

- (i) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, assign, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create an Encumbrance (as defined in the Hong Kong Underwriting Agreement) over, or agree to

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transfer or dispose of or create an Encumbrance over, either directly or indirectly, conditionally or unconditionally, or repurchase, any legal or beneficial interest in the share capital or any other securities of the Bank, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase any share capital or other securities of the Bank, as applicable), or deposit any share capital or other securities of the Bank, as applicable, with a depositary in connection with the issue of depositary receipts; or

- (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership (legal or beneficial) of H Shares or any other securities of the Bank or any shares or other securities of such other member of the Group, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any H Shares or any shares of such other member of the Group, as applicable); or
- (iii) enter into any transaction with the same economic effect as any transaction specified above; or
- (iv) offer to or agree to do or announce any intention to do any transaction specified above,

in each case, whether any of the transactions specified above is to be settled by delivery of share capital or such other securities, in cash or otherwise (whether or not the issue of such share capital or other securities will be completed within the First Six-month Period).

The Bank has further agreed that, in the event the Bank enters into any of the transactions specified above or offers to or agrees to or announces any intention to effect any such transaction, it will take all reasonable steps to ensure that such an issue or disposal will not, and no other act of the Bank will, create a disorderly or false market for any H Shares or other securities of the Bank.

The International Offering

In connection with the International Offering, it is expected that our Bank will enter into the International Underwriting Agreement with the International Underwriters. Under the International Underwriting Agreement, the International Underwriters will, subject to certain conditions set out therein, severally and not jointly, agree to procure subscribers or purchasers for the International Offer Shares, failing which they agree to subscribe for or purchase their respective proportions of the International Offer Shares which are not taken up under the International Offering.

Our Bank is expected to grant to the International Underwriters the Over-allotment Option, exercisable by the Joint Global Coordinators on behalf of the International Underwriters at any time from the date of the International Underwriting Agreement until 30 days after the last date for the lodging of applications under the Hong Kong Public Offering, to require our Bank to issue and allot and the Selling Shareholders to sell up to an aggregate of 453,530,000 additional Offer Shares representing approximately 15% of the initial Offer Shares, at the same price per Offer Share under the International Offering to cover, among other things, over-allocations (if any) in the International Offering.

It is expected that the International Underwriting Agreement may be terminated on similar grounds as the Hong Kong Underwriting Agreement. Potential investors should note that if the International Underwriting Agreement is not entered into, or is terminated, the Global Offering will not proceed.

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Total Commission and Expenses

According to the Hong Kong Underwriting Agreement, the Hong Kong Underwriters will receive an underwriting commission of 1.5% on the Offer Price of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering, out of which they will pay any sub-underwriting commission. For unsubscribed Hong Kong Offer Shares reallocated to the International Offering, our Bank will pay an underwriting commission at the rate applicable to the International Offering and such commission will be paid to the Joint Global Coordinators and the relevant International Underwriters (but not the Hong Kong Underwriters). In addition, the Company may, in its sole discretion, pay certain Underwriters an incentive fee of up to 0.5% of the Offer Price per Offer Share.

Assuming the Over-allotment Option is not exercised at all and based on an Offer Price of HK\$3.11 per H Share (being the mid-point of the indicative offer price range of HK\$2.89 to HK\$3.33 per H Share), the aggregate commissions and fees, together with listing fees, SFC transaction levy, Hong Kong Stock Exchange trading fee, legal and other professional fees and printing and other expenses, payable by our Bank relating to the Global Offering (collectively the “Commissions and Fees”) are estimated to be approximately HK\$271.5 million in total.

We have agreed to indemnify the Hong Kong Underwriters and International Underwriters for certain losses which they may suffer, including liabilities under the U.S. Securities Act, losses incurred arising from their performance of their obligations under the Underwriting Agreements and any breach by our Bank of the Underwriting Agreements.

Activities by Syndicate Members

We describe below a variety of activities that underwriters of the Hong Kong Public Offering and, together referred to as “Syndicate Members”, may each individually undertake, and which do not form part of the underwriting or the stabilising process. When engaging in any of these activities, it should be noted that the Syndicate Members are subject to restrictions, including the following:

- the Syndicate Members (except for Haitong International Securities Company Limited, as the stabilising manager, its affiliates or any person acting for it) must not, in connection with the distribution of the Offer Shares, effect any transactions (including issuing or entering into any option or other derivative transactions relating to the Offer Shares), whether in the open market or otherwise, with a view to stabilising or maintaining the market price of any of the Offer Shares at levels other than those which might otherwise prevail in the open market; and
- all of them must comply with all applicable laws, including the market misconduct provisions of the SFO, the provisions prohibiting insider dealing, false trading, price rigging and stock market manipulation.

The Syndicate Members and their affiliates are diversified financial institutions with relationships in countries around the world. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, trading, hedging, investing and other activities for their own account and for the account of others. In relation to the H Shares, those activities could include acting as agent for buyers and sellers of the H Shares, entering into transactions with those buyers and sellers in a principal capacity, proprietary trading in the H Shares and entering into over the counter or listed derivative transactions or listed and unlisted securities transactions (including issuing securities such as derivative warrants listed on a stock exchange) which have the H Shares as their or part of their underlying assets. Those activities may require hedging activity by those entities involving, directly or indirectly, buying and selling the H Shares. All such activities could occur in Hong Kong and elsewhere

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in the world and may result in the Syndicate Members and their affiliates holding long and/or short positions in the H Shares, in baskets of securities or indices including the H Shares, in units of funds that may purchase the H Shares, or in derivatives related to any of the foregoing.

In relation to issues by Syndicate Members or their affiliates of any listed securities having the H Shares as their or part of their underlying assets, whether on the Hong Kong Stock Exchange or on any other stock exchange, the rules of the relevant exchange may require the issuer of those securities (or one of its affiliates or agents) to act as a market maker or liquidity provider in the security, and this will also result in hedging activity in the H Shares in most cases.

All of these activities may occur both during and after the end of the stabilising period described in the sections headed “Structure of the Global Offering – The International Offering – Over-allotment Option” and “Information About this Prospectus and the Global Offering – Stabilisation”. These activities may affect the market price or value of the H Shares, the liquidity or trading volume in the H Shares and the volatility of their share price, and the extent to which this occurs from day to day cannot be estimated.

Hong Kong Underwriters’ Interests in Our Bank

Save as disclosed in this prospectus and save for its obligations under the Hong Kong Underwriting Agreement, none of the Hong Kong Underwriters has any shareholding interests in our Bank or the right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in our Bank.

Following the completion of the Global Offering, the Underwriters and their affiliated companies may hold a certain portion of the H Shares as a result of fulfilling their obligations under the Underwriting Agreements.

Other Services to our Bank

Certain of the Joint Global Coordinators, the Hong Kong Underwriters or their respective affiliates have, from time to time, provided and expect to provide in the future investment banking and other services to our Bank and our respective affiliates, for which such Joint Global Coordinators, Hong Kong Underwriters or their respective affiliates have received or will receive customary fees and commissions.

H Share Over-Allotment and Stabilisation

For details of the arrangements relating to the Over-allotment Option and stabilisation, see “Structure of the Global Offering – The International Offering – Stabilisation”.

Sponsors’ Independence

The Joint Sponsors satisfy the independence criteria applicable to sponsors set out in Rule 3A.07 of the Hong Kong Listing Rules.

STRUCTURE OF THE GLOBAL OFFERING

The Global Offering

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. The Global Offering comprises:

- (i) the Hong Kong Public Offering of 302,358,000 New Shares in Hong Kong as described below in the section entitled “The Hong Kong Public Offering” below; and
- (ii) the International Offering of an aggregate of initially 2,721,212,000 H Shares, comprising 2,446,342,000 New Shares offered by our Bank and 274,870,000 Sale Shares offered by the Selling Shareholders, to be offered to (i) in the United States to qualified institutional buyers in reliance on Rule 144A or another exemption from, or in transaction not subject to, the registration requirements of the U.S. Securities Act and (ii) outside the United States in reliance on Regulation S. At any time from the date of the International Underwriting Agreement until 30 days after the last day for the lodging of applications in the Hong Kong Public Offering, the Joint Global Coordinators, as representatives of the International Underwriters, have an option to require our Bank to issue and allot and the Selling Shareholders to sell up to an aggregate of 453,530,000 additional Offer Shares, comprising 412,300,000 New Shares offered by our Bank and 41,230,000 Sale Shares offered by the Selling Shareholders, representing approximately 15% of the initial number of Offer Shares to be offered in the Global Offering, at the Offer Price to, among other things, cover over-allocations in the International Offering, if any. If the Over-allotment Option is exercised in full, the additional New Shares will represent approximately 4.0% of the Company’s enlarged share capital immediately following the completion of the Global Offering and the exercise of the Over-allotment Option. In the event that the Over-allotment Option is exercised, a press announcement will be made.

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

The Offer Shares will represent approximately 27.5% of the enlarged issued share capital of the Company immediately after completion of the Global Offering without taking into account the exercise of the Over-allotment Option. If the Over-allotment Option is exercised in full, the Offer Shares will represent approximately 30.5% of the enlarged issued share capital immediately after completion of the Global Offering and the exercise of the Over-allotment Option as set out in the paragraph headed “Over-allotment Option” below.

The number of Offer Shares to be offered under the Hong Kong Public Offering and the International Offering may be subject to reallocation as described in the section headed “– Reallocation” below.

The Hong Kong Public Offering

Number of Offer Shares initially offered

Our Bank is initially offering 302,358,000 Offer Shares for subscription by the public in Hong Kong at the Offer Price, representing approximately 10.0% of the total number of Offer Shares initially available under the Global Offering.

The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors. The Hong Kong Offer Shares will represent approximately 2.7% of the Company’s registered share capital immediately after completion of the Global Offering, assuming that the Over-allotment Option is not exercised. 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.

STRUCTURE OF THE GLOBAL OFFERING

Completion of the Hong Kong Public Offering is subject to the conditions as set out in the section headed “Conditions of the Hong Kong Public Offering” below.

Allocation

Allocation of 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 initially 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: 151,179,000 Offer Shares for pool A and 151,179,000 Offer Shares for pool B. The Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for 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 Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for 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) and up to the total value in pool B. Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If Offer Shares in one (but not both) of the pools are undersubscribed, the surplus 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 Offer Shares means the price payable on application therefore (without regard to the Offer Price as finally determined). Applicants can only receive an allocation of 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 151,179,000 Offer Shares are liable to be rejected.

Reallocation and clawback

The allocation of the Offers Shares between the Hong Kong Public Offering and the International Offering is subject to adjustment. If the number of the H Shares validly applied for under the Hong Kong Public Offering represents (i) 15 times or more but less than 50 times, (ii) 50 times or more but less than 100 times, and (iii) 100 times or more the number of the H Shares initially available for subscription under the Hong Kong Public Offering, then the H Shares will be reallocated to the Hong Kong Public Offering from the International Offering. As a result of such reallocation, the total number of Offer Shares available under the Hong Kong Public Offering will be increased to 907,072,000 Offer Shares (in the case of (i)), 1,209,428,000 Offer Shares (in the case of (ii)) and 1,511,786,000 Offer Shares (in the case of (iii)), representing approximately 30%, 40% and 50% of the Offer Shares initially available under the Global Offering, respectively (before any exercise of the Over-allotment Option). In each case, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated between pool A and pool B and the number of Offer Shares allocated to the International Offering will be correspondingly reduced in such manner as the Joint Global Coordinators deem appropriate. In addition, the Joint Global Coordinators may allocate Offer Shares from the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering.

If the Hong Kong Public Offering is not fully subscribed for, the Joint Global Coordinators have the authority to reallocate all or any unsubscribed Hong Kong Offer Shares to the International Offering, in such proportions as the Joint Global Coordinators deem appropriate.

STRUCTURE OF THE GLOBAL OFFERING

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 that he and any person(s) for whose benefit he 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 it has been or will be placed or allocated Offer Shares under the International Offering.

The listing of the Offer 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\$3.33 per H Share in addition to any brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee payable on each Offer Share. If the Offer Price, as finally determined in the manner described in the section headed "Pricing of the Global Offering" below, is less than the maximum price of HK\$3.33 per H 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 the section entitled "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 Offer Shares offered

Subject to reallocation as described above, the International Offering will consist of an aggregate of 2,721,212,000 Offer Shares representing approximately 90% of the Offer Shares under the Global Offering.

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 section entitled "Pricing of the Global Offering" below 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 the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Offer Shares, and/or hold or sell its Offer Shares, after the listing of the Offer Shares on the Hong Kong Stock Exchange. Such allocation is intended to result in a distribution of the Offer Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to the benefit of our Bank 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 application 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.

STRUCTURE OF THE GLOBAL OFFERING

Over-allotment Option

In connection with the Global Offering, we and the Selling Shareholders are 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 date of the International Underwriting Agreement until 30 days after the last date for the lodging of applications under the Hong Kong Public Offering, to require our Bank to issue and allot and the Selling Shareholders to sell up to an aggregate of 453,530,000 additional Offer Shares, representing approximately 15% of the initial Offer Shares, at the same price per Offer Share under the International Offering to cover, among other things, over-allocation in the International Offering, if any. If the Over-allotment Option is exercised in full, the additional Offer Shares will represent approximately 4.0% of the Company's enlarged share capital immediately following the completion of the Global Offering and the exercise of the Over-allotment Option. In the event that the Over-allotment Option is exercised, a press announcement will be made.

Stabilisation

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for, or purchase, the securities in the secondary market, during a specified period of time, to retard and, if possible, prevent, any decline in the market price of the securities below the offer price. In Hong Kong and certain other jurisdictions, the price at which stabilisation is effected is not permitted to exceed the offer price.

In connection with the Global Offering, the Stabilising Manager or any person acting for them, on behalf of the Underwriters, may over-allocate or effect short sales or any other stabilising transactions with a view to stabilising or maintaining the market price of the H Shares at a level higher than that which might otherwise prevail in the open market. Short sales involve the sale by the Stabilising Manager of a greater number of H Shares than the Underwriters are required to purchase in the Global Offering. "Covered" short sales are sales made in an amount not greater than the Over-allotment Option. The Stabilising Manager may close out the covered short position by either exercising the Over-allotment Option to purchase additional H Shares or purchasing H Shares in the open market. In determining the source of the H Shares to close out the covered short position, the Stabilising Manager will consider, among others, the price of H Shares in the open market as compared to the price at which they may purchase additional H Shares pursuant to the Over-allotment Option. Stabilising transactions consist of certain bids or purchases made for the purpose of preventing or retarding a decline in the market price of the H Shares while the Global Offering is in progress. Any market purchases of the H Shares may be effected on any stock exchange, including the Hong Kong Stock Exchange, any over-the-counter market or otherwise, provided that they are made in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilising Manager or any person acting for it to conduct any such stabilising activity, which if commenced, will be done at the absolute discretion of the Stabilising Manager and may be discontinued at any time. Any such stabilising activity is required to be brought to an end within 30 days of the last day for the lodging of applications under the Hong Kong Public Offering. The number of the H Shares that may be over-allocated will not exceed the number of the H Shares that may be sold under the Over-allotment Option, namely, 453,530,000 H Shares, which is approximately 15% of the number of Offer Shares initially available under the Global Offering, in the event that the whole or part of the Over-allotment Option is exercised.

STRUCTURE OF THE GLOBAL OFFERING

In Hong Kong, stabilising activities must be carried out in accordance with the Securities and Futures (Price Stabilising) Rules. Stabilising actions permitted pursuant to the Securities and Futures (Price Stabilising) Rules include:

- (a) over-allocation for the purpose of preventing or minimising any reduction in the market price;
- (b) selling or agreeing to sell the H Shares so as to establish a short position in them for the purpose of preventing or minimising any deduction in the market price;
- (c) subscribing, or agreeing to subscribe, for the H Shares pursuant to the Over-allotment Option in order to close out any position established under (a) or (b) above;
- (d) purchasing, or agreeing to purchase, the H Shares for the sole purpose of preventing or minimising any reduction in the market price;
- (e) selling the H Shares to liquidate a long position held as a result of those purchases; and
- (f) offering or attempting to do anything described in (b), (c), (d) and (e) above.

Stabilising actions by the Stabilising Manager, or any person acting for it, will be entered into in accordance with the laws, rules and regulations in place in Hong Kong on stabilisation.

As a result of effecting transactions to stabilise or maintain the market price of the H Shares, the Stabilising Manager, or any person acting for it, may maintain a long position in the H Shares. The size of the long position, and the period for which the Stabilising Manager, or any person acting for it, will maintain the long position is at the discretion of the Stabilising Manager and is uncertain. In the event that the Stabilising Manager liquidates this long position by making sales in the open market, this may lead to a decline in the market price of the H Shares.

Stabilising action by the Stabilising Manager, or any person acting for it, is not permitted to support the price of the H Shares for longer than the stabilising period, which begins on the day on which trading of the H Shares commences on the Hong Kong Stock Exchange and ends on the thirtieth day after the last day for the lodging of applications under the Hong Kong Public Offering. The stabilising period is expected to end on 23 April 2014. As a result, demand for the H Shares, and their market price, may fall after the end of the stabilising period. These activities by the Stabilising Manager may stabilise, maintain or otherwise affect the market price of the H Shares. As a result, the price of the H Shares may be higher than the price that otherwise may exist in the open market. Any stabilising action taken by the Stabilising Manager, 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 stabilising period. Bids for or market purchases of the H Shares by the Stabilising Manager, or any person acting for it, may be made at a price at or below the Offer Price and therefore at or below the price paid for the H Shares by purchasers. A public announcement in compliance with the Securities and Futures (Price Stabilising) Rules will be made within seven days of the expiration of the stabilising period.

Pricing of the Global Offering

The International Underwriters will be soliciting from prospective investors indications of interest in acquiring Offer Shares in the International Offering. Prospective professional and institutional investors will be required to specify the number of 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.

STRUCTURE OF THE GLOBAL 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 Tuesday, 25 March 2014, and in any event on or before Friday, 28 March 2014, by agreement between the Joint Global Coordinators (on behalf of the Underwriters) and the 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\$3.33 per H Share and is expected to be not less than HK\$2.89 per H 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 Bank, reduce the number of Offer Shares offered in 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 Bank will, as soon as practicable following the decision to make 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 South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) and to be posted on the website of the Hong Kong Stock Exchange (www.hkexnews.hk) and on the website of our Bank (www.hrbb.com.cn) notices of the reduction. Upon issue of such a notice, the number of Offer Shares offered in the Global Offering and/or 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 Bank, will be fixed within such revised Offer Price range. Applicants should have regard to the possibility that any announcement of a 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. **Applicants under the Hong Kong Public Offering should note that in no circumstances can applications be withdrawn once submitted, even if the number of Offer Shares being offered under the Global Offering and/or the offer price range is so reduced.** In the absence of any such notice so published, the Offer Price, if agreed upon with our Bank and the Joint Global Coordinators, will under no circumstances be set outside the Offer Price range as stated in this prospectus.

In the event of a reduction in the number of Offer Shares being offered under the Global Offering, the Joint Global Coordinators may at their discretion reallocate the number of Offer Shares to be offered under the Hong Kong Public Offering and the International Offering, provided that the number of H Shares comprised in the Hong Kong Public Offering shall not be less than 5% of the total number of Offer Shares in the Global Offering. The Offer Shares to be offered in the International Offering and the Offer Shares to be offered in the Hong Kong Public Offering may, in certain circumstances, be reallocated as between these offerings at the discretion of the Joint Global Coordinators.

The net proceeds of the Global Offering accruing to our Bank (after deduction of underwriting commissions and other expenses payable by our Bank in relation to the Global Offering, assuming the Over-allotment Option is not exercised) are estimated to be approximately HK\$7,695.1 million, assuming an Offer Price per H Share of HK\$2.89, or approximately HK\$8,877.9 million, assuming an Offer Price

STRUCTURE OF THE GLOBAL OFFERING

per H Share of HK\$3.33 (or if the Over-allotment Option is exercised in full, approximately HK\$8,860.4 million, assuming an Offer Price per H Share of HK\$2.89, or approximately HK\$10,220.7 million, assuming an Offer Price per H Share of HK\$3.33).

The Offer Price for H Shares under the Global Offering is expected to be announced on Friday, 28 March 2014. 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 Friday, 28 March 2014 in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) and to be posted on the website of the Hong Kong Stock Exchange (www.hkexnews.hk) and on the website of our Bank (www.hrbb.com.cn).

Hong Kong Underwriting Agreement

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement and is conditional upon the International Underwriting Agreement being signed and becoming unconditional.

Our Bank expects to enter into the International Underwriting Agreement relating to the International Offering on or around the Price Determination Date.

These underwriting arrangements, and the respective Underwriting Agreements, are summarised in the section entitled “Underwriting”.

The Selling Shareholders

The Selling Shareholders are initially offering a total of 274,870,000 Sale Shares as part of the Global Offering. The Selling Shareholders may sell up to an aggregate of additional 41,230,000 Sale Shares if the Over-Allotment Option is exercised in full.

Pursuant to a letter issued by the NSSF (Shebaojijinf 2014 No. 27) on 17 February 2014, the NSSF instructed us, among other things, to remit the proceeds (after deducting the SFC transaction levy and Hong Kong Stock Exchange trading fee) from the sale of the Sale Shares currently registered under the names of the Selling Shareholders in the Global Offering to an account designated by the NSSF in accordance with the relevant PRC laws, rules and regulations.

H Shares will be eligible for CCASS

All necessary arrangements have been made enabling the H Shares to be admitted into CCASS.

If the Hong Kong Stock Exchange grants the listing of, and permission to deal in, the H Shares and our Bank complies with the stock admission requirements of HKSCC, the H 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 H Shares on the Hong Kong Stock Exchange or any other date HKSCC chooses. Settlement of transactions between participants of the Hong Kong Stock Exchange 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.

STRUCTURE OF THE GLOBAL OFFERING

Dealing

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Monday, 31 March 2014, it is expected that dealings in the H Shares on the Hong Kong Stock Exchange will commence at 9:00 a.m. on Monday, 31 March 2014. Our H Shares will be traded in board lots of 1,000 H Shares each and the stock code of our H Shares will be 6138.

Conditions of the Hong Kong Public Offering

Acceptance of all applications for Offer Shares pursuant to the Hong Kong Public Offering will be conditional on:

- (i) the Listing Committee of the Hong Kong Stock Exchange granting listing of, and permission to deal in, the Offer Shares being offered pursuant to the Global Offering (including the additional Offer Shares which may be made available pursuant to the exercise of the Over-allotment Option) (subject only to allotment);
- (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.

If, for any reason, the Offer Price is not agreed between our Bank and the Joint Global Coordinators (on behalf of the Underwriters), the Global Offering will not proceed and will lapse.

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with its 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 our Bank in South China Morning Post (in English) and 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 the section entitled “How to Apply for Hong Kong Offer Shares”. In the meantime, all application monies will be held in (a) separate bank account(s) with the receiving banker or other licensed bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

H Share certificates for the Offer Shares are expected to be issued on Friday, 28 March 2014 but will only become valid certificates of title at 8:00 a.m. on Monday, 31 March 2014 provided that (i) the Global Offering has become unconditional in all respects and (ii) the right of termination as described in the section entitled “Underwriting – Grounds for Termination” has not been exercised.

HOW TO APPLY FOR HONG KONG OFFER SHARES

1. HOW TO APPLY

If you apply for Hong Kong Public Offer Shares, then you may not apply for or indicate an interest in International Offer Shares.

To apply for Hong Kong Public Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **White Form eIPO** service at 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 Bank, the Joint Global Coordinators, the **White Form eIPO** Service Provider 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 Public 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.

If you apply online through the **White Form eIPO** service, 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** service for the Hong Kong Offer Shares.

Unless permitted by the Hong Kong Listing Rules, you cannot apply for any Hong Kong Offer Shares if you are:

- an existing beneficial owner of Shares in the Bank and/or any its subsidiaries;
- a Director or chief executive officer of the Bank and/or any of its subsidiaries;
- an associate (as defined in the Hong Kong Listing Rules) of any of the above;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- a connected person (as defined in the Hong Kong Listing Rules) of the Bank or going to become a connected person of the Bank 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 Wednesday, 19 March 2014 to 12:00 noon on Monday, 24 March 2014 from:

(i) *the following office 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

Credit Suisse (Hong Kong) Limited
Level 88, International Commerce Centre, 1 Austin Road West, Kowloon, 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

Deutsche Bank AG, Hong Kong Branch
Level 52, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong

DBS Asia Capital Limited
17th Floor, The Center, 99 Queen's Road Central, Hong Kong

Haitong International Securities Company Limited
22/F Li Po Chun Chambers, 189 Des Voeux Road Central, Hong Kong

CIMB Securities Limited
Units 7706-08, Level 77, International Commerce Centre, 1 Austin Road West,
Kowloon, Hong Kong

BOCOM International Securities Limited
9/F, Man Yee Building, 68 Des Voeux Road Central, Hong Kong

HOW TO APPLY FOR HONG KONG OFFER SHARES

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, Hong Kong

Oriental Patron Securities Limited
27/F, Two Exchange Square, 8 Connaught Place, Central, Hong Kong

CMB International Capital Limited
Units 1803-4, 18/F, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong

RHB OSK Securities Hong Kong Limited
12/F, Worldwide House, 19 Des Voeux Road Central, Central, Hong Kong

Convoy Investment Services Limited
Room C, 24/F, @CONVOY, 169 Electric Road, North Point, Hong Kong

Core Pacific – Yamaichi International (H.K.) Limited
36/F, COSCO Tower, Grand Millennium Plaza, 183 Queen's Road Central, Hong Kong

Prudential Brokerage Limited
9/F, Worldwide House, 19 Des Voeux Road C, Central, Hong Kong

Shenyin Wanguo Capital (H.K.) Limited
Level 19, 28 Hennessy Road, Hong Kong

Tung Shing Securities (Brokers) Limited
22/F, China Overseas Building, 139 Hennessy Road, Wanchai, Hong Kong

Guosen Securities (HK) Capital Company Limited
1604, Infinitus Plaza, 199 Des Voeux Road Central, Hong Kong

Bright Smart Securities International (H.K.) Limited
10/F Wing On House, 71 Des Voeux Road Central, Hong Kong

HOW TO APPLY FOR HONG KONG OFFER SHARES

(ii) *any of the branches of the following receiving banks:*

Bank of China (Hong Kong) Limited

	Branch	Address
Hong Kong Island	Bank of China Tower Branch	3/F, 1 Garden Road
	Central District (Wing On House) Branch	71 Des Voeux Road Central
	Lee Chung Street Branch	29-31 Lee Chung Street, Chai Wan
	Wan Chai (Wu Chung House) Branch	213 Queen's Road East, Wan Chai
Kowloon	Wang Kwun Road Branch	Unit G1, Nan Fung Commercial Centre, Wang Kwun Road, Kowloon Bay
	Wong Tai Sin Branch	Shop G13, Wong Tai Sin Plaza, Wong Tai Sin
	Hoi Yuen Road Branch	55 Hoi Yuen Road, Kwun Tong
New Territories	Sheung Shui Branch Securities Services Centre	136 San Fung Avenue, Sheung Shui
	Tuen Mun San Hui Branch	G13-G14 Eldo Court, Heung Sze Wui Road, Tuen Mun
	Kau Yuk Road Branch	18-24 Kau Yuk Road, Yuen Long

Wing Lung Bank Limited

	Branch	Address
Hong Kong Island	Head Office	45 Des Voeux Road Central
	North Point Branch	361 King's Road
Kowloon	Mongkok Branch	B/F Wing Lung Bank Centre, 636 Nathan Road
	Sham Shui Po Branch	111 Tai Po Road
	To Kwa Wan Branch	64 To Kwa Wan Road
	Tsim Sha Tsui Branch	4 Carnarvon Road
New Territories	Sheung Shui Branch	128 San Fung Avenue

HOW TO APPLY FOR HONG KONG OFFER SHARES

Bank of Communications Co., Ltd. Hong Kong Branch

	Branch	Address
Hong Kong Island	Central District Sub-Branch	G/F., Far East Consortium Building, 125A Des Voeux Road C., Central
	Taikoo Shing Sub-Branch	Shop 38, G/F., CityPlaza 2, 18 Taikoo Shing Road
	Wan Chai Sub-Branch	G/F., 32-34 Johnston Road
Kowloon	Cheung Sha Wan Plaza Sub-Branch	Unit G04, Cheung Sha Wan Plaza, 833 Cheung Sha Wan Road
	Kwun Tong Sub-Branch	Shop A, G/F., Hong Ning Court, 55 Hong Ning Road, Kwun Tong
New Territories	Shatin Sub-Branch	Shop No. 193, Level 3, Lucky Plaza, Shatin
	Tseung Kwan O Sub-Branch	Shop 253-255, Metro City Shopping Arcade, Phase I, Tseung Kwan O
	Sha Tsui Road Sub-Branch	122-124 Sha Tsui Road, Tsuen Wan

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Wednesday, 19 March 2014 until 12:00 noon on Monday, 24 March 2014 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 – Harbin 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:

- Wednesday, 19 March 2014 – 9:00 a.m. to 5:00 p.m.
- Thursday, 20 March 2014 – 9:00 a.m. to 5:00 p.m.
- Friday, 21 March 2014 – 9:00 a.m. to 5:00 p.m.
- Saturday, 22 March 2014 – 9:00 a.m. to 1:00 p.m.
- Monday, 24 March 2014 – 9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Monday, 24 March 2014, the last application day or such later time as described in “– Effect of Bad Weather on the Opening of the Applications Lists”.

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** service, among other things, you:

- (i) undertake to execute all relevant documents and instruct and authorise the Bank and/or the Joint Global Coordinators (or its agents or nominees), as agents of the Bank, 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 Companies Ordinance 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 Bank, 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 Bank, our H 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 Bank, 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

HOW TO APPLY FOR HONG KONG OFFER SHARES

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 Bank to place your name(s) or the name of the HKSCC Nominees on the Bank's register of members as the holder(s) of any Hong Kong Offer Shares allocated to you, and the Bank and/or its agents to send any H 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 H 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 Bank 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 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 Terms and Conditions for Yellow Application Form

You may refer to the **YELLOW** Application Form for details.

5. APPLYING THROUGH THE WHITE FORM eIPO SERVICE

General

Individuals who meet the criteria in “– Who can apply” may apply through the **White Form eIPO** service 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** service are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to the Bank. If you apply through the designated website, you authorise the **White Form eIPO** service to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **White Form eIPO** service.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Time for Submitting Applications under the White Form eIPO service

You may submit your application to the **White Form eIPO** service at www.eipo.com.hk (24 hours daily, except on the last application day) from 9:00 a.m. on Wednesday, 19 March 2014 until 11:30 a.m. on Monday, 24 March 2014 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Monday, 24 March 2014 or such later time under the “– Effects of Bad Weather on the Opening of the Applications Lists”.

No Multiple Applications

If you apply by means of **White Form eIPO** service, once you complete payment in respect of any electronic application instruction given by you or for your benefit through the **White Form eIPO** service 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** service 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** service or by any other means, all of your applications are liable to be rejected.

Section 40 of the Companies (Winding up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, the Bank 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 Companies (Winding up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding up and Miscellaneous Provisions) Ordinance).

Environmental Protection

The obvious advantage of **White Form eIPO** is to save the use of papers via the self-serviced and electronic application process. Computershare Hong Kong Investor Services Limited, being the designated **White Form eIPO** Service Provider, will contribute HK\$2 per each “Harbin Bank Co., Ltd.” **White Form eIPO** application submitted via www.eipo.com.hk to support the funding of “Source of Dong Jiang – 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 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).

HOW TO APPLY FOR HONG KONG OFFER SHARES

HKSCC can also input electronic application instructions for you if you go to:

Hong Kong Securities Clearing Company Limited

Customer Service Centre

2/F 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 Bank, the Joint Global Coordinators and our H 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;
 - (if you are an agent for another person) 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 Bank, 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 Bank to place HKSCC Nominees' name on the Bank'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;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- 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 Bank, 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 Bank, our H 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 Bank 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 Companies (Winding Up and Miscellaneous Provisions) 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 Bank'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 Bank, for itself and for the benefit of each Shareholder (and so that the Bank 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 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.

HOW TO APPLY FOR HONG KONG OFFER SHARES

- **agrees** with the Bank, for itself and for the benefit of each shareholder of the Bank and each director, supervisor, manager and other senior officer of the Bank (and so that the Bank will be deemed by its acceptance in whole or in part of this application to have agreed, for itself and on behalf of each shareholder of the Bank and each director, supervisor, manager and other senior officer of the Bank, with each CCASS Participant giving electronic application instructions):
 - (a) to refer all differences and claims arising from the Articles of Association of the Bank or any rights or obligations conferred or imposed by the Bank Law or other relevant laws and administrative regulations concerning the affairs of the Bank to arbitration in accordance with Articles of Association of the Bank;
 - (b) that any award made in such arbitration shall be final and conclusive; and
 - (c) that the arbitration tribunal may conduct hearings in open sessions and publish its award;
- **agrees** with the Bank (for the Bank itself and for the benefit of each shareholder of the Bank) that H shares in the Bank are freely transferable by their holders; and
- **authorizes** the Bank to enter into a contract on its behalf with each director and officer of the Bank whereby each such director and officer undertakes to observe and comply with his obligations to shareholders stipulated in the Articles of Association of the Bank.

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 Bank 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 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.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Time for Inputting Electronic Application Instructions

CCASS Clearing/Custodian Participants can input electronic application instructions at the following times on the following dates:

- Wednesday, 19 March 2014 – 9:00 a.m. to 8:30 p.m.⁽¹⁾
- Thursday, 20 March 2014 – 8:00 a.m. to 8:30 p.m.⁽¹⁾
- Friday, 21 March 2014 – 8:00 a.m. to 8:30 p.m.⁽¹⁾
- Saturday, 22 March 2014 – 8:00 a.m. to 1:00 p.m.⁽¹⁾
- Monday, 24 March 2014 – 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 Wednesday, 19 March 2014 until 12:00 noon on Monday, 24 March 2014 (24 hours daily, except on the last application day).

The latest time for inputting your electronic application instructions will be 12:00 noon on Monday, 24 March 2014, the last application day or such later time as described in “– Effect of Bad Weather on the Opening of the Application Lists”.

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 Companies (Winding up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, the Bank 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 Companies (Winding up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding up and Miscellaneous Provisions) Ordinance).

Personal Data

The section of the Application Form headed “Personal Data” applies to any personal data held by the Bank, the H 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** service is also only a facility provided by the **White Form eIPO** service 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 Bank, 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** service 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/CCASS 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 on Monday, 24 March 2014.

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** service, 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; or
- 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).

HOW TO APPLY FOR HONG KONG OFFER SHARES

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** service in respect of a minimum of 1,000 Hong Kong Offer Shares. Each application or electronic application instruction in respect of more than 1,000 Hong Kong 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 “Structure of the Global Offering – Pricing of the Global Offering”.

10. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open 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 Monday, 24 March 2014. 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 Monday, 24 March 2014 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 “Expected Timetable”, an announcement will be made in such event.

11. PUBLICATION OF RESULTS

The Bank 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 Friday, 28 March 2014 in South China Morning Post (in English), Hong Kong Economic Times (in Chinese) and on the Bank’s website at www.hrbb.com.cn and the website of the Stock Exchange at www.hkexnews.com.

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 Bank’s website at www.hrbb.com.cn and the Stock Exchange’s website at www.hkexnews.hk by no later than 9:00 a.m. on Friday, 28 March 2014;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- 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 Friday, 28 March 2014 to 12:00 midnight on Thursday, 3 April 2014;
- by telephone enquiry line by calling 2862 8669 between 9:00 a.m. and 10:00 p.m. from Friday, 28 March 2014 to Monday, 31 March 2014;
- in the special allocation results booklets which will be available for inspection during opening hours from Friday, 28 March 2014 to Saturday, 29 March 2014 and Monday, 31 March 2014 at all the receiving bank branches and sub-branches.

If the Bank 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 “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 the **White Form eIPO** service, 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 Bank.

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 Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) 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.

HOW TO APPLY FOR HONG KONG OFFER SHARES

(ii) If the Bank or its agents exercise their discretion to reject your application:

The Bank, the Joint Global Coordinators, the **White Form eIPO** service 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 Bank 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** service 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 Bank or the Joint Global Coordinators believe(s) that by accepting your application, it/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 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 Friday, 28 March 2014.

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14. DESPATCH/COLLECTION OF H SHARE CERTIFICATES AND REFUND MONIES

You will receive one H 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 H 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:

- H Share certificate(s) for all the Hong Kong Offer Shares allotted to you (for **YELLOW** Application Forms, H 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 H Share certificates and refund monies as mentioned below, any refund cheques and H Share certificates are expected to be posted on or around Friday, 28 March 2014. The right is reserved to retain any H Share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker’s cashier’s order(s).

H Share certificates will only become valid at 8:00 a.m. on Monday, 31 March 2014 provided that the Global Offering has become unconditional and the right of termination described in the “Underwriting” has not been exercised. Investors who trade Shares prior to the receipt of H Share certificates or the H 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 H Share certificate(s) from Computershare Hong Kong Investor Services Limited at 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 Friday, 28 March 2014 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

HOW TO APPLY FOR HONG KONG OFFER SHARES

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 H Share Registrar.

If you do not collect your refund cheque(s) and/or H 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 H Share certificate(s) will be sent to the address on the relevant Application Form on Friday, 28 March 2014, 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 Friday, 28 March 2014, 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 H 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 Friday, 28 March 2014, 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 Bank 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 Bank and report any discrepancies to HKSCC before 5:00 p.m. on Friday, 28 March 2014 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 Service

If you apply for 1,000,000 or more Hong Kong Offer Shares and your application is wholly or partially successful, you may collect your H Share certificate(s) from Computershare Hong Kong Investor Services Limited at 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 Friday, 28 March 2014, or such other date as notified by the Bank in the newspapers as the date of despatch/collection of H Share certificates/e-Refund payment instructions/refund cheques.

HOW TO APPLY FOR HONG KONG OFFER SHARES

If you do not collect your H 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 H Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on Friday, 28 March 2014 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 Friday, 28 March 2014, or, on any other date determined by HKSCC or HKSCC Nominees.
- The Bank expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, the Bank 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 Friday, 28 March 2014. You should check the announcement published by the Bank and report any discrepancies to HKSCC before 5:00 p.m. on Friday, 28 March 2014 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 Friday, 28 March 2014. 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

HOW TO APPLY FOR HONG KONG OFFER SHARES

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 Friday, 28 March 2014.

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 Hong Kong 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 inclusion in this prospectus, received from the independent reporting accountants of the Company, Ernst & Young, Certified Public Accountants, Hong Kong.



22nd Floor
CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

19 March 2014

The Directors

Harbin Bank Co., Ltd.

China International Capital Corporation Hong Kong Securities Limited

BOCI Asia Limited

ABCI Capital Limited

Dear Sirs,

We set out below our report on the financial information of Harbin Bank Co., Ltd. (the “Bank”) and its subsidiaries (hereinafter collectively referred to as the “Group”) comprising the consolidated income statements, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the Group for each of the years ended 31 December 2010, 2011 and 2012, and the nine months ended 30 September 2013 (the “Relevant Periods”), and the consolidated statements of financial position of the Group as of 31 December 2010, 2011, 2012 and 30 September 2013, the statements of financial position of the Bank as of 31 December 2010, 2011, 2012 and 30 September 2013, together with the notes thereto (the “Financial Information”), and the consolidated income statements, consolidated statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group for the nine months ended 30 September 2012 (the “Interim Comparative Information”), prepared on the basis of presentation set out in note 2.1 of Section II below, for inclusion in the prospectus of the Bank dated 19 March 2014 (the “Prospectus”) in connection with the listing of the shares of the Bank on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The Bank was formed when its predecessor, the Harbin Urban Cooperative Bank, was established as a joint-stock commercial bank in Harbin of the People’s Republic of China (“China”) on 25 July 1997. In June 1998 it changed its name to Harbin Commercial Bank Co., Ltd.. On 5 November 2007, the Bank changed its name to Harbin Bank Co., Ltd..

As of the end of the Relevant Periods, the Bank has direct interests in the subsidiaries as set out in note 1 of Section II below. All companies now comprising the Group have adopted 31 December as their financial year end date. The statutory financial statements of the companies now comprising the Group were prepared in accordance with the Accounting Standards for Business Enterprises of China (“CAS”) issued by the China Ministry of Finance. Details of their statutory auditors during the Relevant Periods are set out in note 1 of Section II below.

For the purpose of this report, the directors of the Bank (the “Directors”) have prepared the consolidated financial statements of the Group (the “Underlying Financial Statements”) in accordance with International Financial Reporting Standards (the “IFRSs”), which include all International Financial Reporting Standards, International Accounting Standards (“IASs”) and Interpretations issued by the International Accounting Standards Board (the “IASB”). The Underlying Financial Statements for the Relevant Periods were audited by us in accordance with International Standards on Auditing issued by the International Auditing and Assurance Standards Board (the “IAASB”).

The Financial Information set out in this report has been prepared from the Underlying Financial Statements with no adjustments made thereon.

Directors’ responsibility

The Directors are responsible for the preparation of the Underlying Financial Statements and the Financial Information that give a true and fair view in accordance with IFRSs, and for such internal control as the Directors determine is necessary to enable the preparation of the Underlying Financial Statements, the Financial Information and the Interim Comparative Information that are free from material misstatement, whether due to fraud or error.

Reporting accountants’ responsibility

It is our responsibility to form an independent opinion and a review conclusion on the Financial Information and the Interim Comparative Information, respectively, and to report our opinion and review conclusion thereon to you.

For the purpose of this report, we have carried out procedures on the Financial Information in accordance with Auditing Guideline 3.340 *Prospectuses and the Reporting Accountant* issued by the HKICPA.

We have also performed a review of the Interim Comparative Information in accordance with International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the IAASB. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets and liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an opinion on the Interim Comparative Information.

Opinion in respect of the Financial Information

In our opinion, for the purpose of this report and on the basis of presentation set out in note 2.1 of Section II below, the Financial Information gives a true and fair view of the state of affairs of the Group and the Bank as at 31 December 2010, 2011, 2012 and 30 September 2013 and of the consolidated results and cash flows of the Group for each of the Relevant Periods.

Review conclusion in respect of the Interim Comparative Information

Based on our review which does not constitute an audit, for the purpose of this report, nothing has come to our attention that causes us to believe that the Interim Comparative Information is not prepared, in all material respects, in accordance with the same basis adopted in respect of the Financial Information.

CONSOLIDATED INCOME STATEMENTS

THE YEARS ENDED 31 DECEMBER 2010, 2011, 2012 AND

THE NINE MONTHS ENDED 30 SEPTEMBER 2013

(All amounts expressed in thousands of RMB unless otherwise stated)

		Years ended 31 December			Nine months ended 30 September	
	Notes	2010	2011	2012	2012	2013
					(Unaudited)	
Interest income	5	4,028,269	8,216,790	12,993,170	9,389,122	10,326,760
Interest expense	5	(1,072,365)	(3,398,736)	(6,334,803)	(4,631,638)	(5,402,418)
NET INTEREST INCOME ...	5	2,955,904	4,818,054	6,658,367	4,757,484	4,924,342
Fee and commission income	6	169,992	503,217	811,437	564,077	950,286
Fee and commission expense ...	6	(53,802)	(91,363)	(132,787)	(92,996)	(79,089)
NET FEE AND COMMISSION INCOME ...	6	116,190	411,854	678,650	471,081	871,197
Net trading income	7	124,580	282,133	356,579	280,530	150,085
Net gain/(loss) on financial investments	8	692	(128,782)	(87,409)	(73,432)	(34,227)
Other operating income, net	9	48,050	30,793	105,019	43,300	12,170
OPERATING INCOME		3,245,416	5,414,052	7,711,206	5,478,963	5,923,567
Operating expenses	10	(1,401,533)	(2,082,824)	(3,025,519)	(1,991,391)	(2,388,595)
Impairment losses on:						
Loans and advances to customers	22	(238,744)	(875,987)	(837,225)	(809,705)	(422,102)
Others	13	11,777	52,203	1,019	—	—
OPERATING PROFIT		1,616,916	2,507,444	3,849,481	2,677,867	3,112,870
Share of profits of an associate		—	—	9,429	8,036	7,130
PROFIT BEFORE TAX		1,616,916	2,507,444	3,858,910	2,685,903	3,120,000
Income tax expense	14	(389,702)	(651,019)	(987,451)	(664,797)	(748,679)
PROFIT FOR THE YEAR/ PERIOD		<u>1,227,214</u>	<u>1,856,425</u>	<u>2,871,459</u>	<u>2,021,106</u>	<u>2,371,321</u>
Attributable to:						
Equity holders of the parent company	15	1,227,660	1,854,229	2,864,250	2,017,114	2,357,761
Non-controlling interests		(446)	2,196	7,209	3,992	13,560
		<u>1,227,214</u>	<u>1,856,425</u>	<u>2,871,459</u>	<u>2,021,106</u>	<u>2,371,321</u>
EARNINGS PER SHARE (RMB yuan)						
– basic and diluted	17	<u>0.26</u>	<u>0.34</u>	<u>0.37</u>	<u>0.26</u>	<u>0.29</u>

Details of the dividends declared and paid or proposed are disclosed in note 16 to these financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
THE YEARS ENDED 31 DECEMBER 2010, 2011, 2012 AND
THE NINE MONTHS ENDED 30 SEPTEMBER 2013
(All amounts expressed in thousands of RMB unless otherwise stated)

	Notes	Years ended 31 December			Nine months ended 30 September	
		2010	2011	2012	2012	2013
					(Unaudited)	
Profit for the year/period		1,227,214	1,856,425	2,871,459	2,021,106	2,371,321
Other comprehensive income (after tax, net):						
<i>Other comprehensive income to be reclassified to profit or loss in subsequent year/period:</i>						
Net gain/(loss) on available-for-sale financial assets	36	(25,656)	43,837	(40,063)	(37,798)	(102,814)
Share of other comprehensive income of an associate	36	—	—	7,585	7,571	(30,412)
Subtotal of other comprehensive income/(loss) for the year/period . . .		(25,656)	43,837	(32,478)	(30,227)	(133,226)
Total comprehensive income for the year/period		<u>1,201,558</u>	<u>1,900,262</u>	<u>2,838,981</u>	<u>1,990,879</u>	<u>2,238,095</u>
Total comprehensive income attributable to:						
Equity holders of the parent		1,202,004	1,898,066	2,831,772	1,986,887	2,224,535
Non-controlling interests		(446)	2,196	7,209	3,992	13,560
		<u>1,201,558</u>	<u>1,900,262</u>	<u>2,838,981</u>	<u>1,990,879</u>	<u>2,238,095</u>

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2010, 2011, 2012 AND 30 SEPTEMBER 2013
(All amounts expressed in thousands of RMB unless otherwise stated)

		As at 31 December			As at 30 September
	Notes	2010	2011	2012	2013
ASSETS					
Cash and balances with central bank . . .	18	23,413,216	30,935,731	51,858,511	40,729,650
Due from banks and other financial institutions	19	9,837,936	15,907,043	19,946,805	27,730,006
Financial assets held for trading	20	5,318,631	4,780,814	7,878,959	7,201,596
Reverse repurchase agreements	21	17,863,464	49,973,571	51,745,648	27,783,535
Loans and advances to customers	22	53,200,486	67,018,150	85,298,079	102,638,400
Financial investments	23	12,930,578	31,273,460	43,301,170	44,644,993
Investment in an associate	25	—	1,000,000	1,017,014	993,733
Property and equipment	26	1,656,736	3,488,497	6,038,230	6,542,553
Deferred income tax assets	27	136,012	167,009	258,314	370,784
Other assets	28	1,476,876	2,117,084	2,747,422	3,024,875
TOTAL ASSETS		<u>125,833,935</u>	<u>206,661,359</u>	<u>270,090,152</u>	<u>261,660,125</u>
LIABILITIES					
Due to central bank		—	174,764	594,861	755,996
Due to banks and other financial institutions	29	2,594,229	18,051,126	36,523,548	37,208,083
Repurchase agreements	30	2,871,727	27,972,524	22,832,655	6,289,787
Due to customers	31	112,891,627	145,962,426	186,642,384	191,129,991
Income tax payable		125,794	201,231	311,148	272,924
Debt securities issued	32	1,000,000	1,000,000	3,500,000	3,500,000
Other liabilities	33	1,211,825	1,768,913	2,748,575	3,494,939
TOTAL LIABILITIES		<u>120,695,202</u>	<u>195,130,984</u>	<u>253,153,171</u>	<u>242,651,720</u>
EQUITY					
Equity attributable to equity holders of the parent company					
Share capital	34	2,100,333	6,187,823	7,560,198	8,246,900
Reserves		956,647	3,567,729	6,025,456	7,210,492
Retained profits		1,986,199	1,630,073	3,179,086	3,358,457
		5,043,179	11,385,625	16,764,740	18,815,849
Non-controlling interests		95,554	144,750	172,241	192,556
TOTAL EQUITY		<u>5,138,733</u>	<u>11,530,375</u>	<u>16,936,981</u>	<u>19,008,405</u>
TOTAL EQUITY AND LIABILITIES		125,833,935	206,661,359	270,090,152	261,660,125

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
THE YEARS ENDED 31 DECEMBER 2010, 2011, 2012 AND THE NINE MONTHS ENDED 30 SEPTEMBER 2013
(All amounts expressed in thousands of RMB unless otherwise stated)

Attributable to equity holders of the parent company											
	Reserves								Non-controlling interests	Total equity	
	Issued share capital	Investment					Retained profits	Total			
		Capital reserve	Surplus reserve	General reserve	Investment revaluation reserve	Other reserves					Subtotal
Balance as at 1 January	2,100,333	15,189	281,522	401,891	(2,355)	–	696,247	1,044,595	3,841,175	–	3,841,175
2010	–	–	–	–	–	–	–	1,227,660	1,227,660	(446)	1,227,214
Profit for the year											
Other comprehensive income											
– Change in fair value of available-for-sale investments, net of tax	–	–	–	–	(25,656)	–	(25,656)	–	(25,656)	–	(25,656)
Total comprehensive income	–	–	–	–	(25,656)	–	(25,656)	1,227,660	1,202,004	(446)	1,201,558
Capital contributed by owners	–	–	–	–	–	–	–	–	–	96,000	96,000
Appropriation to surplus reserve	–	–	122,066	–	–	–	122,066	(122,066)	–	–	–
Appropriation to general reserve (i)	–	–	–	163,990	–	–	163,990	(163,990)	–	–	–
Balance as at 31 December	2,100,333	15,189	403,588	565,881	(28,011)	–	956,647	1,986,199	5,043,179	95,554	5,138,733
2010											

(i) The subsidiaries did not appropriate general reserve.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
THE YEARS ENDED 31 DECEMBER 2010, 2011, 2012 AND THE NINE MONTHS ENDED 30 SEPTEMBER 2013
(All amounts expressed in thousands of RMB unless otherwise stated)

Attributable to equity holders of the parent company											
	Reserves								Total	Non-controlling interests	Total equity
	Issued share capital	Capital reserve	Surplus reserve	General reserve	Investment		Retained profits				
					revaluation reserve	Other reserves		Subtotal			
Balance as at 1 January											
2011	2,100,333	15,189	403,588	565,881	(28,011)	–	956,647	1,986,199	5,043,179	95,554	5,138,733
Profit for the year	–	–	–	–	–	–	–	1,854,229	1,854,229	2,196	1,856,425
Other comprehensive income											
– Change in fair value of available-for-sale investments, net of tax ...	–	–	–	–	43,837	–	43,837	–	43,837	–	43,837
Total comprehensive income	–	–	–	–	43,837	–	43,837	1,854,229	1,898,066	2,196	1,900,262
Capital contributed by owners	2,197,190	2,247,190	–	–	–	–	2,247,190	–	4,444,380	47,000	4,491,380
Appropriation to surplus reserve	–	–	184,228	–	–	–	184,228	(184,228)	–	–	–
Appropriation to general reserve (i)	–	–	–	135,827	–	–	135,827	(135,827)	–	–	–
Retained profits converted into share capital	1,890,300	–	–	–	–	–	–	(1,890,300)	–	–	–
Balance as at 31 December											
2011	6,187,823	2,262,379	587,816	701,708	15,826	–	3,567,729	1,630,073	11,385,625	144,750	11,530,375

(i) Includes the appropriation made by subsidiaries in the amount of RMB7,168 thousand.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
THE YEARS ENDED 31 DECEMBER 2010, 2011, 2012 AND THE NINE MONTHS ENDED 30 SEPTEMBER 2013
(All amounts expressed in thousands of RMB unless otherwise stated)

Attributable to equity holders of the parent company											
	Reserves								Non-controlling interests	Total equity	
	Issued share capital	Capital reserve	Surplus reserve	General reserve	Investment		Retained profits	Total			
					revaluation reserve	Other reserves					
Balance as at 1 January 2012	6,187,823	2,262,379	587,816	701,708	15,826	—	3,567,729	1,630,073	11,385,625	144,750	11,530,375
Profit for the year	—	—	—	—	—	—	—	2,864,250	2,864,250	7,209	2,871,459
Other comprehensive income											
– Change in fair value of available-for-sale investments, net of tax ...	—	—	—	—	—	—	(40,063)	—	(40,063)	—	(40,063)
– Share of other comprehensive income of an associate	—	—	—	—	—	7,585	7,585	—	7,585	—	7,585
Total comprehensive income	—	—	—	—	(40,063)	7,585	(32,478)	2,864,250	2,831,772	7,209	2,838,981
Capital contributed by owners	980,000	1,960,000	—	—	—	—	1,960,000	—	2,940,000	20,000	2,960,000
Dividends – 2011 final (note 16)	—	—	—	—	—	—	—	(392,375)	(392,375)	—	(392,375)
Appropriation to surplus reserve	—	—	281,870	—	—	—	281,870	(281,870)	—	—	—
Appropriation to general reserve (i)	—	—	—	248,617	—	—	248,617	(248,617)	—	—	—
Retained profits converted into share capital	392,375	—	—	—	—	—	—	(392,375)	—	—	—
Others	—	—	—	—	—	(282)	(282)	—	(282)	282	—
Balance as at 31 December 2012	7,560,198	4,222,379	869,686	950,325	(24,237)	7,303	6,025,456	3,179,086	16,764,740	172,241	16,936,981

(i) Includes the appropriation made by subsidiaries in the amount of RMB 14,760 thousand.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
THE YEARS ENDED 31 DECEMBER 2010, 2011, 2012 AND THE NINE MONTHS ENDED 30 SEPTEMBER 2013
(All amounts expressed in thousands of RMB unless otherwise stated)

Attributable to equity holders of the parent company											
	Reserves								Non-controlling interests	Total equity	
	Issued share capital	Capital reserve	Surplus reserve	General reserve	Investment		Retained profits	Total			
					revaluation reserve	Other reserves					
Balance as at 1 January 2012	6,187,823	2,262,379	587,816	701,708	15,826	—	3,567,729	1,630,073	11,385,625	144,750	11,530,375
Profit for the period	—	—	—	—	—	—	—	2,017,114	2,017,114	3,992	2,021,106
Other comprehensive income											
– Change in fair value of available-for-sale investments, net of tax	—	—	—	—	—	—	(37,798)	—	(37,798)	—	(37,798)
– Share of other comprehensive income of an associate	—	—	—	—	—	7,571	7,571	—	7,571	—	7,571
Total comprehensive income	—	—	—	—	(37,798)	7,571	(30,227)	2,017,114	1,986,887	3,992	1,990,879
Capital contributed by owners	980,000	1,960,000	—	—	—	—	1,960,000	—	2,940,000	20,000	2,960,000
Dividends – 2011 final (note 16)	—	—	—	—	—	—	—	(392,375)	(392,375)	—	(392,375)
Appropriation to general reserve (i)	—	—	—	248,617	—	—	248,617	(248,617)	—	—	—
Retained profits converted into share capital	392,375	—	—	—	—	—	—	(392,375)	—	—	—
Others	—	—	—	—	—	(282)	(282)	—	(282)	282	—
Balance as at 30 September 2012 (Unaudited)	7,560,198	4,222,379	587,816	950,325	(21,972)	7,289	5,745,837	2,613,820	15,919,855	169,024	16,088,879

(i) Includes the appropriation made by subsidiaries in the amount of RMB 14,760 thousand.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
THE YEARS ENDED 31 DECEMBER 2010, 2011, 2012 AND THE NINE MONTHS ENDED 30 SEPTEMBER 2013
(All amounts expressed in thousands of RMB unless otherwise stated)

Attributable to equity holders of the parent company											
	Reserves								Non-controlling interests	Total equity	
	Issued share capital	Capital reserve	Surplus reserve	General reserve	Investment		Retained profits	Total			
					revaluation reserve	Other reserves					
Balance as at 1 January 2013	7,560,198	4,222,379	869,686	950,325	(24,237)	7,303	6,025,456	3,179,086	16,764,740	172,241	16,936,981
Profit for the period	–	–	–	–	–	–	–	2,357,761	2,357,761	13,560	2,371,321
Other comprehensive income											
– Change in fair value of available-for-sale investments, net of tax	–	–	–	–	–	–	(102,814)	–	(102,814)	–	(102,814)
– Share of other comprehensive income of an associate	–	–	–	–	–	–	(30,412)	–	(30,412)	–	(30,412)
Total comprehensive income	–	–	–	–	–	–	(102,814)	2,357,761	2,224,535	13,560	2,238,095
Capital contributed by owners	–	–	–	–	–	–	–	–	–	5,004	5,004
Dividends – 2012 final (note 16)	–	–	–	–	–	–	–	(171,675)	(171,675)	–	(171,675)
Appropriation to general reserve (i)	–	–	–	1,320,013	–	–	1,320,013	(1,320,013)	–	–	–
Retained profits converted into share capital	686,702	–	–	–	–	–	–	(686,702)	–	–	–
Others	–	–	–	–	–	(1,751)	(1,751)	–	(1,751)	1,751	–
Balance as at 30 September 2013	8,246,900	4,222,379	869,686	2,270,338	(127,051)	(24,860)	7,210,492	3,358,457	18,815,849	192,556	19,008,405

(i) Includes the appropriation made by subsidiaries in the amount of RMB35,448 thousand.

CONSOLIDATED STATEMENTS OF CASH FLOWS

THE YEARS ENDED 31 DECEMBER 2010, 2011, 2012 AND

THE NINE MONTHS ENDED 30 SEPTEMBER 2013

(All amounts expressed in thousands of RMB unless otherwise stated)

		Years ended 31 December			Nine months ended 30 September	
	Notes	2010	2011	2012	2012	2013
					(Unaudited)	
CASH FLOWS FROM						
OPERATING ACTIVITIES						
Profit before tax		1,616,916	2,507,444	3,858,910	2,685,903	3,120,000
Adjustments for:						
Share of profits of an associate		–	–	(9,429)	(8,036)	(7,130)
Depreciation and amortisation	10	100,962	136,218	208,255	151,269	213,565
Net trading gain	7	(124,580)	(282,133)	(356,579)	(280,530)	(150,085)
Dividends income	8	(861)	(406)	(507)	(507)	(579)
Interest income on financial investments		(344,834)	(1,202,606)	(2,674,149)	(1,916,611)	(1,542,332)
Impairment loss on loans and advances to customers		238,744	875,987	837,225	809,705	422,102
Reversal of impairments of other assets	13	(11,777)	(52,203)	(1,019)	–	–
Unrealised foreign exchange (gain)/loss		453	(1,554)	(7,000)	(14,079)	(21,866)
Interest expense on issuance of bonds		60,000	60,000	146,202	87,572	130,267
Accreted interest on impaired loans	22	(5,208)	(10,424)	(17,057)	(15,044)	(28,291)
Net loss on disposal of available-for-sale financial assets	8	169	129,188	87,916	73,939	34,806
Net gain on disposal of property and equipment and other assets	9	(7,177)	(4,363)	(209)	–	–
		<u>1,522,807</u>	<u>2,155,148</u>	<u>2,072,559</u>	<u>1,573,581</u>	<u>2,170,457</u>
Net decrease/(increase) in operating assets:						
Due from central bank		(11,376,935)	(7,863,786)	(10,429,323)	(4,382,456)	(583,611)
Due from banks and other financial institutions		(1,704,814)	(4,835,976)	(884,568)	(5,442,163)	(7,266,318)
Reverse repurchase agreements		(13,237,016)	(8,501,697)	(4,418,605)	(2,959,976)	4,183,194
Loans and advances to customers		(10,487,373)	(14,459,146)	(18,780,603)	(23,996,814)	(17,734,132)
Other assets		<u>15,785,486</u>	<u>24,571,327</u>	<u>(1,733,229)</u>	<u>(935,694)</u>	<u>(895,722)</u>
		<u>(21,020,652)</u>	<u>(11,089,278)</u>	<u>(36,246,328)</u>	<u>(37,717,103)</u>	<u>(22,296,589)</u>
Net increase/(decrease) in operating liabilities:						
Due to central bank		–	174,764	420,097	464,991	161,135
Due to banks and other financial institutions		(499,344)	15,456,897	18,472,422	12,141,177	684,535
Repurchase agreements		2,871,584	25,100,797	(5,139,869)	2,410,889	(16,542,868)
Due to customers		37,894,735	33,070,799	40,679,958	28,457,582	4,487,607
Other liabilities		<u>(2,535,813)</u>	<u>(24,596,826)</u>	<u>2,718,837</u>	<u>1,498,468</u>	<u>794,227</u>
		<u>37,731,162</u>	<u>49,206,431</u>	<u>57,151,445</u>	<u>44,973,107</u>	<u>(10,415,364)</u>
Net cash flows from operating activities before tax		18,233,317	40,272,301	22,977,676	8,829,585	(30,541,496)
Income tax paid		<u>(240,844)</u>	<u>(621,191)</u>	<u>(955,485)</u>	<u>(941,877)</u>	<u>(899,373)</u>
Net cash flows from/(used in) operating activities		<u>17,992,473</u>	<u>39,651,110</u>	<u>22,022,191</u>	<u>7,887,708</u>	<u>(31,440,869)</u>

CONSOLIDATED STATEMENTS OF CASH FLOWS

THE YEARS ENDED 31 DECEMBER 2010, 2011, 2012 AND

THE NINE MONTHS ENDED 30 SEPTEMBER 2013

(All amounts expressed in thousands of RMB unless otherwise stated)

		Years ended 31 December			Nine months ended 30 September	
	Notes	2010	2011	2012	2012	2013
					(Unaudited)	
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchases of property and equipment		(822,884)	(1,790,873)	(2,805,622)	(1,632,891)	(536,232)
Proceeds from disposal of property and equipment		10,784	8,933	5,937	—	15
Cash paid for investments		(1,067,594,990)	(951,543,834)	(1,031,684,982)	(849,153,233)	(369,855,057)
Proceeds from sale and redemption of investments ...		1,059,007,002	933,756,450	1,015,596,118	826,764,296	368,994,072
Investment in an associate		—	(1,000,000)	—	—	—
Dividends received	8	861	406	507	507	579
Return on investments		417,122	992,845	2,859,545	2,323,064	2,151,153
Net cash flows from/(used in) investing activities		(8,982,105)	(19,576,073)	(16,028,497)	(21,698,257)	754,530
CASH FLOWS FROM FINANCING ACTIVITIES						
Proceeds from issue of shares ...		—	4,444,380	2,940,000	2,940,000	—
Capital injection by non-controlling shareholders		96,000	47,000	20,000	20,000	5,004
Proceeds from issuance of other debt securities		—	—	2,500,000	2,500,000	—
Interest paid on debt securities		(60,000)	(60,000)	(75,000)	(15,000)	(130,267)
Dividends paid on ordinary shares		(199)	(91)	(377,842)	(223,095)	(159,396)
Net cash flows from/(used in) financing activities		35,801	4,431,289	5,007,158	5,221,905	(284,659)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS						
		9,046,169	24,506,326	11,000,852	(8,588,644)	(30,970,998)
Cash and cash equivalents at beginning of the year/period		19,558,847	28,597,851	53,092,155	53,092,155	64,094,278
Effect of exchange rate changes on cash and cash equivalents		(7,165)	(12,022)	1,271	10,073	(3,510)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR/PERIOD						
	37	28,597,851	53,092,155	64,094,278	44,513,584	33,119,770
NET CASH FLOWS FROM/ (USED IN) OPERATING ACTIVITIES INCLUDE:						
Interest received		3,538,482	6,410,383	10,255,274	6,735,789	8,716,682
Interest paid		(914,746)	(2,721,197)	(5,688,030)	(4,027,432)	(4,644,211)

STATEMENTS OF FINANCIAL POSITION OF THE BANK
AS AT 31 DECEMBER 2010, 2011, 2012 AND 30 SEPTEMBER 2013
(All amounts expressed in thousands of RMB unless otherwise stated)

		As at 31 December			As at 30 September
	Notes	2010	2011	2012	2013
ASSETS					
Cash and balances with central bank . . .	18	22,978,652	30,341,604	50,661,199	39,564,834
Due from banks and other financial institutions	19	10,599,480	15,304,350	19,381,731	28,618,535
Financial assets held for trading	20	5,318,631	4,780,814	7,878,959	7,201,596
Reverse repurchase agreements	21	17,863,464	49,983,487	51,483,015	27,383,535
Loans and advances to customers	22	52,588,696	64,620,725	79,932,859	95,199,136
Financial investments	23	12,170,479	31,258,460	43,301,170	44,644,993
Investment in subsidiaries	24	437,800	867,000	1,142,000	1,142,000
Investment in an associate	25	—	1,000,000	1,017,014	993,733
Property and equipment	26	1,638,336	3,400,487	5,896,052	6,406,737
Deferred income tax assets	27	135,743	160,491	242,898	354,563
Other assets	28	1,460,269	2,088,005	2,693,518	2,956,144
TOTAL ASSETS		<u>125,191,550</u>	<u>203,805,423</u>	<u>263,630,415</u>	<u>254,465,806</u>
LIABILITIES					
Due to central bank		—	19,733	83,613	48,424
Due to banks and other financial institutions	29	3,019,310	18,738,496	37,230,676	38,250,684
Repurchase agreements	30	2,871,727	27,972,524	22,676,761	6,289,787
Due to customers	31	111,934,757	142,767,330	180,433,163	184,012,242
Income tax payable		125,676	196,150	295,808	264,112
Debt securities issued	32	1,000,000	1,000,000	3,500,000	3,500,000
Other liabilities	33	1,203,578	1,744,190	2,709,549	3,442,199
TOTAL LIABILITIES		<u>120,155,048</u>	<u>192,438,423</u>	<u>246,929,570</u>	<u>235,807,448</u>
EQUITY					
Share capital	34	2,100,333	6,187,823	7,560,198	8,246,900
Reserves	35	956,647	3,560,561	6,003,810	7,155,119
Retained profits	35	1,979,522	1,618,616	3,136,837	3,256,339
TOTAL EQUITY		<u>5,036,502</u>	<u>11,367,000</u>	<u>16,700,845</u>	<u>18,658,358</u>
TOTAL EQUITY AND LIABILITIES		125,191,550	203,805,423	263,630,415	254,465,806

II NOTES TO FINANCIAL STATEMENTS

THE YEARS ENDED 31 DECEMBER 2010, 2011, 2012 AND

THE NINE MONTHS ENDED 30 SEPTEMBER 2013

(All amounts expressed in thousands of RMB unless otherwise stated)

1. CORPORATE INFORMATION AND STRUCTURE

Harbin Bank Co., Ltd. (the "Bank"), which was previously known as Harbin Urban Cooperative Bank, is a joint-stock commercial bank established on 25 July 1997 based on the authorisation of the PBOC designated as YinFu 1997 No.69 "Approval upon the opening of Harbin Urban Cooperative Bank.

In June 1998, according to YinFa 1998 No. 94 issued by the PBOC and SAIC, the Bank changed its name from Harbin Urban Cooperative Bank to Harbin City Commercial Bank Co., Ltd.. In November 2007, according to YinJianFu 2007 No.480 approved by the China Banking Regulatory Commission ("the CBRC"), the Bank changed its name from Harbin City Commercial Bank Co., Ltd. to Harbin Bank Co., Ltd..

The Bank obtained its finance permit No. B0306H223010001 from the CBRC of the PRC. The Bank obtained its business license No. 230100100006877 from the SAIC. The legal representative is Guo Zhiwen and the registered office is located at No. 160 Shangzhi Avenue, Daoli District, Harbin, Heilongjiang Province.

As at 30 September 2013, the Bank has a total of 15 branches in Harbin, Shenyang, Daqing, Dalian, Shuangyashan, Hegang, Jixi, Chengdu, Chongqing, Tianjin, Mudanjiang, Qitaihe, Suihua, Qiqihar and Jiamusi, with 236 sub-branches. The principal activities of the Bank and its subsidiaries (collectively referred to as the "Group") comprise deposits, loans, payment and settlement services, as well as other banking services approved by the CBRC.

The subsidiaries of the Bank as at 30 September 2013 are as follows:

Company name	Notes	Place of incorporation/ registration and operations	Nominal value of issued share/ paid-up capital	Percentage owned by the Bank/voting rights %	Amount invested by the Bank	Principal activities
Bayan Rongxing Village and Township Bank Co., Ltd.	(i)	Bayan, Heilongjiang	50,000	90.00	45,000	Village and Township Bank
Huining Huishi Village and Township Bank Co., Ltd.	(ii)	Huining, Gansu	30,000	100.00	30,000	Village and Township Bank
Beijing Huairou Rongxing Village and Township Bank Co., Ltd.	(iii)	Huairou, Beijing	100,000	90.00	90,000	Village and Township Bank
Yushu Rongxing Village and Township Bank Co., Ltd.	(iv)	Yushu, Jilin	30,000	100.00	30,000	Village and Township Bank
Shenzhen Bao an Rongxing Village and Township Bank Co., Ltd.	(v)	Bao an, Shenzhen	200,000	70.00	140,000	Village and Township Bank
Yanshou Rongxing Village and Township Bank Co., Ltd.	(vi)	Yanshou, Heilongjiang	30,000	100.00	30,000	Village and Township Bank

1. CORPORATE INFORMATION AND STRUCTURE (continued)

	Notes	Place of incorporation/ registration and operations	Nominal value of issued share/ paid-up capital	Percentage owned by the bank/voting rights %	Amount invested by the Bank	Principal activities
Chongqing Dadukou Rongxing Village and Township Bank Co., Ltd.	(vii)	Dadukou, Chongqing	60,000	90.00	54,000	Village and Township Bank
Suining Anju Rongxing Village and Township Bank Co., Ltd.	(viii)	Suining, Sichuan	80,000	75.00	60,000	Village and Township Bank
Huachuan Rongxing Village and Township Bank Co., Ltd.	(ix)	Huachuan, Heilongjiang	50,000	98.00	49,000	Village and Township Bank
Baiquan Rongxing Village and Township Bank Co., Ltd.	(x)	Baiquan, Heilongjiang	30,000	100.00	30,000	Village and Township Bank
Yanshi Rongxing Village and Township Bank Co., Ltd.	(xi)	Yanshi, Henan	30,000	100.00	30,000	Village and Township Bank
Leping Rongxing Village and Township Bank Co., Ltd.	(xii)	Leping, Jiangxi	30,000	100.00	30,000	Village and Township Bank
Jiangsu Rudong Rongxing Village and Township Bank Co., Ltd.	(xiii)	Rudong, Jiangsu	100,000	80.00	80,000	Village and Township Bank
Honghu Rongxing Village and Township Bank Co., Ltd.	(xiv)	Honghu, Hubei	30,000	100.00	30,000	Village and Township Bank
Zhuzhou Rongxing Village and Township Bank Co., Ltd.	(xv)	Zhuzhou, Hunan	50,000	80.00	40,000	Village and Township Bank
Chongqing Wulong Rongxing Village and Township Bank Co., Ltd.	(xvi)	Wulong, Chongqing	50,000	70.00	35,000	Village and Township Bank
Xin an Rongxing Village and Township Bank Co., Ltd.	(xvii)	Xin an, Henan	30,000	100.00	30,000	Village and Township Bank
Anyi Rongxing Village and Township Bank Co., Ltd.	(xviii)	Anyi, Jiangxi	30,000	100.00	30,000	Village and Township Bank
Yingcheng Rongxing Village and Township Bank Co., Ltd.	(xix)	Yingcheng, Hubei	30,000	100.00	30,000	Village and Township Bank
Leiyang Rongxing Village and Township Bank Co., Ltd.	(xx)	Leiyang, Hunan	50,000	100.00	50,000	Village and Township Bank
Hainan Baoting Rongxing Village and Township Bank Co., Ltd.	(xxi)	Baoting, Hainan	30,000	96.67	29,000	Village and Township Bank
Chongqing Shapingba Rongxing Village and Township Bank Co., Ltd.	(xxii)	Shapingba, Chongqing	100,000	80.00	80,000	Village and Township Bank

1. CORPORATE INFORMATION AND STRUCTURE (continued)

	Notes	Place of incorporation/ registration and operations	Nominal value of issued share/ paid-up capital	Percentage owned by the bank/voting rights %	Amount invested by the Bank	Principal activities
Hejian Ronghui Village and Township Bank Co., Ltd.	(xxiii)	Hejian, Hebei	30,000	100.00	30,000	Village and Township Bank
Chongqing Youyang Rongxing Village and Township Bank Co., Ltd.	(xxiv)	Youyang, Chongqing	60,000	100.00	60,000	Village and Township Bank

Statutory financial statements of the subsidiaries of the Bank were prepared under CASs for the years ended 31 December 2010, 2011 and 2012, and have been audited by BDO China Shu Lun Pan Certified Public Accountants LLP.

Major changes to the structure of the Group during the Relevant Periods are as follows:

- (i) On 6 January 2009, the Bank established a wholly-owned subsidiary of Bayan Rongxing Village and Township Bank Co., Ltd. ("Bayan Rongxing") with a registered capital of RMB 23.8 million. On 8 April 2011, the Bank made additional capital injection of RMB 21.2 million into Bayan Rongxing. After the injection, the total registered capital has increased to RMB 45 million. On 17 February 2013, International Finance Company made an additional capital injection of RMB 5 million into Bayan Rongxing. After the injection, the total registered capital has increased to RMB 50 million. The Bank's equity interest has decreased to 90% and is still the controlling shareholder of Bayan Rongxing.
- (ii) On 19 May 2009, the Bank established a wholly-owned subsidiary of Huining Huishi Village and Township Bank Co., Ltd. with a registered capital of RMB 30 million.
- (iii) On 4 January 2010, the Bank, along with the Beijing Express Bosch Auto Sales & Service Co., Ltd., jointly established Beijing Huairou Rongxing Village and Township Bank Co., Ltd. with a registered capital of RMB 100 million. The Bank holds 90% of the shares, making it the controlling shareholder of the business entity.
- (iv) On 21 January 2010, the Bank established a wholly-owned subsidiary of Yushu Rongxing Village and Township Bank Co., Ltd. with a registered capital of RMB 30 million.
- (v) On 11 June 2010, the Bank, along with China Bao An Group Co., Limited, HSBC Asset Management Co., Ltd., and Shenzhen Ning Jia Investment and Development Co., Ltd., jointly funded the establishment of Shenzhen Bao An Rongxing Village and Township Bank Co., Ltd. with a registered capital of RMB 200 million. The Bank holds 70% of the shares, making it the controlling shareholder of the business entity.
- (vi) On 10 August 2010, the Bank established the wholly-owned subsidiary of Yanshou Rongxing Village and Township Bank Co., Ltd. ("Yanshou Rongxing") with a registered capital of RMB 10 million. On 15 June 2012, the Bank made additional capital injection of RMB 20 million into Yanshou Rongxing, increasing its total registered capital to RMB 30 million.
- (vii) On 15 December 2010, the Bank, along with Chongqing Tiantai Green Agricultural Development (Group) Co., Ltd., jointly funded the establishment of Chongqing Dadukou Rongxing Village and Township Bank Co., Ltd. with a registered capital of RMB 60 million. The Bank holds a 90% stake in the company, making it the controlling shareholder.

1. CORPORATE INFORMATION AND STRUCTURE (continued)

- (viii) On 22 December 2010, the Bank, along with Suining Rougang Investment Co., Ltd., Suining Kaiming Food Co., Ltd., Sichuan Zhuotong Industrial Co., Ltd. Sichuan Xinghe Real Estate Development Co., Ltd., jointly funded the establishment of Suining Anju Rongxing Village and Township Bank Co., Ltd. with a registered capital of RMB 80 million. The Bank holds 75% stake in the company, making it the controlling shareholder.
- (ix) On 27 January 2011, the Bank, along with Huachuan Xinying Urban Construction Investment Co., Ltd., jointly funded the establishment of Huachuan Rongxing Village and Township Bank Co., Ltd. ("Huachuan Rongxing") with a registered capital of RMB 10 million. The Bank holds a 90% stake of the company, making it the controlling shareholder. On 30 March 2012, the Bank made additional capital injection of RMB 40 million into Huachuan Rongxing. After the capital injection, the registered capital of Huachuan Rongxing is RMB 50 million, the Bank's stake in the company rose to 98%, it remains the controlling shareholder.
- (x) On 7 April 2011, the Bank established the wholly-owned subsidiary of Baiquan Rongxing Village and Township Bank Co., Ltd. ("Baiquan Rongxing") with a registered capital of RMB 5 million. On 23 April 2012, the Bank made additional capital injection of RMB 25 million into Baiquan Rongxing, increasing its total registered capital to RMB 30 million.
- (xi) On 19 April 2011, the Bank established a wholly-owned subsidiary of Yanshi Rongxing Village and Town with a registered capital of RMB 30 million.
- (xii) On 25 April 2011, the Bank established a wholly-owned subsidiary of Leping Rongxing Village and Township Bank Co., Ltd. with a registered capital of RMB 30 million.
- (xiii) On 9 May 2011, the Bank, along with Rudong Textile Rubber Co., Ltd. and Nantong Xiangfen Electronics Co., Ltd. jointly funded the establishment of Jiangsu Rudong Rongxing Village and Township Bank Co., Ltd. with a registered capital of RMB 100 million. The Bank holds 80% shares of the company, making it the controlling shareholder.
- (xiv) On 16 May 2011, the Bank established a wholly-owned subsidiary of Honghu Rongxing Village and Township Bank Co., Ltd. with a registered capital of RMB 30 million.
- (xv) On 4 May 2011, the Bank, along with Zhuzhou Hongda Electronic Co., Ltd., Zhuzhou Huachen Real Estate Development Co., Ltd., jointly funded the establishment of Zhuzhou Rongxing Village and Township Bank Co., Ltd. with a registered capital of RMB 50 million. The Bank holds an 80% stake in the company, making it the controlling shareholder.
- (xvi) On 1 June 2011, the Bank, along with Wulong Water Co., Ltd., Chongqing Sanxing Industrial Company, Pengshui Shengda Hydropower Co., Ltd., Chongqing Tianlu Concrete Co., Ltd., jointly established Chongqing Wulong Rongxing Village and Township Bank Co., Ltd. with a registered capital of RMB 50 million. The Bank holds a 70% stake in the company, making it the controlling shareholder.
- (xvii) On 8 June 2011, the Bank established the wholly-owned subsidiary of Xin'an Rongxing Village and Township Bank Co., Ltd. with a registered capital of RMB 30 million.
- (xviii) On 20 June 2011, the Bank established a wholly-owned subsidiary of Anyi Rongxing Village and Township Bank Co., Ltd. with a registered capital of RMB 30 million.
- (xix) On 16 June 2011, the Bank established a wholly-owned subsidiary of Yingcheng Rongxing Village and Township Bank Co., Ltd. with a registered capital of RMB 30 million.

1. CORPORATE INFORMATION AND STRUCTURE (continued)

- (xx) On 17 June 2011, the Bank established a wholly-owned subsidiary of Leiyang Rongxing Village and Township Bank Co., Ltd. with a registered capital of RMB 50 million.
- (xxi) On 6 July 2011, the Bank, along with Hainan Airlines Property Holdings (Group) Co., Ltd. jointly established Hainan Baoting Rongxing Village and Township Bank Co., Ltd. ("Baoting Rongxing") with a registered capital of RMB 10 million. The Bank held a 90% stake in the Company, making it the controlling shareholder. In September 2012, the Bank made additional capital injection of RMB 20 million into Baoting Rongxing, increasing its total registered capital to RMB 30 million. The Bank's stake in the company rose to 96.67%, and the Bank is still the controlling shareholder.
- (xxii) On 28 May 2012, the Bank, along with Chongqing Arcas Hotel Investment Management Ltd., Chongqing Caizhi Business Management Co., Ltd., jointly established Chongqing Shapingba Rongxing Village and Township Bank Co., Ltd. with a registered capital of RMB 100 million. The Bank holds an 80% stake in the company, making it the controlling shareholder.
- (xxiii) On 25 June 2012, the Bank established the wholly-owned subsidiary of Hejian Ronghui Village and Township Bank Co., Ltd. with a registered capital of RMB 30 million.
- (xxiv) On 24 May 2012, the Bank established the wholly-owned subsidiary of Youyang Rongxing Village and Township Bank Co., Ltd. with a registered capital of RMB 60 million.

2.1 BASIS OF PREPARATION AND ACCOUNTING POLICIESStatement of compliance

These financial statements have been prepared in accordance with IFRSs and interpretations promulgated by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance. All IFRSs effective for the accounting period commencing from 1 January 2013, together with the relevant transitional provisions, have been early adopted by the Group in preparation of the Financial Information throughout the Relevant Periods.

These financial statements have been prepared under the historical cost convention, except for financial assets held for trading and available-for-sale financial assets (unless the fair value cannot be reliably measured) that have been measured at fair value, as further explained in the respective accounting policies below. These financial statements are presented in RMB and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries for the years ended 31 December 2010, 2011, 2012 and the nine months ended 30 September 2013. The financial statements of the subsidiaries are prepared for the same reporting period as the Bank, using consistent accounting policies.

Control is achieved when the Bank is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Bank controls an investee if and only if the Bank has:

- (a) Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);

2.1 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)Basis of consolidation (continued)

- (b) Exposure, or rights, to variable returns from its involvement with the investee, and
- (c) The ability to use its power over the investee to affect its returns.

When the Bank has less than a majority of the voting or similar rights of an investee, the Bank considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) The contractual arrangement with the other vote holders of the investee;
- (b) Rights arising from other contractual arrangements;
- (c) The Group's voting rights and potential voting rights.

The Bank re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Bank gains control until the date the Bank ceases to control the subsidiary.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- (a) derecognises the assets (including goodwill) and liabilities of the subsidiary;
- (b) derecognises the carrying amount of any non-controlling interest;
- (c) derecognises the cumulative translation differences recorded in equity;
- (d) recognises the fair value of the consideration received;
- (e) recognises the fair value of any investment retained;
- (f) recognises any resulting surplus or deficit in profit or loss; and
- (g) reclassifies the Group's share of components previously recognised in other comprehensive income to profit or loss or retained profits, as appropriate.

Non-controlling interests represent the portion of profit or loss and net assets in subsidiaries not held by the Group and are presented separately in the consolidated income statement, and within equity in the consolidated statement of financial position separately from the equity attributable to equity holders of the parent company. An acquisition of non-controlling interests is accounted for as an equity transaction.

2.2. IMPACT OF ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised IFRSs and IASs that have been issued but are not yet effective, in these financial statements:

IAS 32 Amendments	<i>Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities¹</i>
IFRS 10, IFRS 12 and IAS 27 Amendments	<i>Investment Entities¹</i>
IFRS 9	<i>Financial Instruments²</i>
IFRIC 21	<i>Levies¹</i>
IAS 39 Amendments	<i>Novation of Derivatives and Continuation of Hedge Accounting¹</i>

1 Effective for annual periods beginning on or after 1 January 2014

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

IAS 32 Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities (Amendments)

These amendments clarified the meaning of “currently has a legally enforceable right to set-off”. These amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The Group is currently assessing the impact of these amendments on its financial position and performance.

IFRS 10, IFRS 12 and IAS 27 (Amendments) – Investment Entities

Amendments to IFRS 10 include a definition of an investment entity and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss in accordance with IFRS 9. Consequential amendments were made to IFRS 12 and IAS 27 (Revised) for new disclosure requirements related to investment entities. The Group is considering the impact of the above standards and amendments on both the consolidated and the parent statements.

IFRS 9 Financial Instruments

IFRS 9, as issued, reflects the first phase of the IASB’s work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRIC Interpretation 21 Levies

IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. The Group is considering the impact of the above interpretation on both the consolidated and the parent statements.

2.2. IMPACT OF ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

IAS 39 Novation of Derivatives and Continuation of Hedge Accounting (Amendments)

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The Group does not expect that amendment will have material financial impact in future financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Associate

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's investments in an associate are accounted for under the equity method of accounting. Under the equity method, an investment in an associate is carried in the consolidated statement of financial position at cost plus post acquisition changes in the Group's share of the net assets of the associate, less any impairment losses. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. After application of the equity method, the Group determines whether it is necessary to recognise any additional impairment loss with respect to the Group's net investment in the associate. The consolidated income statements reflect the share of the results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity. Profits and losses resulting from transactions between the Group and the associate are eliminated to the extent of the Group's interests in the associate.

The results of the associate are included in the Bank's income statement to the extent of dividends received and receivable. The Bank's investments in an associate are stated at cost less any impairment losses.

The reporting periods of the associate and the Group are identical and the associate's accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

(2) Foreign currency translation

The consolidated financial statements of the Group are presented in RMB, being the functional and presentation currency of the Bank and its subsidiaries.

Foreign currency transactions are initially recorded at the functional currency using the exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated into the functional currency at the applicable exchange rates ruling at the end of the reporting period. Exchange differences arising on the settlement of monetary items or on translating monetary items at period end rates are recognised in the income statement.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates as at the date when the fair value is determined.

(3) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**(3) Financial instruments (continued)***Initial recognition of financial instruments*

At initial recognition, financial assets are classified into four categories: financial assets at fair value through profit or loss, held-to-maturity financial investments, loans and receivables and available-for-sale financial assets.

At initial recognition, financial liabilities are classified into two categories: financial liabilities at fair value through profit or loss and other financial liabilities.

A financial asset or financial liability is measured initially at its fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Measurement of fair value

The fair value of a financial asset or financial liability traded in active markets is based on its quoted market price.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include making reference to the prices from recent arm's length market transactions between knowledgeable and willing parties, if available, current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models.

Financial assets or financial liabilities at fair value through profit or loss

Financial assets or financial liabilities at fair value through profit or loss include financial assets or financial liabilities held for trading and financial assets or financial liabilities designated at fair value through profit or loss.

Financial assets or financial liabilities held for trading

A financial asset or financial liability is classified as held for trading if:

- (i) it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
- (ii) on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking; or
- (iii) it is a derivative.

Financial assets held for trading mainly include bond investments.

Financial assets or financial liabilities held for trading are measured at fair value after initial recognition. Realised or unrealised income or expenses are recognised in the income statement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**(3) Financial instruments (continued)***Financial assets or financial liabilities designated at fair value through profit or loss*

A financial instrument may be designated as a financial asset or financial liability at fair value through profit or loss upon initial recognition, if it meets any of the criteria set out below:

- (i) It eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring the financial asset or financial liability or from recognising the gains and losses on them on different bases;
- (ii) It applies to a group of financial assets, financial liabilities or both which is managed and its performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and where information about that group of financial instruments is provided internally on that basis to key management personnel; or
- (iii) The financial instrument contains one or more embedded derivatives, unless the embedded derivative(s) does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

In the case of an equity investment, if neither a quoted market price in an active market exists nor its fair value can be reliably measured, it cannot be designated as a financial asset at fair value through profit or loss.

Held-to-maturity financial investments

Held-to-maturity financial investments are non-derivative financial assets with fixed or determinable payments and a fixed maturity and which the Group has the positive intention and ability to hold to maturity. After initial measurement, held-to-maturity financial investments are subsequently measured at amortised cost using the effective interest rate method, less any allowance for impairment. Gains and losses are recognised in the income statement when the held-to-maturity financial investments are derecognised or impaired, as well as through the amortisation process. All the held-to-maturity financial investments are bond investments.

The Group shall reclassify any remaining held-to-maturity investments as available for sale and shall not classify any financial assets as held to maturity during the current financial year or during the two preceding financial years, if the Group has sold or reclassified more than an insignificant amount of held-to-maturity investments before maturity (more than insignificant in relation to the total amount of held-to-maturity investments) except for sale or reclassification that:

- (i) is so close to maturity or the financial asset's call date (for example, less than three months before maturity) that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- (ii) occurs after the entity has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or
- (iii) is attributable to an isolated event that is beyond the entity's control, is non-recurring and could not have been reasonably anticipated by the entity.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**(3) Financial instruments (continued)***Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and the Group has no intention of trading the assets immediately or in the near term. After initial measurement, such assets are subsequently carried at amortised cost using the effective interest rate method, less any allowance for impairment losses. Gains and losses are recognised in the income statement when such assets are derecognised or impaired, as well as through the amortisation process. Loans and receivables mainly include loans and advances to customers, receivables and discounted bills.

Discounted bills are granted by the Group to its customers based on the bank acceptance held which has not matured. Discounted bills are carried at face value less unrealised interest income and the interest income of the discounted bills is recognised using the effective interest rate method.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets which are designated as such or are not classified in any of the three preceding categories. After initial recognition, available-for-sale financial assets are subsequently measured at fair value. Premiums and discounts on available-for-sale financial assets are amortised using the effective interest rate method and are taken to the income statement as interest income. Changes in fair value of available-for-sale financial assets are recognised as a separate component of other comprehensive income until the financial asset is derecognised or determined to be impaired at which time the cumulative gains or losses previously recorded in other comprehensive income are transferred to the income statement. Dividend and interest income on available-for-sale financial assets are recorded in the income statement.

In the case of an equity investment classified as available for sale, if neither a quoted market price in an active market exists nor its fair value can be reliably measured, it will be measured at cost less any impairment loss.

Other financial liabilities

Other financial liabilities are carried at amortised cost using the effective interest rate method.

(4) Impairment of financial assets

An assessment on carrying amount of financial assets is made at the end of each reporting period. Impairment is recognised if there is objective evidence of impairment of financial assets, i.e., one or more events that occur after the initial recognition of those assets and have an impact on the estimated future cash flows of the financial assets or group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, they would probably enter into bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows.

Financial assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**(4) Impairment of financial assets (continued)***Financial assets carried at amortised cost (continued)*

have not been incurred) discounted at the financial asset's original effective interest rate and shall include the value of any relevant collateral. The original effective interest rate is the rate used to determine the values of financial assets at initial recognition. With respect to floating-rate loans, receivables and held-to-maturity investments, the discount rate could be the current effective interest rate determined under the contract. The carrying amount of the asset is reduced through the use of an impairment provision account and the amount of the loss is recognised in the income statement.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

Future cash flows of a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the impact of current conditions that did not affect the period on which the historical loss experience is based and to eliminate the impact of historical conditions that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group.

If, in a subsequent period, the amount of an impairment loss decreases and the decrease can be attributed objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the assets does not exceed its amortised cost at the reversal date.

When an item of loans and receivables is uncollectible, it is written off against the related allowance for impairment losses. Such loans and receivables are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of the amounts previously written off decrease the amount of the provision for loan impairment in the income statement.

Financial assets carried at cost

If there is objective evidence that an impairment loss has been incurred on the financial asset, the amount of impairment loss, measured as the difference between the carrying amount of that financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset, is recognised in the income statement. In the case of an equity investment, if neither a quoted market price in an active market exists nor its fair value can be reliably measured, the amount of impairment loss is recognised in the income statement. Impairment losses on these assets are not reversed.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**(4) Impairment of financial assets (continued)***Available-for-sale financial assets*

If there is objective evidence that the financial asset is impaired, the cumulative loss, measured as the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement, is removed from other comprehensive income and recognised in the income statement.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. The Group considers the period and consistency of the decline in evaluating whether a decline in fair value is prolonged. The Group considers the time period and continuity of the magnitude of the decline to evaluate whether the decline in fair value is prolonged. More significantly the fair value declines relative to the cost, the less the volatility moves, and the longer the decline lasts or the more obvious the continuity of the magnitude of the decline is, the more likely the equity investment impairs. Impairment losses on equity investments are not reversed through the income statement; increases in their fair value after impairment are recognised as other comprehensive income.

In the case of debt instruments classified as available for sale, if, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impaired loss is reversed through the income statement.

(5) Derecognition of financial assets and liabilities*Financial assets*

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset; or has retained its rights to receive cash flows from the asset but has assumed an obligation to pay them in full without material delay to a third party under a “pass-through” arrangement; and either the Group has transferred substantially all the risks and rewards of ownership of the financial asset; or the Group has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset or has retained its rights to receive cash flows from the asset but has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group’s continuing involvement in the asset.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**(5) Derecognition of financial assets and liabilities (continued)***Sales of assets on condition of repurchase*

The derecognition of financial assets sold on condition of repurchase is determined by the economic substance of the transaction. If a financial asset is sold under an agreement to repurchase the same or substantially the same asset at a fixed price or at the sale price plus a reasonable return, the Group will not derecognise the asset. If a financial asset is sold together with an option to repurchase the financial asset at its fair value at the time of repurchase (in case of transferor sells such financial asset), the Group will derecognise the financial asset.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

(6) Trade date accounting

All regular way purchases and sales of financial assets are recognised at the trade date, which is the date that the Group commits to purchase or sell the assets. A regular way purchase or sale is the purchase or sale of financial assets that requires delivery of assets within the time frame generally established by regulation or convention in the marketplace.

(7) Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position if, and only if, the Group has a legally enforceable right to offset such amounts with the same counterparty and an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

(8) Reverse repurchase and repurchase transactions

Assets sold under agreements to repurchase at a specified future date (“repos”) are not derecognised from the statement of financial position. The corresponding cash received, including accrued interest, is recognised on the statement of financial position as a “repurchase agreement”, reflecting its economic substance as a loan to the Group. The difference between the sale and repurchase prices is treated as an interest expense and is accrued over the life of the agreement using the effective interest rate method.

Conversely, assets purchased under agreements to resell at a specified future date (“reverse repos”) are not recognised on the statement of financial position. The corresponding cash paid, including accrued interest, is recognised on the statement of financial position as a “reverse repurchase agreement”. The difference between the purchase and resale prices is treated as an interest income and is accrued over the life of the agreement using the effective interest rate method.

(9) Property and equipment

Property and equipment, other than construction in progress are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property and equipment comprises its

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**(9) Property and equipment (continued)**

purchase price, tax and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after items of property and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement.

Construction in progress comprises the direct costs of construction during the period of construction and is not depreciated. Construction in progress is reclassified to the appropriate category of property and equipment when completed and ready for use.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property and equipment, less any estimated residual value, over the estimated useful life. The estimated useful life, estimated residual value and annual depreciation rate of each item of property and equipment are as follows:

	<u>Estimated useful life</u>	<u>Estimated residual value rate</u>	<u>Annual depreciation rate</u>
Properties and buildings	30 years	5%	3.17%
Office equipment	3-10 years	0 or 5%	9.5%-31.67%
Motor vehicles	5 years	5%	19.00%
Leasehold improvements	Over the shorter of the economic useful lives and remaining lease terms		

Where parts of an item of property and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognised.

(10) Land use rights

Land use rights are recognised at cost, which is the consideration paid. The rights are amortised using the straight-line basis over the period of the leases.

(11) Reposessed Assets

Reposessed assets are initially recognised at fair value, and are subsequently measured at the lower of the carrying value and net recoverable amount. If the recoverable amount is lower than the carrying value of the reposessed assets, the assets are written down to the recoverable amount.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**(12) Business combination and goodwill**

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition costs incurred are expensed.

For each business combination, the Group measures at the acquisition date components of non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation at either: (a) fair value; or (b) the present ownership instruments' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair values, unless another measurement basis is required by IFRSs.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, is recognised in accordance with IAS 39 either in profit or loss or as change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the net identifiable assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets of the subsidiary acquired, the difference is, after reassessment, recognised in profit or loss as gain on bargain purchase.

(13) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the income statement net of any reimbursement.

(14) Asset impairment

Impairment losses on assets except for deferred tax assets, financial assets and goodwill are determined based on the following:

The Group assesses at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, or when impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**(14) Asset impairment (continued)**

of its fair value less costs to sell and its value in use and is determined on an individual basis, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the CGU to which the asset belongs. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered to be impaired and is written down to its recoverable amount. In assessing value in use of an asset, the estimated future cash flows are discounted to their present values using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of any depreciation/amortisation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement. After such a reversal, the depreciation/amortisation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

(15) Cash and cash equivalents

Cash and cash equivalents refer to short term highly liquid assets, which are readily convertible into known amounts of cash and subject to an insignificant risk of changes in value. Cash and cash equivalents comprise cash, unrestricted balances with central banks, amounts due from banks and other financial institutions and reverse repurchase agreements with original maturity of less than three months.

(16) Employee benefits

Employee benefits refer to all forms of consideration and other related expenditure given by the Group in exchange for services rendered by employees. The benefits payable are recognised as liabilities during the period in which the employees have rendered services to the Group. If the effect of discounting the benefits payable which are payable after one year from the end of the reporting period is significant, the Group will present them at their present value.

Statutory defined contribution plans

In accordance with the relevant laws and regulations, employees of the Group participate in various social insurance schemes like basic pension insurance, medical insurance, unemployment insurance and housing fund schemes administered by the local government authorities. The Group calculates and contributes to the local government agencies the above pension and insurance schemes using applicable contribution basis and rates stipulated in the relevant local regulations in the period the employees providing their services to the Group. Contributions to these plans are recognised in the income statement as incurred.

Early retirement benefits

According to the Bank's policy on early retirement benefits, certain employees are entitled to take leave of absence and in return receive a certain level of staff salaries and related benefits from the Bank. The salaries and benefit payments are made from the date of early retirement to the normal retirement date. The amounts of retirement benefit expense and present value of these liabilities are dependent on

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**(16) Employee benefits (continued)***Early retirement benefits (continued)*

assumptions used in calculating such amounts. These assumptions include discount rates, retirement benefit growth rates and other factors. Gains and losses arising from the changes in assumptions and amendments to pension plans are recognised in the income statement as incurred.

(17) Fiduciary activities

Where the Group acts in a fiduciary capacity such as custodian or agent, assets arising thereon together with related undertakings to return such assets to customers are excluded from the statement of financial position.

The asset custody services of the Group refer to the business that the Group as trustee approved by regulatory authorities, signs custody agreement with clients and takes the responsibility of trustee in accordance with relevant laws and regulations. The assets under custody are recorded as off-balance sheet items as the Group merely fulfils the responsibility as trustee and charges fees in accordance with these agreements without retaining any risks or rewards of the assets under custody.

The Group grants entrusted loans on behalf of trustors, which are recorded off-balance sheet. The Group, as a trustee, grants such entrusted loans to borrowers under the direction of those trustors who fund these loans. The Group has been contracted by those trustors to manage the administration and collection of these loans on their behalf. Those trustors determine both the underwriting criteria for and the terms of all entrusted loans including their purposes, amounts, interest rates, and repayment schedules. The Group charges a commission related to its activities in connection with entrusted loans which are recognised rateably over the period in which the service is provided. The risk of loss is borne by those trustors.

(18) Recognition of income and expense

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and when the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Interest income and expense

For all financial instruments measured at amortised cost and interest-generating financial instruments classified as available-for-sale financial assets, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded in profit or loss.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**(18) Recognition of income and expense (continued)***Fee and commission income*

Fee and commission income is recognised after services have been rendered, and the chargeable amount is reasonably estimated.

The fair value of the award credits granted to the bank card holders is deferred and recognised as fee and commission income when the award credits are redeemed or expire.

Dividends income

Dividends income is recognised when the Group's right to receive payment is established.

Net trading income

Net trading income arising from trading activities include the gains and losses from changes in fair value for financial assets held for trading.

(19) Income tax

Income tax comprises current and deferred income tax. Income tax is recognised in the income statement except that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the end of each reporting period.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts.

Deferred income tax liabilities are recognised for all taxable temporary differences, except:

- (i) Where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable income or deductible expenses; and
- (ii) In respect of taxable temporary differences associated with investments in subsidiaries and an associate, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not be reversed in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- (i) Where the deferred income tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable income or deductible expenses; and

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**(19) Income tax (continued)***Deferred income tax (continued)*

- (ii) In respect of deductible temporary differences associated with investments in subsidiaries and an associate, deferred income tax assets are recognised only to the extent that it is probable that the temporary differences will be reversed in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax assets and deferred income tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each reporting period and reflect the corresponding tax effect.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred income tax asset to be utilised. When it is virtually probable that sufficient taxable income will be available, the reduced amount can be reversed accordingly.

Deferred income tax assets and deferred income tax liabilities are offset if a legally enforceable right exists to set off current income tax assets against current tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

(20) Leases

Leases which transfer substantially all the risks and rewards of ownership of the assets to the lessees are classified as finance leases. Leases where substantially all the rewards and risks of the assets remain with the lessor are accounted for as operating leases.

Operating leases

Rental payments applicable to operating leases are charged to the income statement on the straight-line basis over the lease terms.

When the Group is the lessor under operating leases, the assets subject to operating leases are accounted for as the Group's assets. Rental income is recognised as "other operating income, net" in the income statement on the straight-line basis over the lease term.

(21) Related Parties

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and that person,
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

Or

- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**(21) Related Parties (continued)**

- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a); and
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(22) Financial guarantee contracts

The Group issues financial guarantee contracts, including letters of credit, letters of guarantee and acceptance. These financial guarantee contracts provide for specified payments to be made to reimburse the holders for the losses they incur when a guaranteed party defaults under the original or modified terms of a debt instrument, loan or any other obligation.

The Group initially measures all financial contracts at fair value, in other liabilities, being the premium received. This amount is recognised rateably over the period of the contract as fee and commission income. Subsequently, the liabilities are measured at the higher of the initial fair value less cumulative amortisation and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee. Any increase in the liability relating to a financial guarantee is taken to the income statement.

(23) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably. Contingent liabilities are disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable and can be reliably estimated, it will then be recognised as a provision.

(24) Dividends

Dividends are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders in general meetings and declared. Interim dividends are deducted from equity when they are approved and declared, and no longer at the discretion of the Bank. Dividend for the year that is approved after the end of the reporting period is disclosed as an event after the reporting period.

(25) Structured entities

A structured entity is an entity that has been designed so that voting rights are not the dominant factor in deciding who controls the entity. Unconsolidated structured entities refer to equity in other entities which have no significant impact to the Group, including but not limited to equity instrument or debt instruments or any other involvements. The Group's unconsolidated structured entities mainly include off balance sheet non-guaranteed wealth management products sponsored by the Group. Note 39.

(a).

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

In the process of applying the Group's accounting policies, management has used its judgements and made assumptions of the effects of uncertain future events on the financial statements. The most significant use of judgements and key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are described below.

Designation of held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity investments when the Group has the positive intention and ability to hold the investments to maturity. Accordingly, in evaluating whether a financial asset shall be classified as a held-to-maturity investment, significant management judgement is required. If the Group fails to correctly assess its intention and ability to hold the investments to maturity and the Group sells or reclassifies more than an insignificant amount of held-to-maturity investments before maturity, the Group shall reclassify the whole held-to-maturity investment portfolio as available for sale.

Impairment losses of loans and advances, amounts due from banks and other financial institutions and receivables

The Group determines periodically whether there is any objective evidence that impairment losses have occurred on loans and advances, amounts due from banks and other financial institutions and receivables. If any such evidence exists, the Group assesses the amount of impairment losses. The amount of impairment losses is measured as the difference between the carrying amount and the present value of estimated future cash flows. Assessing the amount of impairment losses requires significant judgement on whether the objective evidence for impairment exists and also significant estimates when determining the present value of the expected future cash flows.

Income tax

Determining income tax provisions requires the Group to estimate the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions in accordance with prevailing tax regulations and makes tax provisions accordingly. In addition, deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised. This requires significant estimation on the tax treatments of certain transactions and also significant assessment on the probability that adequate future taxable profits will be available for the deferred income tax assets to be recovered.

Fair value of financial instruments

If the market for a financial instrument is not active, the Group establishes fair value by using a valuation technique. Valuation techniques include using recent arm's length market transactions between knowledgeable and willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. To the extent practicable, valuation technique makes maximum use of market inputs. However, where market inputs are not available, management needs to make estimates on such unobservable market inputs.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)*Early retirement benefit obligations*

The Bank has established liabilities in connection with benefits payable to early retired employees. These amounts of employee benefit expense and these liabilities are dependent on assumptions used in calculating such amounts. These assumptions include discount rates, inflation rates, and other factors. Actual results that differ from the assumptions are recognised immediately and, therefore, affect recognised expense in the year in which such differences arise. While management believes that its assumptions are appropriate, differences in actual experience or changes in assumptions may affect the Bank's expense related to its employee early retirement benefit obligations.

5. NET INTEREST INCOME

	Year ended 31 December			Nine months ended 30 September	
	2010	2011	2012	2012	2013
				(Unaudited)	
Interest income on:					
Loans and advances to customers ...	3,119,829	4,691,499	6,537,440	4,589,529	5,465,397
– Corporate loans and advances ...	1,247,201	1,848,695	3,086,756	2,152,234	2,925,752
– Personal loans	1,569,692	2,372,826	2,830,916	2,004,165	2,257,227
– Discounted bills	302,936	469,978	619,768	433,130	282,418
Reverse repurchase agreements	169,031	1,494,360	2,140,515	1,725,451	1,894,796
Available-for-sale financial assets ...	10,034	233,838	269,272	195,335	308,162
Held-to-maturity financial investments	228,275	354,281	483,866	364,314	399,631
Receivables	106,525	613,887	1,921,011	1,356,962	834,539
Due from central bank	211,756	363,022	490,242	347,513	447,503
Deposits with banks and other financial institutions	182,819	465,903	1,150,824	810,018	976,732
Subtotal	4,028,269	8,216,790	12,993,170	9,389,122	10,326,760
Interest expense on:					
Due to customers	(937,054)	(1,742,846)	(2,967,699)	(2,085,201)	(3,019,530)
Repurchase agreements	(26,160)	(996,673)	(1,400,270)	(1,092,638)	(834,666)
Deposits from banks and other financial institutions	(39,487)	(596,291)	(1,822,705)	(1,358,458)	(1,402,998)
Debt securities issued	(60,000)	(60,000)	(131,202)	(87,572)	(130,267)
Due to central bank	(9,664)	(2,926)	(12,927)	(7,769)	(14,957)
Subtotal	(1,072,365)	(3,398,736)	(6,334,803)	(4,631,638)	(5,402,418)
Net interest income	2,955,904	4,818,054	6,658,367	4,757,484	4,924,342
Included: interest income on impaired loans	5,208	10,424	17,057	15,044	28,291
Interest income from:					
Listed debt instruments	238,309	588,119	753,138	559,649	707,793
Unlisted debt instruments	3,789,960	7,628,671	12,240,032	8,829,473	9,618,967
Subtotal	4,028,269	8,216,790	12,993,170	9,389,122	10,326,760

6. NET FEE AND COMMISSION INCOME

	Year ended 31 December			Nine months ended 30 September	
	2010	2011	2012	2012	2013
				(Unaudited)	
Fee and commission income:					
Advisory and consulting fees	12,031	100,984	273,765	101,089	316,354
Settlement and clearing fees	45,876	58,506	95,299	68,325	62,757
Agency and custodian fees	87,121	308,340	374,902	295,704	438,758
Including: non-guaranteed wealth management product	18,195	121,787	96,853	79,469	204,531
Bank card fees	7,176	13,872	47,877	31,602	95,738
Others	17,788	21,515	19,594	67,357	36,679
Subtotal	169,992	503,217	811,437	564,077	950,286
Fee and commission expense:					
Settlement and clearing fees	(8,029)	(19,080)	(13,185)	(7,841)	(12,231)
Agency fees	(23,586)	(30,277)	(37,691)	(23,408)	(5,431)
Bank card fees	(17,622)	(23,139)	(44,015)	(27,172)	(41,721)
Others	(4,565)	(18,867)	(37,896)	(34,575)	(19,706)
Subtotal	(53,802)	(91,363)	(132,787)	(92,996)	(79,089)
Net fee and commission income	116,190	411,854	678,650	471,081	871,197

7. NET TRADING INCOME

	Year ended 31 December			Nine months ended 30 September	
	2010	2011	2012	2012	2013
				(Unaudited)	
Listed in mainland China:					
Debt securities	124,580	282,133	356,579	280,530	150,085

The above amounts include gains and losses arising from the buying and selling of, interest income on, and changes in the fair value of financial assets held for trading.

8. NET GAIN/(LOSS) ON FINANCIAL INVESTMENTS

	Year ended 31 December			Nine months ended 30 September	
	2010	2011	2012	2012	2013
				(Unaudited)	
Dividends from available-for-sale equity investments	861	406	507	507	579
Loss on disposal of available-for-sale financial assets, net	(169)	(129,188)	(87,916)	(73,939)	(34,806)
Total	692	(128,782)	(87,409)	(73,432)	(34,227)

9. OTHER OPERATING INCOME, NET

	Year ended 31 December			Nine months ended 30 September	
	2010	2011	2012	2012	2013
				(Unaudited)	
Net gain on disposal of property and equipment	7,177	4,363	209	–	–
Net gain on sale of repossessed assets	–	–	8,887	–	–
Gain/(loss) from foreign exchange, net	(7,618)	(10,468)	8,271	10,073	(3,510)
Leasing income	5,242	9,045	6,319	3,653	2,396
Government grants and subsidy	28,829	21,928	63,045	20,941	10,014
Penalty and compensation payment	15	235	5	1	130
Others	14,405	5,690	18,283	8,632	3,140
Total	<u>48,050</u>	<u>30,793</u>	<u>105,019</u>	<u>43,300</u>	<u>12,170</u>

10. OPERATING EXPENSES

	Year ended 31 December			Nine months ended 30 September	
	2010	2011	2012	2012	2013
				(Unaudited)	
Staff costs:					
Salaries, bonuses and allowances ...	539,311	805,574	1,085,066	728,487	861,686
Social insurance	41,687	62,080	96,622	69,071	87,594
Housing fund	19,951	34,787	53,902	38,209	45,696
Staff benefits	36,514	54,150	79,512	43,201	51,368
Labour union expenditure and education costs	8,800	15,572	20,809	14,638	9,010
Early retirement benefits	6,677	2,306	6,147	4,804	4,963
Subtotal	<u>652,940</u>	<u>974,469</u>	<u>1,342,058</u>	<u>898,410</u>	<u>1,060,317</u>
General and administrative expenses	274,834	404,186	638,034	386,613	371,071
Business tax and surcharges	132,283	253,041	364,068	256,667	360,891
Depreciation and amortisation	100,962	136,218	208,255	151,269	213,565
Leasing expense	87,142	125,150	172,099	126,761	153,373
Auditors' remuneration	618	1,643	4,459	3,051	8,246
Others	152,754	188,117	296,546	168,620	221,132
Total	<u>1,401,533</u>	<u>2,082,824</u>	<u>3,025,519</u>	<u>1,991,391</u>	<u>2,388,595</u>

11. DIRECTORS' AND SUPERVISORS' EMOLUMENTS

Details of the directors' and supervisors' emoluments before tax are as follow:

Year ended 31 December 2010								
Name	Position	Fees	Remuneration paid	Discretionary bonuses	Contributions to defined contribution schemes	Total emoluments before tax	Of which: deferred payment	Actual amount of remuneration paid (pre-tax)
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		(1)	(2)	(3)	(4)	(5)=(1)+(2) +(3)+(4)	(6)	(7)=(5)-(6)
Guo Zhiwen	Chairman	–	277	1,455	23	1,755	582	1,173
Liu Zhuo	Executive director	–	174	725	14	913	290	623
Chen Danyang	Director	48	–	–	–	48	–	48
Jin Weidong	Director	48	–	–	–	48	–	48
Xia Mei	Director	48	–	–	–	48	–	48
Cao Fu	Director	12	–	–	–	12	–	12
Cai Chunhua	Director	48	–	–	–	48	–	48
Liu Hongyan	Director	48	–	–	–	48	–	48
Qu Wuyi	Director	–	79	–	12	91	–	91
Wang Yuanqing	Independent director	120	–	–	–	120	–	120
Liu Wei	Independent director	120	–	–	–	120	–	120
Tian Xingbin	Chairman of the Board of Supervisors	–	187	900	–	1,087	360	727
Song Zhenlei	Supervisor	24	–	–	–	24	–	24
Chen Liang	Supervisor	24	–	–	–	24	–	24
Wang Yin	Employee supervisor	–	110	259	12	381	–	381
Hui Xiaofeng	External supervisor	84	–	–	–	84	–	84
Qu Zhentao	External supervisor	84	–	–	–	84	–	84

Note: Pursuant to the PRC relevant regulations, a portion of the discretionary bonus payments for the Chairman of the Board of Directors, the President, the Chairman of the Board of Supervisors, Executive Directors and other senior management members are deferred.

During 2010, Gao Shuzhen has been appointed as president. There's no change in other directors, supervisors and other senior executives.

11. DIRECTORS' AND SUPERVISORS' EMOLUMENTS (continued)

Year ended 31 December 2011								
Name	Position	Fees	Remuneration paid	Discretionary bonuses	Contributions to defined contribution schemes	Total emoluments before tax	Of which deferred payment	Actual amount of remuneration paid (pre-tax)
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		(1)	(2)	(3)	(4)	(5)=(1)+(2)+(3)+(4)	(6)	(7)=(5)-(6)
Guo Zhiwen	Chairman	—	313	2,181	23	2,517	1,258	1,259
Liu Zhuo	Executive director	—	254	956	20	1,230	386	844
Gao Shuzhen	Executive director	—	274	1,710	22	2,006	953	1,053
Chen Danyang	Director	48	—	—	—	48	—	48
Jin Weidong	Director	48	—	—	—	48	—	48
Xia Mei	Director	48	—	—	—	48	—	48
Cao Fu	Director	3	—	—	—	3	—	3
Cai Chunhua	Director	12	—	—	—	12	—	12
Liu Hongyan	Director	12	—	—	—	12	—	12
Qu Wuyi	Director	—	—	—	—	—	—	—
Wang Yuanqing	Independent director	120	—	—	—	120	—	120
Liu Wei	Independent director	120	—	—	—	120	—	120
Cui Luanyi	Director	36	—	—	—	36	—	36
Ma Shuwei	Director	36	—	—	—	36	—	36
Qin Hongfu	Director	36	—	—	—	36	—	36
Tian Xingbin	Chairman of the Board of Supervisors	—	316	2,011	—	2,327	—	2,327
Song Zhenlei	Supervisor	24	—	—	—	24	—	24
Chen Liang	Supervisor	6	—	—	—	6	—	6
Zhang Chuan	Supervisor	18	—	—	—	18	—	18
Wang Ying	Employee supervisor	—	297	356	20	673	—	673
Chen Yutao	Employee supervisor	—	202	322	14	538	—	538
Wang Jiheng	External supervisor	28	—	—	—	28	—	28
Hui Xiaofeng	External supervisor	28	—	—	—	28	—	28
Qu Zhentao	External supervisor	28	—	—	—	28	—	28

Note: Pursuant to the PRC relevant regulations, a portion of the discretionary bonus payments for the Chairman of the Board of Directors, the President, the Chairman of the Board of Supervisors, Executive Directors and other senior management members are deferred.

- (1) At the shareholders' general meeting held on 12 April 2011, Gao Shuzhen, Qin Hongfu, Cui Luanyi and Ma Shuwei have been elected as directors of the Bank, while Qu Wuyi, Cao Fu, Liu Hongyan and Cai Chunhua ceased their appointment as directors of the Bank.
- (2) At the shareholders' general meeting held on 12 April 2011, Zhang Chuan and Chen Yutao have been elected as supervisors of the Bank, while Qu Zhentao, Hui Xiaofeng and Chen Liang ceased their appointment as supervisors of the Bank.
- (3) At the first extraordinary shareholders' general meeting held on 25 August 2011, Wang Jiheng has been elected as supervisor of the Bank.
- (4) During the reporting period, Liu Zhuo has been appointed as the assistant of the President, Lv Tianjun has been appointed as Chief Risk Officer, Zhang Qiguang has been appointed as Chief Financial Officer and Xu Shaoguang has been appointed as Chief Credit Approval Officer.

11. DIRECTORS' AND SUPERVISORS' EMOLUMENTS (continued)

Year ended 31 December 2012

Name	Position	Fees	Remuneration paid	Discretionary bonuses	Contributions to defined contribution schemes	Total emoluments before tax	Of which: deferred payment	Actual amount of remuneration paid
								(pre-tax)
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		(1)	(2)	(3)	(4)	(5)=(1)+(2) +(3)+(4)	(6)	(7)=(5)-(6)
Guo Zhiwen	Chairman	—	706	2,873	24	3,603	1,252	2,351
Liu Zhuo	Vice Chairman	—	374	1,525	27	1,926	617	1,309
Gao Shuzhen	Executive director	—	567	2,256	24	2,847	989	1,858
Chen Danyang	Director	48	—	—	—	48	—	48
Jin Weidong	Director	13	—	—	—	13	—	13
Xia Mei	Director	13	—	—	—	13	—	13
Zhang Taoxuan	Director	32	—	—	—	32	—	32
Cui Luanyi	Director	48	—	—	—	48	—	48
Ma Shuwei	Director	48	—	—	—	48	—	48
Qin Hongfu	Director	48	—	—	—	48	—	48
Wang Yuanqing	Independent director	120	—	—	—	120	—	120
Liu Wei	Independent director	35	—	—	—	35	—	35
Zhang Shengping	Independent director	80	—	—	—	80	—	80
Ma Yongqiang	Independent director	80	—	—	—	80	—	80
He ping	Independent director	30	—	—	—	30	—	30
Du Qingchun	Independent director	30	—	—	—	30	—	30
Zhang Bin	Chairman of the Board of Supervisors	—	459	1,799	26	2,284	691	1,593
Cheng Yun	Vice Chairman of the Board of Supervisors	—	398	1,579	25	2,002	601	1,401
Tian Xingbin	Former Chairman of the Board of Supervisors (Former)	—	146	—	—	146	—	146
Song Zhenlei	Supervisor	7	—	—	—	7	—	7
Zhang Chuan	Supervisor	7	—	—	—	7	—	7
Zang Shaolin	Supervisor	17	—	—	—	17	—	17
Wang Ying	Employee supervisor	—	322	694	27	1,043	69	974
Chen Yutao	Employee supervisor	—	276	525	15	816	—	816
Wang Jiheng	External supervisor	84	—	—	—	84	—	84
Liu Wei	External supervisor	58	—	—	—	58	—	58

Note: Pursuant to the PRC relevant regulations, a portion of the discretionary bonus payments for the Chairman of the Board of Directors, the President, the Chairman of the Board of Supervisors, Executive directors and other senior management members are deferred.

- (1) Guo Zhiwen, Liu Zhuo, Gao Shuzhen, Wang Yuanqing, Ma Yongqiang, Zhang Shengping, Zhang Taoxuan, Chen Danyang, Cui Luanyi, Ma Shuwei and Qin Hongfu have been elected as the fifth board members of the Bank, while Liu Wei, Jin Weidong and Xia Mei ceased their appointment as directors of the Bank in the shareholders' general meeting for 2011 held on 27 April 2012. Liu Wei, Jin Weidong and Xia Mei ceased to act as the Directors of the Bank.
- (2) Zhang Bin, Cheng Yun, Liu Wei, Wang Jiheng, Zang Shaolin, Wang Ying and Chen Yutao have been elected as the fifth supervisory board members, while Tian Xingbin ceased his appointment as Chairman of the Board of Supervisors of the Bank; Song Zhenlei and Zhang Chuan ceased their appointment as the supervisory board members at the shareholders' general meeting for 2011 held on 27 April 2012. Tian Xingbin ceased to act as the Chairman of the Board of Supervisors, and Song Zhenlei and Zhang Chuan ceased to act as the Supervisors of the Bank.
- (3) Guo Zhiwen has been elected as Chairman and Liu Zhuo has been elected as Vice Chairman at the fifth board meeting held on 27 April 2012.
- (4) Gao Shuzhen has been appointed as President of the Bank as proposed by Guo Zhiwen, Li Qiming, Zhan Qiguang, Lv Tianjun have been appointed as vice president of the Bank, Xu Shaoguang has been appointed as Chief Executive Officer of the Bank, and Wang Haibin, Sun Jiawei have been appointed as assistants of the President as proposed by Gao Shuzhen at the fifth board meeting held on 27 April 2012.
- (5) The Bank held the first extraordinary shareholders' general meeting for 2012 on 24 September 2012. He Ping and Du Qingchun have been elected as independent directors at the meeting.

11. DIRECTORS' AND SUPERVISORS' EMOLUMENTS (continued)

Nine months ended 30 September 2012 (Unaudited)

Name	Position	Fees	Remuneration paid	Discretionary bonuses	Contributions to defined contribution schemes	Total emoluments before tax	Of which: deferred payment	Actual amount of remuneration paid
								(pre-tax)
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		(1)	(2)	(3)	(4)	(5)=(1)+(2) +(3)+(4)	(6)	(7)=(5)-(6)
Guo Zhiwen	Chairman	–	529	862	18	1,409	375	1,034
Liu Zhuo	Vice Chairman	–	281	458	20	759	185	574
Gao Shuzhen	Executive director	–	425	677	18	1,120	297	823
Chen Danyang	Director	36	–	–	–	36	–	36
Jin Weidong	Director	13	–	–	–	13	–	13
Xia Mei	Director	13	–	–	–	13	–	13
Zhang Taoxuan	Director	20	–	–	–	20	–	20
Cui Luanyi	Director	36	–	–	–	36	–	36
Ma Shuwei	Director	36	–	–	–	36	–	36
Qin Hongfu	Director	36	–	–	–	36	–	36
Wang Yuanqing	Independent director	90	–	–	–	90	–	90
Zhang Shenping	Independent director	50	–	–	–	50	–	50
Ma Yongqiang	Independent director	50	–	–	–	50	–	50
Liu Wei	Independent director	35	–	–	–	35	–	35
He Ping	Independent director	–	–	–	–	–	–	–
Du Qingchun	Independent director	–	–	–	–	–	–	–
Zhang Bin	Chairman of the Board of Supervisors	–	344	540	19	903	207	696
Cheng Yun	Vice Chairman of the Board of Supervisors	–	298	474	19	791	180	611
Tian Xingbin	Chairman of the Board of Supervisors (Former)	–	146	–	–	146	–	146
Song Zhenlei	Supervisor	7	–	–	–	7	–	7
Zhang Chuan	Supervisor	7	–	–	–	7	–	7
Zang Shaolin	Supervisor	11	–	–	–	11	–	11
Wang Ying	Employee supervisor	–	242	208	21	471	–	471
Chen Yutao	Employee supervisor	–	207	157	11	375	–	375
Wang Jiheng	External supervisor	63	–	–	–	63	–	63
Liu Wei	External supervisor	37	–	–	–	37	–	37

Note: Pursuant to the PRC relevant regulations, a portion of the discretionary bonus payments for the Chairman of the Board of Directors, the President, the Chairman of the Board of Supervisors, Executive directors and other senior management members are deferred based on the future performance.

11. DIRECTORS' AND SUPERVISORS' EMOLUMENTS (continued)

Nine months ended 30 September 2013

Name	Position	Fees	Remuneration paid	Discretionary bonuses	Contributions to defined contribution schemes	Total emoluments before tax	Of which: deferred payment	Actual amount of remuneration paid (pre-tax)
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		(1)	(2)	(3)	(4)	(5)=(1)+(2) +(3)+(4)	(6)	(7)=(5)-(6)
Guo Zhiwen	Chairman	–	535	1,108	18	1,661	430	1,231
Liu Zhuo	Vice Chairman	–	295	655	18	968	231	737
Gao Shuzhen	Executive director	–	429	1,012	18	1,459	336	1,123
Chen Danyang	Director	36	–	–	–	36	–	36
Zhang Taoxuan	Director	36	–	–	–	36	–	36
Cui Luanyi	Director	36	–	–	–	36	–	36
Ma Shuwei	Director	36	–	–	–	36	–	36
Qin Hongfu	Director	36	–	–	–	36	–	36
Wang Yuanqing	Independent director	90	–	–	–	90	–	90
Zhang Shenping	Independent director	90	–	–	–	90	–	90
Ma Yongqiang	Independent director	90	–	–	–	90	–	90
He ping	Independent director	90	–	–	–	90	–	90
Du Qingchun	Independent director	90	–	–	–	90	–	90
Kong Siu Chee	Independent director	–	–	–	–	–	–	–
Wan Kam To	Independent director	–	–	–	–	–	–	–
Zhang Bin	Chairman of the Board of Supervisors	–	358	711	18	1,087	277	810
Cheng Yun	Vice Chairman of the Board of Supervisors	–	286	371	18	675	241	434
Zang Shaolin	Supervisor	18	–	–	–	18	–	18
Lu Yujuan	Supervisor	–	–	–	–	–	–	–
Wang Ying	Employee supervisor	–	290	217	18	525	–	525
Chen Yutao	Employee supervisor	–	203	150	13	366	–	366
Wang Jiheng	External supervisor	63	–	–	–	63	–	63
Liu Wei	External supervisor	49	–	–	–	49	–	49
Bai Fan	External supervisor	14	–	–	–	14	–	14
Meng Rongfang	External supervisor	–	–	–	–	–	–	–

Note: Pursuant to the PRC relevant regulations, a portion of the discretionary bonus payments for the Chairman of the Board of Directors, the President, the Chairman of the Board of Supervisors, Executive Directors and other senior management members are deferred.

- (1) On the first extraordinary general meeting for 2013 held on 23 July 2013, Kong Siu Chee and Wan Kam To were nominated as the Independent directors of the Bank. Wang Yuanqing ceased to act as Independent directors of the Bank. Ma Shuwei ceased to act as Director of the Bank.
- (2) On the first extraordinary general meeting for 2013 held on 23 July 2013, the resignation of Liu Wei as the External supervisor was passed and Bai Fan was elected as the External supervisor of the fifth session of the Board of Supervisors.
- (3) On the second extraordinary general meeting for 2013 held on 26 September 2013, Meng Rongfang was elected as the External supervisor of the fifth session of the Board of Supervisors; the resignation of Zang Shaolin as the shareholders representative Supervisor was passed and Lu Yujuan was elected as the shareholders representative Supervisor of the fifth session of the Board of Supervisors.

During the nine months ended 30 September 2013, there was no arrangement under which a director or a supervisor waived or agreed to waive any remuneration. (2012: Nil, 2011: Nil, 2010: Nil)

During the nine months ended 30 September 2013, no emoluments were paid by the Group to any of the persons who are directors or supervisors as an inducement to join or were payable to such persons upon joining the Group or as compensation for loss of office. (2012: Nil, 2011: Nil, 2010: Nil)

12. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals of the Group are employees of the Bank. Their emoluments were determined based on the prevailing market rates of the region where the Bank is operating. In the years ended 31 December 2010, 2011 and 2012, and the nine months ended 30 September 2012 and 30 September 2013, the five highest paid individuals of the Group comprised one director and one supervisor, three directors and one supervisor, three directors and two supervisors, two directors and two supervisors and three directors and one supervisor of the Bank, respectively, whose emoluments are disclosed in notes 11 and 42(c) to the financial statements. Details of the emoluments in respect of the five highest paid individuals are as follows:

	Years ended 31 December			Nine months ended 30 September	
	2010	2011	2012	2012	2013
				(Unaudited)	
Salaries, allowances and discretionary bonuses	6,176	9,261	12,536	4,899	5,999
Contribution to defined contribution schemes	79	87	126	93	89
Total	<u>6,255</u>	<u>9,348</u>	<u>12,662</u>	<u>4,992</u>	<u>6,088</u>

The number of non-director and non-supervisor whose emoluments fell within the following bands is set out below.

	Number of employees				
	Years ended 31 December			Nine months ended 30 September	
	2010	2011	2012	2012	2013
				(Unaudited)	
RMB500,001 to RMB1,000,000	2	—	—	1	1
RMB1,000,001 to RMB1,500,000	1	1	—	—	—
Total	<u>3</u>	<u>1</u>	<u>—</u>	<u>1</u>	<u>1</u>

During the nine months ended 30 September 2013, no emoluments were paid by the Group to any of these non-director and non-supervisor individuals as an inducement to join or were payable to such persons upon joining the Group or as compensation for loss of office (2012: Nil; 2011: Nil; 2010: Nil).

13. IMPAIRMENT LOSSES ON ASSETS OTHER THAN LOANS AND ADVANCES TO CUSTOMERS

	Year ended 31 December			Nine months ended 30 September	
	2010	2011	2012	2012	2013
				(Unaudited)	
Reversal of impairment losses on:					
Placements with banks and other financial institutions	—	(5,466)	—	—	—
Other assets	(11,777)	(46,737)	(1,019)	—	—
	<u>(11,777)</u>	<u>(52,203)</u>	<u>(1,019)</u>	<u>—</u>	<u>—</u>

14. INCOME TAX EXPENSE

(a) Income tax

	Year ended 31 December			Nine months ended 30 September	
	2010	2011	2012	2012	2013
				(Unaudited)	
Current income tax	438,982	696,628	1,065,402	750,973	827,205
Deferred income tax	(49,280)	(45,609)	(77,951)	(86,176)	(78,526)
	<u>389,702</u>	<u>651,019</u>	<u>987,451</u>	<u>664,797</u>	<u>748,679</u>

(b) Reconciliation between income tax and accounting profit

The income tax of the Group's institutions has been provided at the statutory rate of 25%. A reconciliation of the income tax expense applicable to profit before tax at the PRC statutory income tax rate to income tax expense at the Group's effective income tax rate is as follows:

	Year ended 31 December			Nine months ended 30 September	
	2010	2011	2012	2012	2013
				(Unaudited)	
Profit before tax	1,616,916	2,507,444	3,858,910	2,685,903	3,120,000
Tax at the PRC statutory income tax rate	404,229	626,861	964,728	671,476	780,000
Non-deductible expenses (i)	30,054	55,703	64,126	21,430	7,988
Non-taxable income (ii)	(44,845)	(30,841)	(39,174)	(26,228)	(37,503)
Underprovision/(overprovision) in respect of prior years	264	(704)	128	128	(23)
Profits attributable to an associate	—	—	(2,357)	(2,009)	(1,783)
Tax expense at the Group's effective income tax rate	<u>389,702</u>	<u>651,019</u>	<u>987,451</u>	<u>664,797</u>	<u>748,679</u>

Notes: (i) The non-deductible expenses mainly represent non-deductible write-offs.

(ii) The non-taxable income mainly represents interest income arising from the PRC government bonds and micro loans to farmers which are exempted from income tax, under Chinese tax regulations.

15. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY

The consolidated profit attributable to equity holders of the parent company for the period ended 30 September 2013 includes a profit of RMB 2,262 million (2012: RMB 2,819 million, 2011: RMB 1,842 million, 2010: RMB 1,221 million) which has been dealt with in the financial statements of the Company.

16. DIVIDENDS

	Year ended 31 December			Nine months ended 30 September	
	2010	2011	2012	2012	2013
				(Unaudited)	
Dividends on ordinary shares declared and paid:					
Final dividend for 2012:					
RMB 0.025 per share**					
(2011: RMB 0.1 per share*)	—	—	392,375	392,375	171,675
Dividends on ordinary shares proposed for approval (not recognised as at 31 December):					
Final dividend for 2012:					
RMB 0.025 per share**					
(2011: RMB 0.1 per share*)	—	392,375	171,675	—	—

(*): Based on the 2011 weighted average number of shares at RMB 0.1 per share, distributed in cash

(**): Based on the 2012 weighted average number of shares at RMB 0.025 per share, distributed in cash

17. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the following:

	Year ended 31 December			Nine months ended 30 September	
	2010	2011	2012	2012	2013
				(Unaudited)	
Earnings:					
Profit attributable to equity holders of the parent company	1,227,660	1,854,229	2,864,250	2,017,114	2,357,761
Shares:					
Weighted average number of ordinary shares in issue (in thousands) (note a)	4,722,106	5,516,355	7,791,708	7,639,978	8,246,900
Basic and diluted earnings per share (in RMB yuan)	0.26	0.34	0.37	0.26	0.29

17. EARNINGS PER SHARE (continued)

The group had no potential ordinary dilutive shares for current and prior years.

(a) weighted average number of shares in issue

	Year ended 31 December			Nine months ended 30 September	
	2010	2011	2012	2012	2013
				(Unaudited)	
Share capital at 1 January	2,100,333	2,100,333	6,187,823	6,187,823	7,560,198
Weighted average number of new shares issued in the year	–	725,491	524,808	373,078	–
Weighted average number of shares issued due to rights issue in 2011	1,890,300	1,890,300	–	–	–
Weighted average number of shares issued due to rights issue in 2012	319,826	392,375	392,375	392,375	–
Weighted average number of shares issued due to rights issue in 2013	411,647	407,856	686,702	686,702	686,702
Weighted average number of ordinary shares in issue at the end of recorded period	4,722,106	5,516,355	7,791,708	7,639,978	8,246,900

Basic earnings per share as at 31 December 2010, 2011 and 2012 and 30 September 2013 is computed by dividing the current net profit attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares in issue. As described in note 34. Share Capital, the Bank had right issues in 2011, 2012 and 2013. In the calculation of earnings per share, the Rights Issue was deemed in issue at the earliest accounting period. For the detailed information on new shares issued and rights issue in the above periods, please refer to note 34. Share Capital.

18. CASH AND BALANCES WITH CENTRAL BANK

	The Group			
	31 December			30 September
	2010	2011	2012	2013
Cash on hand	370,969	689,109	815,255	1,069,465
Mandatory reserves with central bank (i)	14,761,007	22,668,910	33,111,756	33,559,413
Surplus reserves with central bank (ii)	8,199,966	7,540,555	17,907,866	5,941,184
Fiscal deposits with the PBOC	81,274	37,157	23,634	159,588
Total	23,413,216	30,935,731	51,858,511	40,729,650

	The Bank			
	31 December			30 September
	2010	2011	2012	2013
Cash on hand	362,501	652,622	768,662	1,007,054
Mandatory reserves with central bank (i)	14,688,194	22,302,470	32,312,911	32,603,676
Surplus reserves with central bank (ii)	7,846,683	7,349,355	17,555,992	5,794,516
Fiscal deposits with the PBOC	81,274	37,157	23,634	159,588
Total	22,978,652	30,341,604	50,661,199	39,564,834

- (i) The Group is required to place mandatory reserve deposits with the PBOC, mandatory reserve deposits with central bank are not available for use in the Group's daily operations. As at 31 December 2010, 2011 and 2012 and 30 September 2013, the mandatory deposit reserve ratios of the branches and subsidiaries of the Bank in respect of customer deposits denominated in RMB and foreign currencies were consistent with the requirement of the PBOC.
- (ii) Surplus reserves with the PBOC include funds for the purpose of cash settlement and other kinds of unrestricted deposits.

19. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	The Group			
	31 December			30 September
	2010	2011	2012	2013
Nostro accounts:				
Banks operating in Mainland China	9,463,395	15,367,970	16,889,315	27,153,732
Other financial institutions operating in				
Mainland China	321	685	687	2,364
Banks operating outside Mainland China	64,720	38,388	168,303	573,910
	9,528,436	15,407,043	17,058,305	27,730,006
Less: Allowance for impairment losses	(500)	—	—	—
	9,527,936	15,407,043	17,058,305	27,730,006
Placements with banks and other financial institutions:				
Banks operating in Mainland China	—	500,000	2,100,000	—
Other financial institutions operating in				
Mainland China	315,466	—	788,500	—
	315,466	500,000	2,888,500	—
Less: Allowance for impairment losses	(5,466)	—	—	—
	310,000	500,000	2,888,500	—
	9,837,936	15,907,043	19,946,805	27,730,006

19. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS (continued)

	The Bank			
	31 December			30 September
	2010	2011	2012	2013
Nostro accounts:				
Banks operating in Mainland China	10,534,939	14,765,277	16,324,241	28,042,261
Other financial institutions operating in				
Mainland China	321	685	687	2,364
Banks operating outside Mainland China . .	64,720	38,388	168,303	573,910
	10,599,980	14,804,350	16,493,231	28,618,535
Less: Allowance for impairment losses	(500)	—	—	—
	10,599,480	14,804,350	16,493,231	28,618,535
Placements with banks and other financial institutions:				
Banks operating in Mainland China	—	500,000	2,100,000	—
Other financial institutions operating in				
Mainland China	5,466	—	788,500	—
	5,466	500,000	2,888,500	—
Less: Allowance for impairment losses	(5,466)	—	—	—
	—	500,000	2,888,500	—
	10,599,480	15,304,350	19,381,731	28,618,535

Movements of the allowance for impairment losses during the year are as follows:

The Group/Bank	Nostro accounts	Placements with banks and other	Total
		Financial institutions	
At 1 January 2010	898	5,466	6,364
Write off for the year	(398)	—	(398)
At 31 December 2010 and 1 January 2011	500	5,466	5,966
Write off for the year	(500)	(5,466)	(5,966)
At 31 December 2011 and 1 January 2012	—	—	—
At 31 December 2012 and 1 January 2013	—	—	—
At 30 September 2013	—	—	—

20. FINANCIAL ASSETS HELD FOR TRADING

	The Group/Bank			
	31 December			30 September
	2010	2011	2012	2013
Debt securities	5,318,631	4,780,814	7,878,959	7,201,596
Debt securities analysed into:				
Listed in Mainland China	5,318,631	4,780,814	7,878,959	7,201,596

21. REVERSE REPURCHASE AGREEMENTS

	The Group			
	31 December			30 September
	2010	2011	2012	2013
Reverse repurchase agreements analysed by counterparty:				
Banks	17,863,464	49,692,917	46,863,276	20,970,686
Other financial institutions	—	280,654	4,882,372	6,812,849
	<u>17,863,464</u>	<u>49,973,571</u>	<u>51,745,648</u>	<u>27,783,535</u>
Reverse repurchase agreements analysed by collateral:				
Securities	4,750,200	26,398,410	25,794,923	11,662,580
Bills	13,074,131	22,736,668	25,912,232	10,023,915
Trust beneficial rights	—	—	—	5,617,000
Loans	39,133	838,493	38,493	480,040
	<u>17,863,464</u>	<u>49,973,571</u>	<u>51,745,648</u>	<u>27,783,535</u>
	The Bank			
	31 December			30 September
	2010	2011	2012	2013
Reverse repurchase agreements analysed by counterparty:				
Banks	17,863,464	49,702,833	46,874,494	20,970,686
Other financial institutions	—	280,654	4,608,521	6,412,849
	<u>17,863,464</u>	<u>49,983,487</u>	<u>51,483,015</u>	<u>27,383,535</u>
Reverse repurchase agreements analysed by collateral:				
Securities	4,750,200	26,398,410	25,794,923	11,662,580
Bills	13,074,131	22,746,584	25,649,599	10,023,915
Trust beneficial rights	—	—	—	5,617,000
Loans	39,133	838,493	38,493	80,040
	<u>17,863,464</u>	<u>49,983,487</u>	<u>51,483,015</u>	<u>27,383,535</u>

As part of the reverse repurchase agreements, the Group has received securities that it is allowed to sell or repledge in the absence of default by their owners. At 30 September 2013, the Group had received none of these securities (31 December 2012: 998 million, 31 December 2011: 13,342 million, 31 December 2010: Nil). As of 30 September 2013, none of these securities have been repledged under repurchase agreements (31 December 2012: Nil, 31 December 2011: fair value of securities repledged amounted to RMB 7,459 million, 31 December 2010: Nil). The Group had also received notes with a fair value of approximately RMB 10,024 million as of 30 September 2013 (31 December 2012: RMB 25,912 million, 31 December 2011: RMB 22,737 million, 31 December 2010: RMB 13,074 million); Of these securities, securities with a fair value of approximately RMB1,119 million have been repledged under repurchase agreements (31 December 2012: 12,192 million, 31 December 2011: RMB 9,857 million, 31 December 2010: RMB 2,862 million). The Group has an obligation to return the securities to its counterparties. If the collateral received declines in value, the Group may, in certain circumstances, require additional collateral.

22. LOANS AND ADVANCES TO CUSTOMERS

	The Group			
	31 December			30 September
	2010	2011	2012	2013
Corporate loans and advances	23,420,800	35,601,076	51,108,045	61,639,439
Personal loans	23,668,165	29,139,664	34,810,052	40,869,392
Discounted bills	6,935,618	3,742,989	1,346,235	2,501,601
	54,024,583	68,483,729	87,264,332	105,010,432
Less: Allowance for impairment	(824,097)	(1,465,579)	(1,966,253)	(2,372,032)
	<u>53,200,486</u>	<u>67,018,150</u>	<u>85,298,079</u>	<u>102,638,400</u>
	The Bank			
	31 December			30 September
	2010	2011	2012	2013
Corporate loans and advances	23,297,713	34,782,335	49,127,156	58,695,761
Personal loans	23,212,487	27,874,866	32,314,340	36,975,053
Discounted bills	6,896,356	3,402,569	368,463	1,775,184
	53,406,556	66,059,770	81,809,959	97,445,998
Less: Allowance for impairment	(817,860)	(1,439,045)	(1,877,100)	(2,246,862)
	<u>52,588,696</u>	<u>64,620,725</u>	<u>79,932,859</u>	<u>95,199,136</u>

22. LOANS AND ADVANCES TO CUSTOMERS (continued)

Movements of allowance for impairment losses during the year are as follows:

The Group

	Individually assessed	Collectively assessed	Total
At 1 January 2010	292,446	400,185	692,631
Exchange difference	–	(66)	(66)
Impairment loss:	(48,320)	287,064	238,744
Impairment allowances charged	208,722	287,064	495,786
Reversal of impairment allowances	(257,042)	–	(257,042)
Accreted interest on impaired loans (note 5)	(5,208)	–	(5,208)
Write-offs	(400)	(103,424)	(103,824)
Recoveries of loans and advances previously written off	–	1,820	1,820
As at 31 December 2010 and 1 January 2011	238,518	585,579	824,097
Exchange difference	–	(169)	(169)
Impairment loss:	(62,153)	938,140	875,987
Impairment allowances charged	106,893	938,140	1,045,033
Reversal of impairment allowances	(169,046)	–	(169,046)
Accreted interest on impaired loans (note 5)	(10,424)	–	(10,424)
Write-offs	(500)	(232,180)	(232,680)
Recoveries of loans and advances previously written off	1,865	6,903	8,768
As at 31 December 2011 and 1 January 2012	167,306	1,298,273	1,465,579
Exchange difference	–	(34)	(34)
Impairment loss:	(58,226)	895,451	837,225
Impairment allowances charged	9,580	895,451	905,031
Reversal of impairment allowances	(67,806)	–	(67,806)
Accreted interest on impaired loans (note 5)	(17,057)	–	(17,057)
Write-offs	(270)	(342,445)	(342,715)
Recoveries of loans and advances previously written off	540	22,715	23,255
At 31 December 2012 and 1 January 2013	92,293	1,873,960	1,966,253
Exchange difference	(267)	(19)	(286)
Impairment loss:	60,684	361,418	422,102
Impairment allowances charged	63,684	361,418	425,102
Reversal of impairment allowances	(3,000)	–	(3,000)
Accreted interest on impaired loans (note 5)	(28,291)	–	(28,291)
Write-offs	–	(447)	(447)
Recoveries of loans and advances previously written off	12,671	30	12,701
As at 30 September 2013	137,090	2,234,942	2,372,032

22. LOANS AND ADVANCES TO CUSTOMERS (continued)

Movements of allowance for impairment losses during the year are as follows: (continued)

The Bank

	Individually assessed	Collectively assessed	Total
At 1 January 2010	292,446	398,344	690,790
Exchange difference	—	(66)	(66)
Impairment loss:	(48,320)	282,668	234,348
Impairment allowances charged	208,722	282,668	491,390
Reversal of impairment allowances	(257,042)	—	(257,042)
Accreted interest on impaired loans	(5,208)	—	(5,208)
Write-offs	(400)	(103,424)	(103,824)
Recoveries of loans and advances previously written off	—	1,820	1,820
As at 31 December 2010 and 1 January 2011	238,518	579,342	817,860
Exchange difference	—	(168)	(168)
Impairment loss:	(62,153)	917,842	855,689
Impairment allowances charged	106,893	917,842	1,024,735
Reversal of impairment allowances	(169,046)	—	(169,046)
Accreted interest on impaired loans	(10,424)	—	(10,424)
Write-offs	(500)	(232,180)	(232,680)
Recoveries of loans and advances previously written off	1,865	6,903	8,768
As at 31 December 2011 and 1 January 2012	167,306	1,271,739	1,439,045
Exchange difference	—	(34)	(34)
Impairment loss:	(58,226)	832,346	774,120
Impairment allowances charged	9,580	832,346	841,926
Reversal of impairment allowances	(67,806)	—	(67,806)
Accreted interest on impaired loans	(17,057)	—	(17,057)
Write-offs	(270)	(341,959)	(342,229)
Recoveries of loans and advances previously written off	540	22,715	23,255
At 31 December 2012 and 1 January 2013	92,293	1,784,807	1,877,100
Exchange difference	(267)	(19)	(286)
Impairment loss:	56,938	328,730	385,668
Impairment allowances charged	59,938	328,730	388,668
Reversal of impairment allowances	(3,000)	—	(3,000)
Accreted interest on impaired loans	(28,291)	—	(28,291)
Recoveries of loans and advances previously written off	12,671	—	12,671
As at 30 September 2013	133,344	2,113,518	2,246,862

22. LOANS AND ADVANCES TO CUSTOMERS (continued)

	The Group			
	31 December			30 September
	2010	2011	2012	2013
Loans and advances:				
Unimpaired loans and advances (i)	53,596,703	68,061,561	86,708,136	104,108,539
Impaired loans and advances to customers (ii)				
Individually assessed	243,783	211,035	110,332	211,478
Collectively assessed	184,097	211,133	445,864	690,415
	<u>54,024,583</u>	<u>68,483,729</u>	<u>87,264,332</u>	<u>105,010,432</u>
Less: Allowance for impairment losses:				
Unimpaired loans and advances (i)	474,361	1,174,129	1,700,497	1,963,738
Impaired loans and advances to customers (ii)				
Individually assessed	238,518	167,306	92,293	137,090
Collectively assessed	111,218	124,144	173,463	271,204
	<u>824,097</u>	<u>1,465,579</u>	<u>1,966,253</u>	<u>2,372,032</u>
Net loans and advances:				
Unimpaired loans and advances (i)	53,122,342	66,887,432	85,007,639	102,144,801
Impaired loans and advances to customers (ii)				
Individually assessed	5,265	43,729	18,039	74,388
Collectively assessed	72,879	86,989	272,401	419,211
	<u>53,200,486</u>	<u>67,018,150</u>	<u>85,298,079</u>	<u>102,638,400</u>
Percentage of impaired loans and advances . . .	<u>0.79%</u>	<u>0.62%</u>	<u>0.64%</u>	<u>0.86%</u>

	The Bank			
	31 December			30 September
	2010	2011	2012	2013
Loans and advances:				
Unimpaired loans and advances (i)	52,980,485	65,639,801	81,265,065	96,559,237
Impaired loans and advances to customers (ii)				
Individually assessed	243,783	211,035	110,332	206,298
Collectively assessed	182,288	208,934	434,562	680,463
	<u>53,406,556</u>	<u>66,059,770</u>	<u>81,809,959</u>	<u>97,445,998</u>
Less: Allowance for impairment losses:				
Unimpaired loans and advances (i)	468,576	1,149,235	1,616,832	1,846,710
Impaired loans and advances to customers (ii)				
Individually assessed	238,518	167,306	92,293	133,344
Collectively assessed	110,766	122,504	167,975	266,808
	<u>817,860</u>	<u>1,439,045</u>	<u>1,877,100</u>	<u>2,246,862</u>
Net loans and advances:				
Unimpaired loans and advances (i)	52,511,909	64,490,566	79,648,233	94,712,527
Impaired loans and advances to customers (ii)				
Individually assessed	5,265	43,729	18,039	72,954
Collectively assessed	71,522	86,430	266,587	413,655
	<u>52,588,696</u>	<u>64,620,725</u>	<u>79,932,859</u>	<u>95,199,136</u>
Percentage of impaired loans and advances . . .	<u>0.80%</u>	<u>0.64%</u>	<u>0.67%</u>	<u>0.91%</u>

(i) Unimpaired loans and advances should be collectively assessed for impairment.

(ii) Impaired loans and advances to customers include those with objective evidence of impairment.

23. FINANCIAL INVESTMENTS

	The Group			
	31 December			30 September
	2010	2011	2012	2013
Receivables (a)	4,205,579	13,635,513	22,733,333	18,037,336
Held-to-maturity investments (b)	5,862,040	12,286,784	12,323,533	14,349,966
Available-for-sale financial assets (c)	2,862,959	5,351,163	8,244,304	12,257,691
	<u>12,930,578</u>	<u>31,273,460</u>	<u>43,301,170</u>	<u>44,644,993</u>

	The Bank			
	31 December			30 September
	2010	2011	2012	2013
Receivables (a)	3,445,480	13,620,513	22,733,333	18,037,336
Held-to-maturity investments (b)	5,862,040	12,286,784	12,323,533	14,349,966
Available-for-sale financial assets (c)	2,862,959	5,351,163	8,244,304	12,257,691
	<u>12,170,479</u>	<u>31,258,460</u>	<u>43,301,170</u>	<u>44,644,993</u>

(a) Receivables

The receivables are unlisted and stated at amortised cost and comprise the following:

	The Group			
	31 December			30 September
	2010	2011	2012	2013
Certificate treasury bonds	1,494,764	992,581	589,346	220,512
Wealth management products issued by other financial institutions (i)	1,560,099	5,257,000	5,819,832	3,403,000
Trust fund plans (ii)	1,150,716	7,385,932	16,324,155	14,413,824
	<u>4,205,579</u>	<u>13,635,513</u>	<u>22,733,333</u>	<u>18,037,336</u>

	The Bank			
	31 December			30 September
	2010	2011	2012	2013
Certificate treasury bonds	1,494,764	992,581	589,346	220,512
Wealth management products issued by other financial institutions (i)	800,000	5,242,000	5,819,832	3,403,000
Trust fund plans (ii)	1,150,716	7,385,932	16,324,155	14,413,824
	<u>3,445,480</u>	<u>13,620,513</u>	<u>22,733,333</u>	<u>18,037,336</u>

- (i) Wealth management products issued by other financial institutions are fixed term products. These include investments in trust beneficiary rights, trust loans etc.
- (ii) The trust fund plans are purchased from trust companies, with no active market quotes, definite period lengths (1-5 years), interest rate is fixed or determinable (6-12%). These include investments in trust loans and trust beneficial rights etc.

23. FINANCIAL INVESTMENTS (continued)**(b) Held-to-maturity investments**

Held-to-maturity investments are stated at amortised cost and comprise the following:

	The Group/Bank			
	31 December			30 September
	2010	2011	2012	2013
Debt securities analysed into:				
Listed in Mainland China	5,862,040	12,286,784	12,323,533	14,349,966
Market value of listed debt securities	5,698,919	12,149,483	12,082,138	13,901,436

(c) Available-for-sale financial assets

Available-for-sale financial assets comprise the following

	The Group/Bank			
	31 December			30 September
	2010	2011	2012	2013
Debt securities analysed into:				
Listed in Mainland China	2,838,339	5,326,543	8,219,684	12,213,071
Unlisted:				
Equity investments at cost (i)	24,620	24,620	24,620	24,620
Others	—	—	—	20,000
	2,862,959	5,351,163	8,244,304	12,257,691
Market value of listed debt securities	2,838,339	5,326,543	8,219,684	12,213,071

- (i) Certain available-for-sale unlisted equity investments which do not have any quoted market prices and whose fair values cannot be measured reliably are stated at cost less any impairment losses. There is no active market for these investments and it is the Group's intention to dispose of them as opportunities arise.

24. INVESTMENTS IN SUBSIDIARIES

	The Bank			
	31 December			30 September
	2010	2011	2012	2013
Unlisted Investments, at cost	437,800	867,000	1,142,000	1,142,000

25. INVESTMENTS IN AN ASSOCIATE

	The Group/Bank			
	31 December			30 September
	2010	2011	2012	2013
Investment in an associate	—	1,000,000	1,017,014	993,733

25. INVESTMENTS IN AN ASSOCIATE (continued)

Details of the Group's associate are as follows:

Name	Percentage of equity/ voting rights				Place of incorporation/ registration	Principal activities
	2010-12-31 %	2011-12-31 %	2012-12-31 %	2013-09-30 %		
Unlisted investments directly held: Guangdong Huaxing Bank Company Limited ("Huaxing Bank")	—	16	16	16	Guangdong, PRC	Commercial Banking

Note: Though the Group controls 16% of the voting rights of Huaxing Bank, it is the second largest shareholder of Huaxing Bank and holds positions of a director and assistant governor, and is thus capable to exert significant influence on the operating and financial decisions of the investee. Accordingly, the Group classified it as an associate.

The following tables illustrate the summarised financial information of the Group's associate:

	31 December			30 September
	2010	2011	2012	2013
Assets	N/A	16,599,929	31,691,900	47,789,363
Liabilities	N/A	(11,485,083)	(26,585,563)	(42,828,534)
Net assets	N/A	5,114,846	5,106,337	4,960,829
Proportion of Group's ownership	N/A	16%	16%	16%
Share of the net assets	N/A	818,375	817,014	793,733
Goodwill on acquisition	N/A	200,000	200,000	200,000
Carrying amount of the investment	N/A	1,018,375	1,017,014	993,733

	31 December			30 September
	2010	2011	2012	2013
Revenue	N/A	119,337	573,531	632,484
Continuing operation profit	N/A	8,318	54,885	57,653
Non continuing operation profit/(loss)	N/A	(2)	(7)	1,386
Profit for the year	N/A	7,985	58,931	44,565
Group's share of the profit	N/A	1,278	9,429	7,130
Total comprehensive income	N/A	114,846	(9,358)	(145,447)
Dividends received	N/A	—	—	—

The financial information above was extracted from the financial statements of the associate company.

26. PROPERTY AND EQUIPMENT

The Group

	Properties and buildings	Construction in progress	Leasehold improvements	Office equipment	Motor vehicles	Total
Cost:						
At 1 January 2010	694,001	185,811	56,695	215,689	17,789	1,169,985
Additions	207,668	438,681	30,576	121,330	11,032	809,287
CIP transfers	116,485	(116,485)	—	—	—	—
Disposals	(7,148)	—	—	(60)	—	(7,208)
At 31 December 2010 and 1 January 2011	1,011,006	508,007	87,271	336,959	28,821	1,972,064
Additions	176,289	1,566,861	42,632	150,513	21,885	1,958,180
CIP transfers	579,341	(581,733)	—	2,392	—	—
Disposals	(6,286)	—	—	(714)	(4)	(7,004)
At 31 December 2011 and 1 January 2012	1,760,350	1,493,135	129,903	489,150	50,702	3,923,240
Additions	135,222	2,413,145	48,840	173,600	7,381	2,778,188
CIP transfers	245,065	(384,687)	39,956	67,652	—	(32,014)
Disposals	(12,012)	—	(812)	—	(45)	(12,869)
At 31 December 2012 and 1 January 2013	2,128,625	3,521,593	217,887	730,402	58,038	6,656,545
Additions	37,161	541,635	21,773	100,046	4,262	704,877
CIP transfers	160,542	(236,129)	14,504	47,781	—	(13,302)
Disposals	—	—	(4,731)	(4,205)	—	(8,936)
At 30 September 2013	<u>2,326,328</u>	<u>3,827,099</u>	<u>249,433</u>	<u>874,024</u>	<u>62,300</u>	<u>7,339,184</u>
Accumulated depreciation:						
At 1 January 2010	101,547	—	37,478	86,399	5,689	231,113
Depreciation charge for the year	27,265	—	14,702	41,040	4,809	87,816
Disposals	(3,601)	—	—	—	—	(3,601)
At 31 December 2010 and 1 January 2011	125,211	—	52,180	127,439	10,498	315,328
Depreciation charge for the year	37,318	—	16,750	61,298	6,483	121,849
Disposals	(1,926)	—	—	(508)	—	(2,434)
At 31 December 2011 and 1 January 2012	160,603	—	68,930	188,229	16,981	434,743
Depreciation charge for the year	59,190	—	30,464	91,897	9,166	190,717
Disposals	(6,322)	—	(812)	—	(11)	(7,145)
At 31 December 2012 and 1 January 2013	213,471	—	98,582	280,126	26,136	618,315
Depreciation charge for the period	54,037	—	22,930	95,878	7,092	179,937
Disposals	—	—	(1,322)	(299)	—	(1,621)
At 30 September 2013	<u>267,508</u>	<u>—</u>	<u>120,190</u>	<u>375,705</u>	<u>33,228</u>	<u>796,631</u>
Net carrying amount:						
At 31 December 2010	<u>885,795</u>	<u>508,007</u>	<u>35,091</u>	<u>209,520</u>	<u>18,323</u>	<u>1,656,736</u>
At 31 December 2011	<u>1,599,747</u>	<u>1,493,135</u>	<u>60,973</u>	<u>300,921</u>	<u>33,721</u>	<u>3,488,497</u>
At 31 December 2012	<u>1,915,154</u>	<u>3,521,593</u>	<u>119,305</u>	<u>450,276</u>	<u>31,902</u>	<u>6,038,230</u>
At 30 September 2013	<u>2,058,820</u>	<u>3,827,099</u>	<u>129,243</u>	<u>498,319</u>	<u>29,072</u>	<u>6,542,553</u>

26. PROPERTY AND EQUIPMENT (continued)

The Bank

	Properties and buildings	Construction in progress	Leasehold improve- ments	Office equipment	Motor vehicles	Total
Cost:						
At 1 January 2010	693,652	185,812	55,465	214,465	16,426	1,165,820
Additions	207,668	438,680	20,948	117,346	6,744	791,386
CIP transfers	116,485	(116,485)	—	—	—	—
Disposals	(7,148)	—	—	(60)	—	(7,208)
At 31 December 2010 and 1 January 2011	1,010,657	508,007	76,413	331,751	23,170	1,949,998
Additions	153,219	1,563,257	21,059	129,341	12,601	1,879,477
CIP transfers	579,341	(581,733)	—	2,392	—	—
Disposals	(6,287)	—	—	(714)	—	(7,001)
At 31 December 2011 and 1 January 2012	1,736,930	1,489,531	97,472	462,770	35,771	3,822,474
Additions	112,305	2,390,325	33,219	165,140	5,087	2,706,076
CIP transfers	245,065	(384,687)	39,955	67,657	—	(32,010)
Disposals	(12,012)	—	—	—	—	(12,012)
At 31 December 2012 and 1 January 2013	2,082,288	3,495,169	170,646	695,567	40,858	6,484,528
Additions	36,880	536,058	21,774	96,542	2,278	693,532
CIP transfers	134,069	(209,656)	14,504	47,781	—	(13,302)
At 30 September 2013	<u>2,253,237</u>	<u>3,821,571</u>	<u>206,924</u>	<u>839,890</u>	<u>43,136</u>	<u>7,164,758</u>
Accumulated depreciation:						
At 1 January 2010	101,544	—	37,265	86,332	5,633	230,774
Depreciation charge for the year	27,254	—	12,821	40,374	4,040	84,489
Disposals	(3,601)	—	—	—	—	(3,601)
At 31 December 2010 and 1 January 2011	125,197	—	50,086	126,706	9,673	311,662
Depreciation charge for the year	37,062	—	12,714	58,356	4,627	112,759
Disposals	(1,926)	—	—	(508)	—	(2,434)
At 31 December 2011 and 1 January 2012	160,333	—	62,800	184,554	14,300	421,987
Depreciation charge for the year	58,327	—	22,482	85,985	6,017	172,811
Disposals	(6,322)	—	—	—	—	(6,322)
At 31 December 2012 and 1 January 2013	212,338	—	85,282	270,539	20,317	588,476
Depreciation charge for the period	50,080	—	22,939	91,845	4,681	169,545
At 30 September 2013	<u>262,418</u>	<u>—</u>	<u>108,221</u>	<u>362,384</u>	<u>24,998</u>	<u>758,021</u>
Net carrying amount:						
At 31 December 2010	<u>885,460</u>	<u>508,007</u>	<u>26,327</u>	<u>205,045</u>	<u>13,497</u>	<u>1,638,336</u>
At 31 December 2011	<u>1,576,597</u>	<u>1,489,531</u>	<u>34,672</u>	<u>278,216</u>	<u>21,471</u>	<u>3,400,487</u>
At 31 December 2012	<u>1,869,950</u>	<u>3,495,169</u>	<u>85,364</u>	<u>425,028</u>	<u>20,541</u>	<u>5,896,052</u>
At 30 September 2013	<u>1,990,819</u>	<u>3,821,571</u>	<u>98,703</u>	<u>477,506</u>	<u>18,138</u>	<u>6,406,737</u>

26. PROPERTY AND EQUIPMENT (continued)

The carrying value of the Group's and the Bank's properties and buildings is analysed based on the remaining terms of the land leases as follows:

		The Group		
		31 December		
		2010	2011	2012
		30 September		
		2010	2011	2012
Held in China				
Over 50 years		86,877	152,916	182,732
10 to 50 years		798,918	1,446,831	1,732,422
		<u>885,795</u>	<u>1,599,747</u>	<u>1,915,154</u>
				<u>2,058,820</u>
		The Bank		
		31 December		
		2010	2011	2012
		30 September		
		2010	2011	2012
Held in China				
Over 50 years		86,877	150,954	180,836
10 to 50 years		798,583	1,425,643	1,689,114
		<u>885,460</u>	<u>1,576,597</u>	<u>1,869,950</u>
				<u>1,990,819</u>

As at 30 September 2013, the process of obtaining the title for the Group's properties and buildings with an aggregate net carrying value of RMB 542 million (31 December 2012: RMB 610 million, 31 December 2011: RMB 634 million, 31 December 2010: RMB 294 million) was still in progress. Management is of the view that the aforesaid matter would not affect the rights of the Group to these assets nor have any significant impact on the business operation of the Group.

As at 30 September 2013, the carrying value transferred from construction in progress to other assets of the Group/Bank is RMB 13,302 thousand. (31 December 2012: RMB 32,014 thousand, 31 December 2011: Nil, 31 December 2010: Nil).

27. DEFERRED INCOME TAX ASSETS AND LIABILITIES

(a) Analysed by nature

The Group

	31 December						30 September	
	2010		2011		2012		2013	
	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)
Deferred income tax assets:								
Allowance for impairment losses	211,632	52,908	650,120	162,530	921,788	230,447	1,134,368	283,592
Change in fair value of available-for- sale financial assets	37,348	9,337	—	—	32,316	8,079	169,400	42,350
Change in fair value of held for trading financial assets	98,776	24,694	—	—	16,668	4,167	131,952	32,988
Salaries, bonuses, allowances and subsidies payables	175,000	43,750	—	—	17,636	4,409	17,636	4,409
Early retirement benefits	20,324	5,081	17,204	4,301	16,936	4,234	13,744	3,436
Deductible tax losses	64	16	22,196	5,549	27,912	6,978	16,036	4,009
Others	904	226	—	—	—	—	—	—
	<u>544,048</u>	<u>136,012</u>	<u>689,520</u>	<u>172,380</u>	<u>1,033,256</u>	<u>258,314</u>	<u>1,483,136</u>	<u>370,784</u>
Deferred income tax liabilities:								
Change in fair value of available-for- sale financial assets	—	—	(21,100)	(5,275)	—	—	—	—
Change in fair value of held for trading financial assets	—	—	(384)	(96)	—	—	—	—
	—	—	(21,484)	(5,371)	—	—	—	—
Net deferred income tax	<u>544,048</u>	<u>136,012</u>	<u>668,036</u>	<u>167,009</u>	<u>1,033,256</u>	<u>258,314</u>	<u>1,483,136</u>	<u>370,784</u>

27. DEFERRED INCOME TAX ASSETS AND LIABILITIES (continued)

(a) Analysed by nature (continued)

The Bank

	31 December						30 September	
	2010		2011		2012		2013	
	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)
Deferred income tax assets:								
Allowance for impairment losses	211,524	52,881	646,244	161,561	890,604	222,651	1,088,088	272,022
Change in fair value of available-for- sale financial assets	37,348	9,337	—	—	32,316	8,079	169,400	42,350
Change in fair value of held for trading financial assets	98,776	24,694	—	—	16,668	4,167	131,952	32,988
Salaries, bonuses, allowances and subsidies payables	175,000	43,750	—	—	15,068	3,767	15,068	3,767
Early retirement benefits	20,324	5,081	17,204	4,301	16,936	4,234	13,744	3,436
	<u>542,972</u>	<u>135,743</u>	<u>663,448</u>	<u>165,862</u>	<u>971,592</u>	<u>242,898</u>	<u>1,418,252</u>	<u>354,563</u>
Deferred income tax liabilities:								
Change in fair value of available-for- sale financial assets	—	—	(21,100)	(5,275)	—	—	—	—
Change in fair value of held for trading financial assets	—	—	(384)	(96)	—	—	—	—
	<u>—</u>	<u>—</u>	<u>(21,484)</u>	<u>(5,371)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Net deferred income tax	<u>542,972</u>	<u>135,743</u>	<u>641,964</u>	<u>160,491</u>	<u>971,592</u>	<u>242,898</u>	<u>1,418,252</u>	<u>354,563</u>

27. DEFERRED INCOME TAX ASSETS AND LIABILITIES (continued)

(b) Movements of deferred income tax

The Group

2010

	At 1 January 2010	Total gains recorded in profit or loss	Total gains recorded in other comprehensive income	At 31 December 2010
Deferred income tax assets:				
Allowance for impairment losses	52,289	619	–	52,908
Change in fair value of available-for-sale financial assets	785	–	8,552	9,337
Change in fair value of held-for-trading financial assets	3,259	21,435	–	24,694
Salaries, bonuses, allowances and subsidies payables	17,000	26,750	–	43,750
Early retirement benefits	4,847	234	–	5,081
Deductible tax losses	–	16	–	16
Others	–	226	–	226
Total	<u>78,180</u>	<u>49,280</u>	<u>8,552</u>	<u>136,012</u>

2011

	At 1 January 2011	Total gains/(losses) recorded in profit or loss	Total losses recorded in other comprehensive income	At 31 December 2011
Deferred income tax assets:				
Allowance for impairment losses	52,908	109,622	–	162,530
Change in fair value of available-for-sale financial assets	9,337	–	(9,337)	–
Change in fair value of held-for-trading financial assets	24,694	(24,694)	–	–
Salaries, bonuses, allowances and subsidies payables	43,750	(43,750)	–	–
Early retirement benefits	5,081	(780)	–	4,301
Deductible tax losses	16	5,533	–	5,549
Others	226	(226)	–	–
Subtotal	<u>136,012</u>	<u>45,705</u>	<u>(9,337)</u>	<u>172,380</u>
Deferred income tax liabilities				
Change in fair value of available-for-sale financial assets	–	–	(5,275)	(5,275)
Change in fair value of held-for-trading Financial assets	–	(96)	–	(96)
Subtotal	<u>–</u>	<u>(96)</u>	<u>(5,275)</u>	<u>(5,371)</u>
Net deferred income tax	<u>136,012</u>	<u>45,609</u>	<u>(14,612)</u>	<u>167,009</u>

27. DEFERRED INCOME TAX ASSETS AND LIABILITIES (continued)

(b) Movements of deferred income tax (continued)

The Group (continued)

2012

	At 1 January 2012	Total gains/(losses) recorded in profit or loss	Total gains recorded in other comprehensive income	At 31 December 2012
Deferred income tax assets:				
Allowance for impairment losses	162,530	67,917	—	230,447
Change in fair value of available-for-sale financial assets	—	—	8,079	8,079
Change in fair value of held-for-trading financial assets	—	4,167	—	4,167
Salaries, bonuses, allowances and subsidies payables	—	4,409	—	4,409
Early retirement benefits	4,301	(67)	—	4,234
Deductible tax losses	5,549	1,429	—	6,978
Subtotal	<u>172,380</u>	<u>77,855</u>	<u>8,079</u>	<u>258,314</u>
Deferred income tax liabilities				
Change in fair value of available-for-sale financial assets	(5,275)	—	5,275	—
Change in fair value of held-for-trading financial assets	(96)	96	—	—
Subtotal	<u>(5,371)</u>	<u>96</u>	<u>5,275</u>	<u>—</u>
Net deferred income tax	<u>167,009</u>	<u>77,951</u>	<u>13,354</u>	<u>258,314</u>

30 September 2013

	At 1 January 2013	Total gains/(losses) recorded in profit or loss	Total gains recorded in other comprehensive income	At 30 September 2013
Deferred income tax assets:				
Allowance for impairment losses	230,447	50,176	—	280,623
Change in fair value of available-for-sale financial assets	8,079	—	34,271	42,350
Change in fair value of held-for-trading financial assets	4,167	28,821	—	32,988
Salaries, bonuses, allowances and subsidies payables	4,409	—	—	4,409
Early retirement benefits	4,234	(798)	—	3,436
Deductible tax losses	6,978	—	—	6,978
Total	<u>258,314</u>	<u>78,199</u>	<u>34,271</u>	<u>370,784</u>

27. DEFERRED INCOME TAX ASSETS AND LIABILITIES (continued)

(b) Movements of deferred income tax (continued)

The Bank

2010

	At 1 January 2010	Total gains recorded in profit or loss	Total gains recorded in other comprehensive income	At 31 December 2010
Deferred income tax assets:				
Allowance for impairment losses	52,289	592	—	52,881
Change in fair value of available-for-sale financial assets	785	—	8,552	9,337
Change in fair value of held-for-trading financial assets	3,259	21,435	—	24,694
Salaries, bonuses, allowances and subsidies payables	17,000	26,750	—	43,750
Early retirement benefits	4,847	234	—	5,081
Total	<u>78,180</u>	<u>49,011</u>	<u>8,552</u>	<u>135,743</u>

2011

	At 1 January 2011	Total gains/(losses) recorded in profit or loss	Total losses recorded in other comprehensive income	At 31 December 2011
Deferred income tax assets:				
Allowance for impairment losses	52,881	108,680	—	161,561
Change in fair value of available-for-sale financial assets	9,337	—	(9,337)	—
Change in fair value of held-for-trading financial assets	24,694	(24,694)	—	—
Salaries, bonuses, allowances and subsidies payables	43,750	(43,750)	—	—
Early retirement benefits	5,081	(780)	—	4,301
Subtotal	<u>135,743</u>	<u>39,456</u>	<u>(9,337)</u>	<u>165,862</u>
Deferred income tax liabilities				
Change in fair value of available-for-sale financial assets	—	—	(5,275)	(5,275)
Financial assets held-for-trading	—	(96)	—	(96)
Subtotal	<u>—</u>	<u>(96)</u>	<u>(5,275)</u>	<u>(5,371)</u>
Net deferred income tax	<u>135,743</u>	<u>39,360</u>	<u>(14,612)</u>	<u>160,491</u>

27. DEFERRED INCOME TAX ASSETS AND LIABILITIES (continued)

(b) Movements of deferred income tax (continued)

The Bank (continued)

2012

	At 1 January 2012	Total gains/(losses) recorded in profit or loss	Total gains recorded in other comprehensive income	At 31 December 2012
Deferred income tax assets:				
Allowance for impairment losses	161,561	61,090	–	222,651
Change in fair value of available-for-sale financial assets	–	–	8,079	8,079
Change in fair value of held-for-trading financial assets	–	4,167	–	4,167
Salaries, bonuses, allowances and subsidies payables	–	3,767	–	3,767
Early retirement benefits	4,301	(67)	–	4,234
	<u>165,862</u>	<u>68,957</u>	<u>8,079</u>	<u>242,898</u>
Deferred income tax liabilities				
Change in fair value of available-for-sale financial assets	(5,275)	–	5,275	–
Change in fair value of held-for-trading financial assets	(96)	96	–	–
Subtotal	<u>(5,371)</u>	<u>96</u>	<u>5,275</u>	<u>–</u>
Net deferred income tax	<u>160,491</u>	<u>69,053</u>	<u>13,354</u>	<u>242,898</u>

30 September 2013

	At 1 January 2013	Total gains/(losses) recorded in profit or loss	Total gains recorded in other comprehensive income	At 30 September 2013
Deferred income tax assets:				
Allowance for impairment losses	222,651	49,371	–	272,022
Change in fair value of available-for-sale financial assets	8,079	–	34,271	42,350
Change in fair value of held-for-trading financial assets	4,167	28,821	–	32,988
Salaries, bonuses, allowances and subsidies payables	3,767	–	–	3,767
Early retirement benefits	4,234	(798)	–	3,436
Total	<u>242,898</u>	<u>77,394</u>	<u>34,271</u>	<u>354,563</u>

The Group and the Bank did not have significant unrecognised deferred income tax assets and liabilities at the end of the accounting period.

28. OTHER ASSETS

	The Group			
	31 December			30 September
	2010	2011	2012	2013
Interest receivable (a)	817,405	1,788,243	2,075,605	1,981,793
Land use rights (b)	–	–	28,857	28,125
Advance payments	364,541	179,319	278,561	418,051
Settlement and clearing accounts	3,977	3,996	196,052	333,690
Reposessed assets (c)	113,515	94,957	74,072	74,072
Intangible assets (d)	29,333	35,604	42,820	37,493
Prepaid investment funds with Village and Township Banks	110,000	–	–	–
Others	38,105	14,965	51,455	151,651
	<u>1,476,876</u>	<u>2,117,084</u>	<u>2,747,422</u>	<u>3,024,875</u>

	The Bank			
	31 December			30 September
	2010	2011	2012	2013
Interest receivable (a)	804,289	1,766,726	2,034,047	1,938,819
Land use rights (b)	–	–	28,857	28,125
Advance payments	361,174	173,750	269,641	408,826
Settlement and clearing accounts	3,977	3,696	195,141	330,490
Reposessed assets (c)	113,515	94,957	74,072	74,072
Intangible assets	29,273	35,401	41,345	36,023
Prepaid investment funds with Village and Township Banks	110,000	–	–	–
Others	38,041	13,475	50,415	139,789
	<u>1,460,269</u>	<u>2,088,005</u>	<u>2,693,518</u>	<u>2,956,144</u>

(a) Interest receivable

	The Group			
	31 December			30 September
	2010	2011	2012	2013
Banks and other financial institution	36,019	128,407	105,693	153,757
Reverse repurchase agreements	53,445	292,184	201,886	118,702
Loans and advances to customers	496,728	703,343	874,804	977,670
Bond and other investments	231,213	664,309	893,222	731,664
	<u>817,405</u>	<u>1,788,243</u>	<u>2,075,605</u>	<u>1,981,793</u>

	The Bank			
	31 December			30 September
	2010	2011	2012	2013
Banks and other financial institution	34,424	129,298	106,795	163,845
Reverse repurchase agreements	53,445	292,184	200,924	118,702
Loans and advances to customers	485,207	680,995	833,106	959,068
Bond and other investments	231,213	664,249	893,222	697,204
	<u>804,289</u>	<u>1,766,726</u>	<u>2,034,047</u>	<u>1,938,819</u>

As of 31 December 2010, 2011 and 2012 and 30 September 2013, all interest receivables are due within one year.

28. OTHER ASSETS (continued)

(b) Land use rights

	The Group/Bank			
	31 December			30 September
	2010	2011	2012	2013
Located in Mainland China				
10-50 years	<u>—</u>	<u>—</u>	<u>28,857</u>	<u>28,125</u>

The original maturities of the leases are medium-term.

(c) Repossessed assets

	The Group/Bank			
	31 December			30 September
	2010	2011	2012	2013
Land use rights and buildings	143,325	97,337	74,072	74,072
Others	8,817	—	—	—
Subtotal	152,142	97,337	74,072	74,072
Less: Allowance for impairment losses	(38,627)	(2,380)	—	—
	<u>113,515</u>	<u>94,957</u>	<u>74,072</u>	<u>74,072</u>

(d) Intangible assets

Intangible assets consist primarily of computer software, which is amortised within five years.

29. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	The Group			
	31 December			30 September
	2010	2011	2012	2013
Deposits:				
Banks operating in Mainland China	2,404,228	13,424,993	32,860,356	35,954,158
Other financial institutions operating in				
Mainland China	178,736	1,572,767	1,456,756	904,019
Banks operating outside Mainland China	8,925	5,911	1,621	9,368
	<u>2,591,889</u>	<u>15,003,671</u>	<u>34,318,733</u>	<u>36,867,545</u>
Placements:				
Banks operating in Mainland China	2,300	2,834,993	2,194,470	291,314
Other financial institutions operating in				
Mainland China	40	40	40	40
Banks operating outside Mainland China	—	212,422	10,305	49,184
	<u>2,340</u>	<u>3,047,455</u>	<u>2,204,815</u>	<u>340,538</u>
	<u>2,594,229</u>	<u>18,051,126</u>	<u>36,523,548</u>	<u>37,208,083</u>

29. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS (continued)

	The Bank			
	31 December			30 September
	2010	2011	2012	2013
Deposits:				
Banks operating in Mainland China	2,829,309	14,112,363	33,567,484	36,401,959
Other financial institutions operating in				
Mainland China	178,736	1,572,767	1,456,756	904,019
Banks operating outside Mainland China	8,925	5,911	1,621	9,368
	<u>3,016,970</u>	<u>15,691,041</u>	<u>35,025,861</u>	<u>37,315,346</u>
Placements:				
Banks operating in Mainland China	2,300	2,834,993	2,194,470	886,114
Other financial institutions operating in				
Mainland China	40	40	40	40
Banks operating outside Mainland China	—	212,422	10,305	49,184
	<u>2,340</u>	<u>3,047,455</u>	<u>2,204,815</u>	<u>935,338</u>
	<u>3,019,310</u>	<u>18,738,496</u>	<u>37,230,676</u>	<u>38,250,684</u>

Interest due to banks and other financial institutions are calculated based on contract interest rates.

30. REPURCHASE AGREEMENTS

Repurchase agreements comprise repurchase of bonds and bills.

	The Group			
	31 December			30 September
	2010	2011	2012	2013
Repurchase agreements analysed by counterparty:				
Banks	2,871,727	25,903,764	22,832,655	5,895,237
Other financial institutions	—	2,068,760	—	394,550
	<u>2,871,727</u>	<u>27,972,524</u>	<u>22,832,655</u>	<u>6,289,787</u>
Repurchase agreements analysed by collateral:				
Bonds	—	16,427,630	8,863,100	4,552,050
Bills	2,871,727	11,544,894	13,969,555	1,737,737
	<u>2,871,727</u>	<u>27,972,524</u>	<u>22,832,655</u>	<u>6,289,787</u>
	The Bank			
	31 December			30 September
	2010	2011	2012	2013
Repurchase agreements analysed by counterparty:				
Banks	2,871,727	25,903,764	22,676,761	5,895,237
Other financial institutions	—	2,068,760	—	394,550
	<u>2,871,727</u>	<u>27,972,524</u>	<u>22,676,761</u>	<u>6,289,787</u>
Repurchase agreements analysed by collateral:				
Bonds	—	16,427,630	8,863,100	4,552,050
Bills	2,871,727	11,544,894	13,813,661	1,737,737
	<u>2,871,727</u>	<u>27,972,524</u>	<u>22,676,761</u>	<u>6,289,787</u>

31. DUE TO CUSTOMERS

	The Group			
	31 December			30 September
	2010	2011	2012	2013
Demand deposits:				
Corporate customers	58,850,263	70,284,381	69,981,487	62,369,792
Personal customers	14,505,008	19,292,735	27,107,158	24,399,298
	<u>73,355,271</u>	<u>89,577,116</u>	<u>97,088,645</u>	<u>86,769,090</u>
Time deposits:				
Corporate customers	21,741,001	33,414,838	61,058,338	71,766,003
Personal customers	17,795,355	22,970,472	28,495,401	32,594,898
	<u>39,536,356</u>	<u>56,385,310</u>	<u>89,553,739</u>	<u>104,360,901</u>
	<u>112,891,627</u>	<u>145,962,426</u>	<u>186,642,384</u>	<u>191,129,991</u>
	The Bank			
	31 December			30 September
	2010	2011	2012	2013
Demand deposits:				
Corporate customers	58,306,095	68,520,925	67,043,072	59,483,792
Personal customers	14,394,165	18,884,490	26,532,368	23,833,540
	<u>72,700,260</u>	<u>87,405,415</u>	<u>93,575,440</u>	<u>83,317,332</u>
Time deposits:				
Corporate customers	21,577,292	32,979,085	59,328,662	69,533,698
Personal customers	17,657,205	22,382,830	27,529,061	31,161,212
	<u>39,234,497</u>	<u>55,361,915</u>	<u>86,857,723</u>	<u>100,694,910</u>
	<u>111,934,757</u>	<u>142,767,330</u>	<u>180,433,163</u>	<u>184,012,242</u>

32. DEBT SECURITIES ISSUED

	The Group/Bank			
	31 December			30 September
	2010	2011	2012	2013
Subordinated bonds issued (a)	1,000,000	1,000,000	1,000,000	1,000,000
Financial bonds issued (b)	—	—	2,500,000	2,500,000
	<u>1,000,000</u>	<u>1,000,000</u>	<u>3,500,000</u>	<u>3,500,000</u>

(a) Subordinated bonds

As approved by the PBOC and the CBRC, the Bank issued callable subordinated bonds in 2009. These subordinated bonds were traded in the bond market among banks. The Bank has not had any defaults of principal or interest or other breaches with respect to the subordinated bonds during the period (2012, 2011, 2010: No). The relevant information on these subordinated bonds is set out below:

Name	Issue date	Issue price (RMB)	Coupon rate	Value date	Maturity date	Issue amount (RMB)	Notes
09 Harbin Bank subordinated bonds	7 Dec 2009	100	6.00%	9 Dec 2009	9 Dec 2019	1,000 million	(i)

- (i) The Bank has the option to redeem all or part of the bonds at face value on 9 December 2014. If the Bank does not exercise this option, the annual coupon rate will increase by 300 basis points (“bps”) thereafter.

32. DEBT SECURITIES ISSUED (continued)**(b) Financial bonds**

As approved by the PBOC and the CBRC, the Bank issued financial bonds in 2012. These financial bonds were traded in the inter-bank bond market. The Bank has not had any defaults of principal or interest or other breaches with respect to the financial bonds during the period (2012: No). The relevant information on these subordinated bonds is set out below:

Name	Issue date	Issue price (RMB)	Coupon rate	Value date	Maturity date	Issue amount (RMB)
12 Harbin Bank financial bonds	15 May 2012	100	4.55%	16 May 2012	16 May 2017	2,500 million

33. OTHER LIABILITIES

	The Group			
	31 December			30 September
	2010	2011	2012	2013
Interest payable (a)	396,880	1,014,419	1,601,192	2,245,649
Wealth management products payable	145,927	27,074	363,156	168,671
Settlement and clearing accounts	34,494	94,596	149,605	228,794
Account payable from agency services	188,984	61,369	25,110	68,368
Salaries, bonuses, allowances and subsidies payables (b)	204,028	238,728	336,137	291,301
Sundry tax payables	55,546	105,491	137,661	137,163
Deferred revenue (c)	429	1,940	39,892	113,793
Dividends payable	19,588	19,497	34,030	46,309
Accrued expenses	7,344	1,635	599	1,064
Others	158,605	204,164	61,193	193,827
	<u>1,211,825</u>	<u>1,768,913</u>	<u>2,748,575</u>	<u>3,494,939</u>
	The Bank			
	31 December			30 September
	2010	2011	2012	2013
Interest payable (a)	391,026	1,005,338	1,575,374	2,215,310
Wealth management products payable	145,927	27,074	363,156	168,671
Settlement and clearing accounts	34,494	94,042	148,846	227,975
Account payable from agency services	188,984	56,369	25,110	68,094
Salaries, bonuses, allowances and subsidies payables (b)	203,585	237,511	332,044	284,362
Sundry tax payables	54,836	103,580	133,893	132,240
Deferred revenue (c)	429	1,940	39,892	113,793
Dividends payable	19,588	19,497	34,030	46,309
Accrued expenses	7,344	1,635	599	1,064
Others	157,365	197,204	56,605	184,381
	<u>1,203,578</u>	<u>1,744,190</u>	<u>2,709,549</u>	<u>3,442,199</u>

33. OTHER LIABILITIES (continued)

(a) Interest payable

	The Group		
	31 December		
	2010	2011	2012
Deposits of banks and other financial institutions	892	133,137	234,130
Borrowings from banks	—	—	118
Due to customers	379,132	660,364	1,152,296
Repurchase agreements	13,075	217,137	139,665
Bonds payable	3,781	3,781	74,983
	<u>396,880</u>	<u>1,014,419</u>	<u>1,601,192</u>
			<u>2,245,649</u>

	The Bank		
	31 December		
	2010	2011	2012
Deposits of banks and other financial institutions	—	134,120	234,738
Borrowings from banks	—	—	118
Due to customers	374,170	650,376	1,126,297
Repurchase agreements	13,075	217,061	139,238
Bonds payable	3,781	3,781	74,983
	<u>391,026</u>	<u>1,005,338</u>	<u>1,575,374</u>
			<u>2,215,310</u>

(b) Salaries, bonuses, allowances and subsidies payable

	The Group		
	31 December		
	2010	2011	2012
Salaries, bonuses and allowances	175,000	200,016	289,606
Social insurance	4,763	4,060	4,377
Housing fund	1,551	3,809	2,607
Employee benefits	48	177	—
Labour union expenditure and education costs	2,341	13,460	22,609
Early retirement benefits	20,325	17,206	16,938
	<u>204,028</u>	<u>238,728</u>	<u>336,137</u>
			<u>291,301</u>

	The Bank		
	31 December		
	2010	2011	2012
Salaries, bonuses and allowances	175,000	200,001	287,037
Social insurance	4,448	3,649	4,124
Housing fund	1,549	3,709	2,603
Employee benefits	48	177	—
Labour union expenditure and education costs	2,215	12,769	21,342
Early retirement benefits	20,325	17,206	16,938
	<u>203,585</u>	<u>237,511</u>	<u>332,044</u>
			<u>284,362</u>

33. OTHER LIABILITIES (continued)

(c) Deferred revenue

Deferred revenue consists mainly of advisory fees, government grants related to assets and reverse repurchase agreements, deferred revenue will be recognised in the next few years in accordance with the corresponding amortisation expense that is charged to the income statement.

	The Group/Bank			
	31 December			30 September
	2010	2011	2012	2013
Advisory fees	—	—	36,016	42,967
Asset-related government grants	429	1,940	3,876	1,867
Reverse repurchase agreements	—	—	—	68,959
	<u>429</u>	<u>1,940</u>	<u>39,892</u>	<u>113,793</u>

34. SHARE CAPITAL

	The Bank							
	31 December						30 September	
	2010		2011		2012		2013	
	Number of shares	Nominal value	Number of shares	Nominal value	Number of shares	Nominal value	Number of shares	Nominal value
	(thousands)		(thousands)		(thousands)		(thousands)	
Opening balance	2,100,333	2,100,333	2,100,333	2,100,333	6,187,823	6,187,823	7,560,198	7,560,198
Shares issued	—	—	2,197,190	2,197,190	980,000	980,000	—	—
Retained profits converted into share capital	—	—	1,890,300	1,890,300	392,375	392,375	686,702	686,702
Ending balance	<u>2,100,333</u>	<u>2,100,333</u>	<u>6,187,823</u>	<u>6,187,823</u>	<u>7,560,198</u>	<u>7,560,198</u>	<u>8,246,900</u>	<u>8,246,900</u>

- (a) In April 2011, the Bank transferred RMB 1,890,300 thousands retained profits into share capital by distributing bonus shares at the ratio of 9 shares for every 10 shares held, RSM China Certified Public Accountants (LLP) verified the capital injection, and issued the capital verification report (RSM Hei Yanzi 2011.No.33) on 14 June 2011.
- (b) In April 2011, the Bank made an allotment of 1,197,190 thousand shares to all the stockholders publicly at the ratio of 3 shares for every 10 shares held at RMB 2 per share. RSM China Certified Public Accountants (LLP) verified the capital injection, and issued the capital verification report (RSM Hei Yanzi 2011.No.37) on 14 June 2011.
- (c) In August 2011, 1,000,000 thousand ordinary shares with a par value of RMB 1 were issued at RMB 2.05 per share. The premium arising from the issuance of new shares amounting to RMB1,050,000 thousand was recorded in capital reserve accounts. RSM China Certified Public Accountants (LLP) verified the capital injection, and issued the capital verification report (RSM Hei Yanzi 2011.No.13) on 2 December 2011.
- (d) In April 2012, the Bank transferred RMB392,375 thousand of undistributed profit into capital, resulting in an increase of 392,375 thousand shares in the share capital of the Bank. RSM China Certified Public Accountants (LLP) verified the capital injection, and issued the capital verification report (RSM Hei Yanzi 2012. No.30) on 28 June 2012.

34. SHARE CAPITAL (continued)

- (e) In March 2012, 980,000 thousand ordinary shares with a par value of RMB 1 were issued at RMB 3 per share to new shareholders. The premium arising from the issuance of new shares amounting to RMB1,960,000 thousand was recorded in capital reserve accounts. RSM China Certified Public Accountants (LLP) verified the capital injection, and issued the capital verification report (RSM Hei Yanzi 2012.No.20) on 5 May 2012.
- (f) In May 2013, the Bank transferred RMB686,702 thousand of undistributed profit into capital, resulting in an increase of 686,702 thousand shares in the share capital of the Bank. RSM China Certified Public Accountants (LLP) verified the capital injection, and issued the capital verification report (RSM Hei Yanzi 2013. No.11) on 8 June 2013.

35. RESERVES**(a) Capital reserve**

Capital reserve mainly includes share premium arising from the issuance of new shares at prices in excess of par value.

(b) Surplus reserve**(i) Statutory surplus reserve**

The Bank is required to appropriate 10% of its profit for the year pursuant to the Company Law of the People's Republic of China and the Articles to the statutory surplus reserve until the reserve balance reaches 50% of its registered capital.

Subject to the approval of the shareholders, the statutory surplus reserve may be used to offset accumulated losses of the Bank, if any, and may also be converted into capital of the Bank, provided that the balance of the statutory surplus reserve after such capitalisation is not less than 25% of the registered capital immediately before capitalisation.

Pursuant to the resolution of the board of directors' meeting held on 27 March 2013, an appropriation of 10% of the profit for the year determined under the generally accepted accounting principles of PRC ("PRC GAAP") to the statutory surplus reserve, in the amount of RMB 281.87 million (2011: RMB 184.228 million; 2010: RMB 122.066 million) was approved.

(ii) Discretionary surplus reserve

After making the appropriation to the statutory surplus reserve, the Bank may also appropriate its profit for the year determined under PRC GAAP to the discretionary surplus reserve upon approval by the shareholders in general meetings. Subject to the approval by the shareholders, the discretionary surplus reserve may be used to offset accumulated losses of the Bank, if any, and may be converted into capital.

(c) General reserve

From 1 July 2012, the Bank is required by the MOF to maintain a general reserve within equity, through the appropriation of profit, which should not be less than 1.5% of the year ending balance of its risk assets (2012: no less than 1%; 2011: no less than 1%; 2010: no less than 1%).

35. RESERVES (continued)**(c) General reserve (continued)**

For the year ended 31 December 2010, 2011, 2012 and the nine months ended 30 September 2013, the Bank made appropriation to the general reserve amounting to RMB 163,990 thousand, RMB 128,659 thousand, RMB 233,857 thousand and RMB 1,284,534 thousand respectively.

(d) Investment revaluation reserve

The investment revaluation reserve records the fair value changes of available-for-sale financial assets.

(e) Other reserves

Other reserves represent reserves of subsidiaries and share of reserves of an associate other than the items listed above.

(f) Distributable profits

The Bank's distributable profits are based on the retained profits of the Bank as determined under PRC GAAP and IFRSs, whichever is lower. The amount that the Bank's subsidiaries can legally distribute is determined by reference to their profits as reflected in their financial statements prepared in accordance with the PRC GAAP. These profits may differ from those dealt with in these financial statements, which are prepared in accordance with IFRSs.

35. RESERVES (continued)

(f) Distributable profits (continued)

The movements in reserves and retained profits of the Bank during the years/period are set out below.

	Reserves						Retained profits
	Capital reserve	Surplus reserves	General reserve	Investment revaluation reserve	Other reserves	Total	
Balance at 1 January 2010	15,189	281,522	401,891	(2,355)	—	696,247	1,044,919
Profit for the year	—	—	—	—	—	—	1,220,659
Change in fair value of available-for-sale investments	—	—	—	(25,656)	—	(25,656)	—
Appropriation to surplus reserves (i)	—	122,066	—	—	—	122,066	(122,066)
Appropriation to general reserve	—	—	163,990	—	—	163,990	(163,990)
Balances at 31 December 2010 and 1 January 2011	15,189	403,588	565,881	(28,011)	—	956,647	1,979,522
Profit for the year	—	—	—	—	—	—	1,842,281
Change in fair value of available-for-sale investments	—	—	—	43,837	—	43,837	—
Retained profits converted into share capital	—	—	—	—	—	—	(1,890,300)
Share Premium	2,247,190	—	—	—	—	2,247,190	—
Appropriation to surplus reserves (i)	—	184,228	—	—	—	184,228	(184,228)
Appropriation to general reserve	—	—	128,659	—	—	128,659	(128,659)
Balances at 31 December 2011 and 1 January 2012	2,262,379	587,816	694,540	15,826	—	3,560,561	1,618,616
Profit for the year	—	—	—	—	—	—	2,818,698
Change in fair value of available-for-sale investments	—	—	—	(40,063)	—	(40,063)	—
Other reserves	—	—	—	—	7,585	7,585	—
Retained profits converted into share capital	—	—	—	—	—	—	(392,375)
Share premium	1,960,000	—	—	—	—	1,960,000	—
Dividend-2011 final (note 16) ...	—	—	—	—	—	—	(392,375)
Appropriation to surplus reserves (i)	—	281,870	—	—	—	281,870	(281,870)
Appropriation to general reserve	—	—	233,857	—	—	233,857	(233,857)
Balance as at 31 December 2012 and 1 January 2013	4,222,379	869,686	928,397	(24,237)	7,585	6,003,810	3,136,837
Profit for the period	—	—	—	—	—	—	2,262,413
Change in fair value of available-for-sale investments	—	—	—	(102,813)	—	(102,813)	—
Other reserves	—	—	—	—	(30,412)	(30,412)	—
Retained profits converted into share capital	—	—	—	—	—	—	(686,702)
Dividend-2012 final (note 16) ...	—	—	—	—	—	—	(171,675)
Appropriation to general reserve	—	—	1,284,534	—	—	1,284,534	(1,284,534)
Balances at 30 September 2013 ..	<u>4,222,379</u>	<u>869,686</u>	<u>2,212,931</u>	<u>(127,050)</u>	<u>(22,827)</u>	<u>7,155,119</u>	<u>3,256,339</u>

36. COMPONENTS OF OTHER COMPREHENSIVE INCOME

	The Group			
	31 December			30 September
	2010	2011	2012	2013
Available-for-sale financial assets:				
Changes in fair value recorded in other comprehensive income/(loss)	(34,208)	40,919	(79,848)	(139,690)
Less: Transfer to the income statement arising from disposal	—	17,530	26,431	2,605
Income tax effect	8,552	(14,612)	13,354	34,271
	<u>(25,656)</u>	<u>43,837</u>	<u>(40,063)</u>	<u>(102,814)</u>
Share of other comprehensive income of an associate	—	—	7,585	(30,412)
	<u>(25,656)</u>	<u>43,837</u>	<u>(32,478)</u>	<u>(133,226)</u>

37. ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS

On the consolidated cash flow statement, cash and cash equivalents include an original maturity of less than three months as follows.

	The Group			
	31 December			30 September
	2010	2011	2012	2013
Cash on hand (note 18)	370,969	689,109	815,255	1,069,465
Balances with central bank (note 18)	8,199,966	7,540,555	17,907,866	5,941,184
Due from banks and other financial institutions	7,409,326	8,636,491	11,791,685	12,308,568
Reverse repurchase agreements	<u>12,617,590</u>	<u>36,226,000</u>	<u>33,579,472</u>	<u>13,800,553</u>
	<u>28,597,851</u>	<u>53,092,155</u>	<u>64,094,278</u>	<u>33,119,770</u>

During the reporting period, investing and financing activities of the Group and the Bank that did not involve cash receipts and payments only included the conversion of retained profits into share capital. Details of the retained profits converted into share capital are disclosed in note 35(f).

38. COMMITMENTS AND CONTINGENT LIABILITIES**(a) Capital commitments**

At the end of the reporting period, the Group and the Bank had capital commitments as follows:

	The Group			
	31 December			30 September
	2010	2011	2012	2013
Authorised, but not contracted	—	—	33,172	—
Contracted, but not provided	<u>493,804</u>	<u>960,571</u>	<u>1,350,523</u>	<u>1,690,053</u>
	<u>493,804</u>	<u>960,571</u>	<u>1,383,695</u>	<u>1,690,053</u>

38. COMMITMENTS AND CONTINGENT LIABILITIES (continued)**(a) Capital commitments (continued)**

	The Bank			
	31 December			30 September
	2010	2011	2012	2013
Authorised, but not contracted	–	–	33,000	–
Contracted, but not provided	493,804	960,571	1,343,836	1,686,832
	<u>493,804</u>	<u>960,571</u>	<u>1,376,836</u>	<u>1,686,832</u>

(b) Operating lease commitments*Operating lease commitments – Lessee*

At the end of the reporting period, the Group and the Bank lease certain of its office properties under operating lease arrangements, and the total future minimum lease payments in respect of non-cancellable operating leases are as follows:

	The Group			
	31 December			30 September
	2010	2011	2012	2013
Within one year	39,061	72,551	105,408	131,897
After one year but not more than five years	97,690	204,122	286,614	322,419
After five years	48,252	83,060	121,186	141,981
	<u>185,003</u>	<u>359,733</u>	<u>513,208</u>	<u>596,297</u>

	The Bank			
	31 December			30 September
	2010	2011	2012	2013
Within one year	38,384	58,867	88,526	123,934
After one year but not more than five years	95,538	164,905	238,322	304,109
After five years	48,252	75,064	103,490	141,787
	<u>182,174</u>	<u>298,836</u>	<u>430,338</u>	<u>569,830</u>

(c) Credit commitments

At any given time, the Group has outstanding commitments to extend credit. These commitments are in the form of approved loans and undrawn credit card limits.

The Group provides letters of credit and financial guarantees to guarantee the performance of customers to third parties.

Bank 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.

The contractual amounts of credit commitments by category are set out below. The amounts disclosed in respect of loan commitments and undrawn credit card limit are under the assumption that the amounts will be fully advanced. The amounts for bank acceptances, letters of credit and guarantees represent the maximum potential losses that would be recognised at the end of the reporting period had the counterparties failed to perform as contracted.

38. COMMITMENTS AND CONTINGENT LIABILITIES (continued)**(c) Credit commitments (continued)**

	The Group			
	31 December			30 September
	2010	2011	2012	2013
Bank acceptances	15,247,749	24,713,930	46,845,488	44,190,277
Guarantees issued	151,173	398,244	235,876	1,368,318
Sight letters of credit	86,863	224,848	1,267,653	1,986,116
Undrawn credit card limit	351,184	597,127	1,040,325	1,293,798
	<u>15,836,969</u>	<u>25,934,149</u>	<u>49,389,342</u>	<u>48,838,509</u>
	The Bank			
	31 December			30 September
	2010	2011	2012	2013
Bank acceptances	15,247,749	24,713,930	46,794,702	43,884,287
Guarantees issued	151,173	398,244	212,134	53,030
Sight letters of credit	86,863	224,848	1,267,653	1,986,116
Undrawn credit card limit	351,184	597,127	1,040,325	1,293,798
	<u>15,836,969</u>	<u>25,934,149</u>	<u>49,314,814</u>	<u>47,217,231</u>

(d) Credit risk-weighted amount of financial guarantees and credit related commitments

	The Group			
	31 December			30 September
	2010	2011	2012	2013
Financial guarantees and credit related commitments	<u>4,350,819</u>	<u>11,358,105</u>	<u>18,346,757</u>	<u>20,331,022</u>
	The Bank			
	31 December			30 September
	2010	2011	2012	2013
Financial guarantees and credit related commitments	<u>4,350,819</u>	<u>11,358,105</u>	<u>18,290,214</u>	<u>19,645,957</u>

The credit risk weighted amount refers to the amount as computed in accordance with the formula promulgated by the CBRC and depends on status of the counterparty and the maturity characteristics. The risk weights used range from 0% to 100% for contingent liabilities and commitments.

(e) Legal proceedings

As at 31 December 2010, 2011, 2012 and 30 September 2013, there were no significant legal proceedings outstanding against the Bank and/or its subsidiaries.

38. COMMITMENTS AND CONTINGENT LIABILITIES (continued)**(f) Redemption commitments of government bonds**

As an underwriting agent of the Government, the Bank underwrites certain PRC government bonds and sells the bonds to the general public, in which the Bank is obliged to redeem these bonds at the discretion of the holders at any time prior to maturity. The redemption price for the bonds is based on the nominal value of the bonds plus any interest accrued up to the redemption date. As at 30 September 2013, the Bank had underwritten and sold bonds with an accumulated amount of RMB 1,645 million (31 December 2012: RMB 1,852 million; 31 December 2011: RMB 1,872 million, 31 December 2010: RMB 2,124 million) to the general public, and these government bonds have not yet matured nor been redeemed. Management expects that the amount of redemption of these government bonds through the Bank prior to maturity will not be material.

The MOF will not provide funding for the early redemption of these government bonds on a back-to-back basis but is obliged to repay the principal and the respective interest upon maturity.

(g) Risk fund rescue obligation

The Bank has been a member of the Asia Financial Cooperation Association ("AFCA") since 31 December 2012, who has established a risk fund divided into shares. The price per share equaled to RMB 100 million as at the fund establishment date. The Bank subscribed for 2 shares with 10% cash and 90% cooperative obligation. This means the Bank has the obligation of providing support to the AFCA members through certain methods such as placement, within the limit of RMB 180 million.

39. WEALTH MANAGEMENT AND CUSTODY**(a) Wealth management**

The Bank sponsored Lilac RMB wealth management products to individual and institutional investors, the funds are mainly used in the interbank market for securities investments, trust loans, rights and other equity earnings. The balances of non-guaranteed wealth management products are as follows:

	The Group/Bank			
	31 December			30 September
	2010	2011	2012	2013
Entrusted funding	21,252,560	9,242,930	36,495,500	28,939,110
Entrusted investments	21,252,560	9,242,930	36,495,500	28,939,110

During the reporting period, the gains from the off-balance sheet non-guaranteed wealth management products of the Bank mainly include fee and financial advisory service fees. For the specific amounts, please see note 6 Net Fee and Commission Fee Income. The gains from the off-balance sheet non-guaranteed wealth management products of the Bank are the same with the Bank's maximum exposure to loss from its gains in such business.

(b) Designated funds and loans

	The Group			
	31 December			30 September
	2010	2011	2012	2013
Designated funds	1,344,966	1,645,978	7,163,843	8,917,505
Designated loans	1,344,966	1,645,978	7,163,843	8,917,505

39. WEALTH MANAGEMENT AND CUSTODY (continued)**(b) Designated funds and loans (continued)**

	The Bank			
	31 December			30 September
	2010	2011	2012	2013
Designated funds	1,344,966	1,645,978	7,093,843	8,836,245
Designated loans	1,344,966	1,645,978	7,093,843	8,836,245

The designated loans represent the loans granted to specific borrowers designated by the trustors on their behalf according to the entrusted agreements signed by the Group and the trustors. The Group does not bear any risk.

The designated funds represent the funding that the trustors have instructed the Group to use to make loans to third parties as designated by them. The credit risk remains with the trustors.

40. ASSETS PLEDGED AS SECURITY

Financial assets of the Group including securities, bills and loans have been pledged as security for liabilities or contingent liabilities, mainly arising from repurchase agreements and negotiated deposits. As at 30 September 2013, the carrying value of the financial assets of the Group pledged as security amounted to approximately RMB 8,288 million (31 December 2012: RMB 26,036 million; 31 December 2011: RMB 29,236 million; 31 December 2010: RMB 2,872 million).

41. FIDUCIARY ACTIVITIES

The Group provides custody, trust and asset management services to third parties. Revenue from such activities is included in "Net Fee and Commission Income" set out in note 6 above. Those assets held in a fiduciary capacity are not included in the Group's consolidated statement of financial position.

42. RELATED PARTY DISCLOSURES**(a) Significant related party disclosures****(i) Shareholders of the Bank with 5% or above ownership**

Name	Share Percentage in the Bank			
	31 December			30 September
	2010	2011	2012	2013
	%	%	%	%
Harbin Economic Development and Investment Company	33.70	33.70	29.33	29.48
Harbin Kechuang Xingye Investment Company Limited	9.98	9.98	8.69	8.73
Heilongjiang Keruan Software Technology Company Limited	9.98	9.98	8.68	8.73
Heilongjiang Xin Yongsheng Trading Company Limited	8.87	8.87	7.72	7.76
Heilongjiang Tiandi Yuanyuan Network Technology Company Limited	7.93	7.93	6.90	6.94
Heilongjiang Tuokai Trading Company Limited	7.24	7.24	6.30	6.34

42. RELATED PARTY DISCLOSURES (continued)

(a) Significant related party disclosures (continued)

(ii) *Subsidiaries of the Bank*

Details of the subsidiaries of the Bank are set out in note 1 of section II Corporate Information and Structure.

(b) Related party transactions

(i) *Transactions between the Bank and major shareholders*

	31 December			30 September	
	2010	2011	2012	2012	2013
				(Unaudited)	
Balances at end of the year/period:					
Deposits	771	110	385	614	935
Other liabilities	97,347	97,347	–	–	–
Transactions during the year/period:					
Interest expense on deposits	68	44	243	141	25
Interest rate ranges during the year/ period are as follows:	%	%	%	%	%
Deposits	0.35	0.35-0.50	0.35-0.50	0.35-0.50	0.35-0.50

(ii) *Transactions between the Bank and subsidiaries*

There are various related party transactions that occur between the Bank and its subsidiaries. These transactions are equitable and follow regular business procedures. The material balances and transactions with subsidiaries have been eliminated in full in the consolidated financial statements. In the opinion of management, the transactions between the Bank and subsidiaries have no significant impact on profit or loss.

(c) Key management personnel

The key management personnel are those persons who have the authority and responsibility to plan, direct and control the activities of the Group, directly or indirectly, including members of the board of directors, the supervisory board and executive officers.

(i) *Transactions between the Bank and key management personnel*

	31 December			30 September	
	2010	2011	2012	2012	2013
				(Unaudited)	
Balances at end of the year/period:					
Loans	5,111	8,388	7,882	8,220	7,498
Deposits	3,927	6,568	10,262	7,766	11,125
Transactions during the year/ period:					
Interest income on loans	406	392	448	325	516
Interest expense on deposits	43	72	48	36	51
Interest rate ranges during the year/period are as follows:	%	%	%	%	%
Loans	4.25-6.53	4.48-8.96	4.56-9.17	4.56-9.17	4.56-9.17
Deposits	0.36-5.00	0.50-5.00	0.39-4.75	0.39-4.75	0.39-4.75

42. RELATED PARTY DISCLOSURES (continued)

(c) Key management personnel (continued)

(ii) *Key management personnel compensation*

The aggregate compensation of key management personnel is listed as follows:

	Year ended 31 December			Nine months ended 30 September	
	2010	2011	2012	2012	2013
				(Unaudited)	
Emoluments and other short term employed benefits	<u>9,258</u>	<u>16,927</u>	<u>22,671</u>	<u>10,229</u>	<u>12,215</u>

43. SEGMENT INFORMATION

(a) Operating segments

For management purposes, the Group is organised into four different operating segments as below:

Corporate banking

The corporate banking covers the provision of financial products and services to corporate customers. The products and services include deposits, loans, settlement and clearing and other relating to trading business.

Personal banking

The personal banking covers the provision of financial products and services to individual customers. The products and services include deposits, bank cards and credit cards, personal loans and collateral loans, and personal wealth management services.

Treasury operations

The treasury operations covers money market placements, investments and repurchasing, foreign exchange transactions, for the Group's own accounts or on behalf of customers.

Others

This represents business other than corporate banking, personal banking and treasury banking, whose assets, liabilities, income and expenses can not directly attributable or can not be allocated to a segment on a reasonable basis.

Inter-segment transfer price is calculated in accordance with the sources and funding period, matching the interest rates announced by the PBOC and the interbank market rates. Expenses are allocated between segments based on benefits.

43. SEGMENT INFORMATION (continued)**(a) Operating segments (continued)**

	Corporate banking	Personal banking	Treasury operations	Others	Total
<u>Year ended 31 December 2010</u>					
External net interest income	914,580	1,208,196	833,128	–	2,955,904
Internal net interest income/(expense)	555,715	106,906	(662,621)	–	–
Net fee and commission income ..	39,831	(6,084)	82,443	–	116,190
Other income/(expense), net (i) ...	(7,618)	–	124,411	56,529	173,322
Operating income	1,502,508	1,309,018	377,361	56,529	3,245,416
Operating expenses	(680,224)	(532,202)	(157,845)	(31,262)	(1,401,533)
Impairment losses on:					
Loans and advances to customers	(10,727)	(228,017)	–	–	(238,744)
Others	–	–	–	11,777	11,777
Operating profit	811,557	548,799	219,516	37,044	1,616,916
Share of profits of an associate ...	–	–	–	–	–
Profit before tax	811,557	548,799	219,516	37,044	1,616,916
Income tax expense					(389,702)
Profit for the year					1,227,214
Other segment information:					
Depreciation and amortisation	48,796	38,178	12,710	1,278	100,962
Capital expenditure	397,710	311,165	103,590	10,419	822,884
<u>As at 31 December 2010</u>					
Segment assets	47,650,735	30,769,184	46,880,052	533,964	125,833,935
Segment liabilities	82,365,252	32,590,425	5,502,751	236,774	120,695,202
Other segment information:					
Credit commitments	15,485,785	351,184	–	–	15,836,969

(i) Includes net trading income, net income (losses) from financial investments and other net operating income.

43. SEGMENT INFORMATION (continued)

(a) Operating segments (continued)

	Corporate banking	Personal banking	Treasury operations	Others	Total
<u>Year ended 31 December 2011</u>					
External net interest income	1,127,371	1,761,281	1,929,402	–	4,818,054
Internal net interest income/ (expense)	843,283	193,458	(1,036,741)	–	–
Net fee and commission income	40,126	(7,153)	378,881	–	411,854
Other income/(expense), net (i) ..	(10,469)	–	153,986	40,627	184,144
Operating income	2,000,311	1,947,586	1,425,528	40,627	5,414,052
Operating expenses	(809,705)	(647,317)	(612,745)	(13,057)	(2,082,824)
Impairment losses on:					
Loans and advances to customers	(233,413)	(642,574)	–	–	(875,987)
Others	–	–	5,466	46,737	52,203
Operating profit	957,193	657,695	818,249	74,307	2,507,444
Share of profits of an associate ..	–	–	–	–	–
Profit before tax	957,193	657,695	818,249	74,307	2,507,444
Income tax expense					(651,019)
Profit for the year					<u>1,856,425</u>
Other segment information:					
Depreciation and amortisation	49,936	39,922	45,732	628	136,218
Capital expenditure	656,522	524,854	601,240	8,257	1,790,873
<u>As at 31 December 2011</u>					
Segment assets	61,222,844	38,167,318	106,045,846	1,225,351	206,661,359
Segment liabilities	105,543,675	42,665,453	46,651,661	270,195	195,130,984
Other segment information:					
Credit commitments	25,337,022	597,127	–	–	25,934,149

(i) Includes net trading income, net income (losses) from financial investments and other net operating income.

43. SEGMENT INFORMATION (continued)

(a) Operating segments (continued)

	Corporate banking	Personal banking	Treasury operations	Others	Total
<u>Year ended 31 December 2012</u>					
External net interest income	1,499,386	1,939,153	3,219,828	–	6,658,367
Internal net interest income/ (expense)	1,003,467	286,024	(1,289,491)	–	–
Net fee and commission income	65,542	3,539	609,569	–	678,650
Other income, net (i)	17,158	–	268,664	88,367	374,189
Operating income	2,585,553	2,228,716	2,808,570	88,367	7,711,206
Operating expenses	(1,239,034)	(615,841)	(1,141,492)	(29,152)	(3,025,519)
Impairment losses on:					
Loans and advances to customers	(333,484)	(503,741)	–	–	(837,225)
Others	1,999	–	–	(980)	1,019
Operating profit	1,015,034	1,109,134	1,667,078	58,235	3,849,481
Share of profits of an associate ..	–	–	–	9,429	9,429
Profit before tax	1,015,034	1,109,134	1,667,078	67,664	3,858,910
Income tax expense					(987,451)
Profit for the year					2,871,459
Other segment information:					
Depreciation and amortisation	70,702	46,431	89,687	1,435	208,255
Capital expenditure	952,502	625,520	1,208,271	19,329	2,805,622
<u>As at 31 December 2012</u>					
Segment assets	87,740,237	49,828,440	131,117,864	1,403,611	270,090,152
Segment liabilities	136,037,077	56,218,371	60,518,261	379,462	253,153,171
Other segment information:					
Credit commitments	48,349,017	1,040,325	–	–	49,389,342

(i) Includes net trading income, net income (losses) from financial investments and other net operating income.

43. SEGMENT INFORMATION (continued)

(a) Operating segments (continued)

	Corporate banking	Personal banking	Treasury operations	Others	Total
<u>Nine months ended 30 September</u>					
<u>2012 (Unaudited)</u>					
External net interest income	817,059	1,599,696	2,340,729	–	4,757,484
Internal net interest income/(expense)	838,420	207,582	(1,046,002)	–	–
Net fee and commission income	56,761	1,511	412,809	–	471,081
Other income, net (i)	10,072	–	199,641	40,685	250,398
Operating income	1,722,312	1,808,789	1,907,177	40,685	5,478,963
Operating expenses	(345,464)	(885,994)	(745,299)	(14,634)	(1,991,391)
Impairment losses on:					
Loans and advances to customers	(386,449)	(423,256)	–	–	(809,705)
Operating profit	990,399	499,539	1,161,878	26,051	2,677,867
Share of profits of an associate ..	–	–	–	8,036	8,036
Profit before tax	990,399	499,539	1,161,878	34,087	2,685,903
Income tax expense					(664,797)
Profit for the period					2,021,106
Other segment information:					
Depreciation and amortisation	46,102	39,210	65,226	731	151,269
Capital expenditure	497,646	423,254	704,095	7,896	1,632,891
<u>As at 30 September 2012</u>					
Segment assets	117,140,381	11,563,000	134,154,785	1,948,599	264,806,765
Segment liabilities	121,013,793	49,619,417	77,494,980	589,698	248,717,888
Other segment information:					
Credit commitments	48,479,749	1,293,798	–	–	49,773,547

(i) Includes net trading income, net income (losses) from financial investments and other net operating income.

43. SEGMENT INFORMATION (continued)

(a) Operating segments (continued)

	Corporate banking	Personal banking	Treasury operations	Others	Total
<u>Nine months ended 30 September 2013</u>					
External net interest income	902,685	1,412,914	2,608,743	–	4,924,342
Internal net interest income/ (expense)	939,168	279,476	(1,218,644)	–	–
Net fee and commission income	196,395	68,996	605,806	–	871,197
Other income, net (i)	(3,510)	–	115,856	15,682	128,028
Operating income	2,034,738	1,761,386	2,111,761	15,682	5,923,567
Operating expenses	(987,646)	(601,758)	(788,339)	(10,852)	(2,388,595)
Impairment losses on:					
Loans and advances to customers	(201,457)	(220,645)	–	–	(422,102)
Operating profit	845,635	938,983	1,323,422	4,830	3,112,870
Share of profits of an associate ..	–	–	–	7,130	7,130
Profit before tax	845,635	938,983	1,323,422	11,960	3,120,000
Income tax expense					(748,679)
Profit for the period					2,371,321
Other segment information:					
Depreciation and amortisation	80,671	49,152	83,307	435	213,565
Capital expenditure	202,554	123,413	209,173	1,092	536,232
<u>As at 30 September 2013</u>					
Segment assets	90,561,195	57,157,283	112,030,167	1,911,480	261,660,125
Segment liabilities	139,532,283	57,610,562	44,840,228	668,647	242,651,720
Other segment information:					
Credit commitments	47,544,711	1,293,798	180,000	–	49,018,509

(i) Includes trading income, net income from financial investments and other net operating income.

(b) Geographical information

The Group operates principally in Mainland China.

The distribution of the geographical areas is as follows:

Mainland China (Head Office and domestic branches):

Heilongjiang Province:	Including Head Office, Harbin, Shuangyashan, Jixi, Hegang, Suihua, Daqing, Qitaihe, Mudanjiang, Jiamusi, Qiqihar as well as Village and Township Banks operating within Heilongjiang.
Northeastern China:	Including Dalian, Shenyang, as well as Village and Township Banks operating in Northeastern China excluding the ones in Heilongjiang.
Southwestern China:	Chengdu, Chongqing, as well as Village and Township Banks operating in Southwest China and mainly located in Sichuan and Chongqing.
Northern China:	Tianjin, as well as Village and Township Banks operating in Northern China and mainly located in Beijing and Tianjing.
Other regions:	Village and Township Banks operating in regions other than those listed above.

43. SEGMENT INFORMATION (continued)

(b) Geographical information (continued)

	Mainland China					Total
	Heilongjiang region	Northeastern China	Southwestern China	Northern China	Other regions	
Year ended 31 December 2010						
External net interest income	2,506,793	231,756	60,042	151,206	6,107	2,955,904
Internal net interest income/(expense)	30,027	(6,822)	(9,210)	(9,339)	(4,656)	–
Net fee and commission income	80,580	21,668	8,328	5,618	(4)	116,190
Other income, net (i)	161,921	168	241	228	10,764	173,322
Operating income	2,779,321	246,770	59,401	147,713	12,211	3,245,416
Operating expenses	(1,149,902)	(127,592)	(42,458)	(66,753)	(14,828)	(1,401,533)
Impairment losses on:						
Loans and advances to customers	(159,357)	(39,413)	(26,360)	(11,891)	(1,723)	(238,744)
Others	11,777	–	–	–	–	11,777
Operating profit	1,481,839	79,765	(9,417)	69,069	(4,340)	1,616,916
Share of profits of an associate	–	–	–	–	–	–
Profit before tax	1,481,839	79,765	(9,417)	69,069	(4,340)	1,616,916
Income tax expense						(389,702)
Profit for the year						<u>1,227,214</u>
Other segment information:						
Depreciation and amortisation	42,900	12,382	910	6,688	38,082	100,962
Capital expenditure	697,090	64,299	17,397	39,821	4,277	822,884
As at 31 December 2010						
Segment assets	<u>92,693,789</u>	<u>12,099,087</u>	<u>13,313,993</u>	<u>6,416,331</u>	<u>1,310,735</u>	<u>125,833,935</u>
Segment liabilities	<u>87,975,613</u>	<u>12,068,769</u>	<u>13,253,993</u>	<u>6,316,053</u>	<u>1,080,774</u>	<u>120,695,202</u>
Other segment information:						
Credit commitments	<u>5,702,490</u>	<u>6,684,695</u>	<u>1,232,088</u>	<u>2,212,233</u>	<u>5,463</u>	<u>15,836,969</u>

(i) Includes trading income, net income from financial investments and other net operating income.

43. SEGMENT INFORMATION (continued)

(b) Geographical information (continued)

	Mainland China					Total
	Heilongjiang region	Northeastern China	Southwestern China	Northern China	Other regions	
Year ended 31 December 2011						
External net interest income	3,682,849	468,309	359,079	251,171	56,646	4,818,054
Internal net interest income/(expense)	182,373	(99,414)	(117,991)	52,757	(17,725)	—
Net fee and commission income	197,014	40,586	107,596	66,705	(47)	411,854
Other income, net (i) ...	162,250	14,849	3,383	22	3,640	184,144
Operating income	4,224,486	424,330	352,067	370,655	42,514	5,414,052
Operating expenses	(1,548,066)	(221,839)	(163,659)	(107,312)	(41,948)	(2,082,824)
Impairment losses on:						
Loans and advances to customers	(738,030)	(45,052)	(50,674)	(36,095)	(6,136)	(875,987)
Others	52,203	—	—	—	—	52,203
Operating profit	1,990,593	157,439	137,734	227,248	(5,570)	2,507,444
Share of profits of an associate	—	—	—	—	—	—
Profit before tax	1,990,593	157,439	137,734	227,248	(5,570)	2,507,444
Income tax expense						(651,019)
Profit for the year						<u>1,856,425</u>
Other segment information:						
Depreciation and amortisation	96,464	20,706	6,022	7,400	5,626	136,218
Capital expenditure ...	1,337,060	173,245	155,487	105,155	19,926	1,790,873
As at 31 December 2011						
Segment assets	<u>136,516,566</u>	<u>18,379,809</u>	<u>36,995,801</u>	<u>12,339,968</u>	<u>2,429,215</u>	<u>206,661,359</u>
Segment liabilities	<u>126,058,186</u>	<u>18,345,553</u>	<u>36,699,508</u>	<u>12,226,686</u>	<u>1,801,051</u>	<u>195,130,984</u>
Other segment information:						
Credit commitments	<u>3,887,609</u>	<u>9,023,792</u>	<u>6,811,892</u>	<u>6,201,568</u>	<u>9,288</u>	<u>25,934,149</u>

(i) Includes trading income, net income from financial investments and other net operating income

43. SEGMENT INFORMATION (continued)

(b) Geographical information (continued)

	Mainland China					Total
	Heilongjiang region	Northeastern China	Southwestern China	Northern China	Other regions	
Year ended 31 December 2012						
External net interest income	4,884,057	703,068	584,051	360,557	126,634	6,658,367
Internal net interest income/(expense)	(527,585)	103,315	300,944	125,951	(2,625)	—
Net fee and commission income	407,312	43,383	166,710	61,247	(2)	678,650
Other income, net (i) ...	256,183	22,482	70,987	11,877	12,660	374,189
Operating income	5,019,967	872,248	1,122,692	559,632	136,667	7,711,206
Operating expenses	(2,099,369)	(322,655)	(346,950)	(168,033)	(88,512)	(3,025,519)
Impairment losses on:						
Loans and advances to customers	(497,267)	(99,705)	(158,392)	(54,388)	(27,473)	(837,225)
Others	1,019	—	—	—	—	1,019
Operating profit	2,424,350	449,888	617,350	337,211	20,682	3,849,481
Share of profits of an associate	9,429	—	—	—	—	9,429
Profit before tax	2,433,779	449,888	617,350	337,211	20,682	3,858,910
Income tax expense						(987,451)
Profit for the year						<u>2,871,459</u>
Other segment information:						
Depreciation and amortisation	127,287	22,214	36,046	9,540	13,168	208,255
Capital expenditure ...	2,019,366	279,425	298,617	157,597	50,617	2,805,622
As at 31 December 2012						
Segment assets	171,368,038	33,639,009	43,401,202	17,085,713	4,596,190	270,090,152
Segment liabilities	155,684,967	33,552,542	43,038,612	16,939,328	3,937,722	253,153,171
Other segment information:						
Credit commitments	12,525,614	9,403,905	18,502,424	8,866,689	90,710	49,389,342

(i) Includes trading income, net income from financial investments and other net operating income.

43. SEGMENT INFORMATION (continued)

(b) Geographical information (continued)

	Mainland China					
	Heilongjiang region	Northeastern China	Southwestern China	Northern China	Other regions	Total
Nine months ended						
30 September 2012						
(Unaudited)						
External net interest						
income	3,865,109	422,967	205,078	167,998	96,332	4,757,484
Internal net interest						
income/(expense)	(368,300)	73,159	214,004	88,254	(7,117)	–
Net fee and commission						
income	256,120	25,436	149,197	40,368	(40)	471,081
Other income, net (i) . . .	179,302	19,615	43,402	5,734	2,345	250,398
Operating income	3,932,231	541,177	611,681	302,354	91,520	5,478,963
Operating expenses	(1,365,391)	(218,537)	(236,548)	(109,479)	(61,436)	(1,991,391)
Impairment losses on:						
Loans and advances to						
customers	(519,689)	(129,043)	(104,203)	(38,699)	(18,071)	(809,705)
Operating profit	2,047,151	193,597	270,930	154,176	12,013	2,677,867
Share of profits of an						
associate	8,036	–	–	–	–	8,036
Profit before tax	2,055,187	193,597	270,930	154,176	12,013	2,685,903
Income tax expense						(664,797)
Profit for the period						2,021,106
Other segment						
information:						
Depreciation and						
amortisation	91,345	16,056	27,911	7,590	8,367	151,269
Capital expenditure . . .	1,178,409	161,261	178,427	88,397	26,397	1,632,891
As at 30 September 2012						
Segment assets	185,511,377	32,167,436	35,289,372	8,794,662	3,043,918	264,806,765
Segment liabilities	150,739,356	35,776,056	46,194,332	13,611,877	2,396,267	248,717,888
Other segment						
information:						
Credit						
commitments	2,855,913	16,674,070	18,854,332	9,915,141	1,474,091	49,773,547

(i) Includes trading income, net income from financial investments and other net operating income.

43. SEGMENT INFORMATION (continued)

(b) Geographical information (continued)

	Mainland China					Total
	Heilongjiang region	Northeastern China	Southwestern China	Northern China	Other regions	
Nine months ended 30 September 2013						
External net interest income	3,662,194	406,414	518,736	177,736	159,262	4,924,342
Internal net interest income/(expense)	(402,741)	156,888	110,737	149,458	(14,342)	–
Net fee and commission income	567,844	73,308	178,178	47,178	4,689	871,197
Other income, net (i) ...	13,022	19,464	89,327	2,479	3,736	128,028
Operating income	3,840,319	656,074	896,978	376,851	153,345	5,923,567
Operating expenses	(1,603,135)	(261,728)	(321,001)	(122,598)	(80,133)	(2,388,595)
Impairment losses on:						
Loans and advances to customers	(197,869)	(59,864)	(88,265)	(58,000)	(18,104)	(422,102)
Operating profit	2,039,315	334,482	487,712	196,253	55,108	3,112,870
Share of profits of an associate	7,130	–	–	–	–	7,130
Profit before tax	2,046,445	334,482	487,712	196,253	55,108	3,120,000
Income tax expense						(748,679)
Profit for the period						<u>2,371,321</u>
Other segment information:						
Depreciation and amortisation	136,099	21,341	35,210	10,500	10,415	213,565
Capital expenditure ...	348,379	59,347	80,953	34,069	13,484	536,232
As at 30 September 2013						
Segment assets	<u>177,626,562</u>	<u>26,150,314</u>	<u>42,830,127</u>	<u>9,779,464</u>	<u>5,273,658</u>	<u>261,660,125</u>
Segment liabilities	<u>142,997,803</u>	<u>37,957,504</u>	<u>43,295,947</u>	<u>13,829,229</u>	<u>4,571,237</u>	<u>242,651,720</u>
Other segment information:						
Credit commitments	<u>4,306,624</u>	<u>16,700,933</u>	<u>16,864,831</u>	<u>9,775,094</u>	<u>1,371,027</u>	<u>49,018,509</u>

(i) Includes trading income, net income from financial investments and other net operating income.

44. FINANCIAL INSTRUMENTS RISK MANAGEMENT

A description and an analysis of the major risks faced by the Group are as follows:

The board of directors (the “Board”) has the ultimate responsibility for risk management and oversees the Group’s risk management functions through the Risk Management Committee and the Audit Committee of the Board.

The President supervises the risk management strategies and reports directly to the Board. He chairs two management committees including the Risk Management Committee and the Assets and Liabilities Management Committee. These two committees formulate and make recommendations in respect of risk management strategies and policies through the President to the Risk Management Committee of the Board. The Chief Risk Officer assists the President to supervise and manage various risks.

The group has also assigned departments monitoring financial risks within the Group, including the Risk Management Department to monitor credit risk and operational risk as well as the Asset and Liability Management department together with the Risk Management Department to monitor market and liquidity risks. The Risk Management Department is primarily responsible for coordinating and establishing a comprehensive risk management framework, preparing consolidated reports on credit risk, market risk, liquidity risk and operational risk and reporting directly to the Chief Risk Officer

The Bank maintains a dual-reporting line structure at the branch level for risk management purposes. Under this structure, the risk management departments of the branches report to both the corresponding risk management departments at the head office and management of the relevant branches.

(a) Credit risk

Credit risk is the risk of loss arising from a borrower’s or counterparty’s inability to meet its obligations. Credit risk can also arise from operational failures that result in an unauthorised or inappropriate guarantee, commitment or investment of funds. Credit risk affecting the group is primarily due to loans, debt instruments, guarantees, commitment as well as other risks both on and off the balance sheet.

The principal features of the Group’s credit risk management function include:

- Centralised credit management procedures;
- Risk management rules and procedures that focus on risk control throughout the entire credit business process, including customer investigation and credit rating, granting of credit limits, loan evaluation, loan review and approval, granting of loan and post-disbursement loan monitoring;
- Stringent qualification system for the loan approval officers; and
- Information management systems designed to enable a real time risk monitoring.

To enhance the credit risk management practices, the Group also launches training programs periodically for credit officers at different levels.

In addition to the credit risk exposures on credit-related assets and amounts due from or lending to banks and other financial institutions, credit risk also arises in other areas. In addition, the Group also makes available to its customers’ guarantees which may require the Group to make payments on their behalf. Such payments are collected from customers based on the terms of the agreements signed. They expose the Group to similar risks as loans and these are mitigated by the same control processes and policies.

44. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)**(a) Credit risk (continued)*****Risk Concentration***

Credit risk is often greater when counterparties are concentrated in one single industry, or geographic location or have comparable economic characteristics.

Impairment Assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue or whether there are any liquidity problems of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Group addresses impairment assessment in two areas: individually assessed impairment and collectively assessed impairment.

Individually assessed loans

All corporate loans and discounted bills are individually reviewed for objective evidence of impairment and classified based on a five-tier classification system. Corporate loans and discounted bills that are classified as substandard, doubtful or loss are assessed individually for impairment.

If there is objective evidence that an impairment loss on a loan or advance has been incurred on an individual basis, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The allowance for impairment loss is deducted in the carrying amount. The impairment loss is recognised in the income statement. In determining allowances on an individual basis, the following factors are considered:

- The sustainability of the counterparty's business plan;
- The borrower's ability to improve performance once a financial difficulty has arisen;
- Projected receipts and the expected payout should bankruptcy ensue;
- The availability of other financial support and the realisable value of collateral; and
- The timing of the expected cash flows.

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. The impairment losses are evaluated at the end of each reporting period, unless unforeseen circumstances require more careful attention.

Collectively assessed loans

Loans that are assessed for impairment losses on a collective basis include the following:

- Homogeneous groups of loans, including all personal loans; and
- All loans for which no impairment can be identified individual, either due to the absence of any loss events or due to an inability to measure reliably the impact of potential loss events on future cash flows.

Objective evidence of impairment losses on a collective basis consists of observable data indicating a measurable decrease in the estimated future cash flows from a portfolio of loans since the initial recognition of those loans, including:

- Adverse changes in the payment status of borrowers in the group of loans; and
- National or local economic conditions that correlate with defaults on assets in the portfolio of loans.

44. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)**(a) Credit risk (continued)*****Impairment Assessment (continued)******Collectively assessed loans (continued)***

The collective impairment loss is assessed after taking into account:

- Historical loss experience in portfolios of similar risk characteristics; and
- The current economic and credit environment and, whether these, in management's experience, indicate that the actual level of incurred but not yet identified losses is likely to be greater or less than that suggested by historical experience.

Collateral

The amount and type of collateral required depend on the assessment of the credit risk of the counterparty. Guidelines are in place specifying the types of collateral and valuation parameters which can be accepted.

Reverse repurchase business is mainly collateralised by bills, loans or investment securities. As part of the reverse repurchase agreements, the Group has received securities that it is allowed to sell or repledge in the absence of default by their owners. Fair value of collateral is shown in note 21.

Corporate loans are mainly collateralised by properties or other assets. As at 30 September 2013, the carrying value of corporate loans covered by collateral amounted to RMB 31,412 million (31 December 2012: RMB 28,477 million; 31 December 2011: RMB 17,457 million; 31 December 2010: RMB 12,846 million).

Personal loans are mainly collateralised by residential properties. As at 30 September 2013, the carrying value of personal loans covered by collateral amounted to RMB 20,078 million (31 December 2012: RMB 18,095 million; 31 December 2011: RMB 14,313 million; 31 December 2010: RMB 11,601 million).

The Group prefers more liquid collateral with relatively stable market value and does not accept the collateral that is illiquid, with difficulties in registration or high fluctuations in market value. The value of collateral should be assessed and confirmed by the Group or valuation agents identified by the Group. The value of collateral should adequately cover the outstanding balance of loans. The loan-to-value ratio depends on types of collateral, usage condition, liquidity, price volatility and realisation cost. All collateral has to be registered in accordance with the relevant laws and regulations. The credit officers inspect the collateral and assess the changes in the value of collateral regularly.

Although collateral can be an important mitigation of credit risk, the Group grants loans based on the assessment of the borrowers' ability to meet obligations out of their cash flow, instead of the value of collateral. The necessity of a collateral is dependent on the nature of the loan. In the event of default, the Group might sell the collateral for repayment. The fair value of collateral of past due but not impaired loans and impaired loans are disclosed in note 44(a)(iii).

The credit business management department monitors the market value of collateral periodically and requests additional collateral in accordance with the underlying agreement when it is considered necessary.

It is the Group's policy to dispose of repossessed assets in an orderly manner. In general, the Group does not occupy repossessed assets for business use.

44. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

(a) Credit risk (continued)

(i) *Maximum exposure to credit risk without taking account of any collateral and other credit enhancements*

As at the end of the reporting period, the maximum credit risk exposure of the Group and of the Bank without taking account of any collateral and other credit enhancements is set out below:

	The Group			
	31 December			30 September
	2010	2011	2012	2013
Balances with central bank	23,042,247	30,246,622	51,043,256	39,660,185
Due from banks and other financial institutions	9,837,936	15,907,043	19,946,805	27,730,006
Financial assets held for trading	5,318,631	4,780,814	7,878,959	7,201,596
Reverse repurchase agreements	17,863,464	49,973,571	51,745,648	27,783,535
Loans and advances to customers	53,200,486	67,018,150	85,298,079	102,638,400
Financial investments				
– Receivables	4,205,579	13,635,513	22,733,333	18,037,336
– Held-to-maturity investments	5,862,040	12,286,784	12,323,533	14,349,966
– Available-for-sale financial assets ...	2,838,339	5,326,543	8,219,684	12,233,071
Others	969,487	1,807,204	2,323,112	2,467,134
	123,138,209	200,982,244	261,512,409	252,101,229
Credit commitments	15,836,969	25,934,149	49,389,342	49,018,509
Total maximum credit risk exposure	138,975,178	226,916,393	310,901,751	301,119,738

	The Bank			
	31 December			30 September
	2010	2011	2012	2013
Balances with central bank	22,616,151	29,688,982	49,892,537	38,557,780
Due from banks and other financial institutions	10,599,480	15,304,350	19,381,731	28,618,535
Financial assets held for trading	5,318,631	4,780,814	7,878,959	7,201,596
Reverse repurchase agreements	17,863,464	49,983,487	51,483,015	27,383,535
Loans and advances to customers	52,588,696	64,620,725	79,932,859	95,199,136
Financial investments				
– Receivables	3,445,480	13,620,513	22,733,333	18,037,336
– Held-to-maturity investments	5,862,040	12,286,784	12,323,533	14,349,966
– Available-for-sale financial assets ...	2,838,339	5,326,543	8,219,684	12,233,071
Others	956,307	1,783,897	2,279,603	2,409,098
	122,088,588	197,396,095	254,125,254	243,990,053
Credit commitments	15,836,969	25,934,149	49,314,814	47,397,231
Total maximum credit risk exposure	137,925,557	223,330,244	303,440,068	291,387,284

44. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

(a) Credit risk (continued)

(ii) Risk concentrations

By Industry Distribution

The credit risk exposures of the Group mainly comprise loans and advances to customers and investments in securities. Details of the composition of the Group's investments in debt securities are set out in note 44(a)(iv) to the financial statements. The composition of the Group's and of the Bank's gross loans and advances to customers by industry is analysed as follows:

	The Group			
	31 December			30 September
	2010	2011	2012	2013
Agriculture, forestry, animal husbandry and fishing	590,227	955,176	2,277,869	3,130,578
Mining	97,500	111,500	880,110	893,136
Manufacturing	5,433,099	7,653,516	10,793,878	13,384,437
Production and supply of electricity, gas and water	634,000	1,730,670	1,460,876	1,929,476
Construction	1,850,840	1,312,750	3,269,563	5,540,763
Transportation, storage and postal services	665,171	1,362,874	966,251	1,914,505
Information transmission, computer services and software	292,550	512,450	636,707	540,196
Commercial trade	6,831,644	15,533,278	18,512,749	22,199,149
Lodging and catering	445,725	766,300	880,463	1,033,038
Finance	10,000	5,000	671,726	424,000
Real estate	469,800	907,889	2,443,899	1,782,581
Leasing and commercial services	2,175,870	1,518,878	2,562,806	3,980,497
Scientific research, technological Services and geological prospecting	63,000	140,700	138,920	200,940
Water, environment and public utility management and investment industry	2,871,989	2,253,210	3,059,600	2,767,830
Resident services and other services	235,035	208,275	1,013,897	1,057,043
Education	560,850	332,810	518,250	386,960
Health, social security and social welfare ...	133,500	248,800	379,600	280,400
Culture, sports and entertainment	60,000	47,000	140,500	188,845
Public administration and social organisations	—	—	500,381	5,065
Subtotal for corporate loans and advances ...	23,420,800	35,601,076	51,108,045	61,639,439
Personal Loans:				
Personal business	8,443,543	11,539,967	13,731,128	14,966,824
Personal consumption	7,363,215	8,909,577	11,203,313	14,294,421
Loans to farmers	7,861,407	8,690,120	9,875,611	11,608,147
Subtotal for personal loans	23,668,165	29,139,664	34,810,052	40,869,392
Discounted bills	6,935,618	3,742,989	1,346,235	2,501,601
Total for loans and advances to customers ...	54,024,583	68,483,729	87,264,332	105,010,432

44. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

(a) Credit risk (continued)

(ii) Risk concentrations (continued)

By Industry Distribution (continued)

	The Bank			
	31 December			30 September
	2010	2011	2012	2013
Agriculture, forestry, animal husbandry and fishing	588,200	877,316	1,986,600	2,770,234
Mining	97,500	111,500	872,610	870,541
Manufacturing	5,382,499	7,324,451	10,939,422	12,389,670
Production and supply of electricity, gas, and water	634,000	1,700,700	1,424,176	1,916,676
Construction	1,850,840	1,297,150	3,062,504	5,246,441
Transportation, storage and postal services ...	665,171	1,308,334	926,518	1,856,027
Information transmission, computer services and software	272,550	490,450	606,741	506,296
Commercial trade	6,789,984	15,312,943	17,897,126	21,364,280
Lodging and catering	445,725	756,300	859,347	987,338
Finance	10,000	5,000	5,000	404,000
Real estate	469,800	904,889	2,429,999	1,775,281
Leasing and commercial services	2,173,070	1,480,741	2,469,239	3,852,307
Scientific research, technological services and geological prospecting	63,000	140,700	138,920	200,940
Water, environment and public utility management and investment industry	2,868,989	2,253,210	3,035,600	2,765,030
Resident services and other services	232,035	202,841	981,523	987,480
Education	560,850	332,810	490,850	361,660
Health, social security and social welfare	133,500	244,000	370,600	278,400
Culture, sports and entertainment	60,000	39,000	130,000	162,595
Public administration and social organisations	—	—	500,381	565
Subtotal for corporate loans and advances	23,297,713	34,782,335	49,127,156	58,695,761
Personal loans:				
Personal business	8,400,535	10,886,956	12,350,550	13,078,667
Personal consumption	7,298,021	8,707,990	10,946,369	13,831,390
Loan to farmers	7,513,931	8,279,920	9,017,421	10,064,996
Subtotal for personal loans	23,212,487	27,874,866	32,314,340	36,975,053
Discounted bills	6,896,356	3,402,569	368,463	1,775,184
Total for loans and advances to customers ...	53,406,556	66,059,770	81,809,959	97,445,998

44. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

(a) Credit risk (continued)

(iii) *Loans and advances to customers*

The total credit risk exposures of loans and advances to customers are summarised as follows:

	The Group			
	31 December			30 September
	2010	2011	2012	2013
Neither past due nor impaired	53,145,747	67,546,722	86,508,016	103,529,830
Past due but not impaired	450,956	514,839	200,120	578,708
Impaired	427,880	422,168	556,196	901,894
	<u>54,024,583</u>	<u>68,483,729</u>	<u>87,264,332</u>	<u>105,010,432</u>
Less: Allowance for impairment losses				
Collectively assessed	(585,579)	(1,298,273)	(1,873,960)	(2,234,942)
Individually assessed	(238,518)	(167,306)	(92,293)	(137,090)
	<u>(824,097)</u>	<u>(1,465,579)</u>	<u>(1,966,253)</u>	<u>(2,372,032)</u>
	<u>53,200,486</u>	<u>67,018,150</u>	<u>85,298,079</u>	<u>102,638,400</u>
The Bank				
	31 December			30 September
	2010	2011	2012	2013
Neither past due nor impaired	52,530,983	65,127,147	81,067,162	96,005,185
Past due but not impaired	449,502	512,654	197,903	554,052
Impaired	426,071	419,969	544,894	886,761
	<u>53,406,556</u>	<u>66,059,770</u>	<u>81,809,959</u>	<u>97,445,998</u>
Less: Allowance for impairment losses				
Collectively assessed	(579,342)	(1,271,739)	(1,784,807)	(2,113,518)
Individually assessed	(238,518)	(167,306)	(92,293)	(133,344)
	<u>(817,860)</u>	<u>(1,439,045)</u>	<u>(1,877,100)</u>	<u>(2,246,862)</u>
	<u>52,588,696</u>	<u>64,620,725</u>	<u>79,932,859</u>	<u>95,199,136</u>

Neither past due nor impaired

Management of the Group considers that these loans are exposed to normal business risk and there was no identifiable objective evidence of impairment for these loans which may incur losses to the Group at the end of the reporting period.

The following table presents the types of loans and advances to customers which are neither past due nor impaired as at the end of the reporting period:

The Group

	31 December 2010			31 December 2011		
	High Quality	Standard		High Quality	Standard	
		Quality	Total		Quality	Total
Unsecured loan	2,337,956	26	2,337,982	3,339,500	820	3,340,320
Guaranteed Loan	19,411,197	206,398	19,617,595	28,753,060	721,000	29,474,060
Loan secured						
by mortgages	19,994,186	161,736	20,155,922	22,860,387	69,875	22,930,262
Pledged loans	11,034,248	—	11,034,248	11,802,080	—	11,802,080
	<u>52,777,587</u>	<u>368,160</u>	<u>53,145,747</u>	<u>66,755,027</u>	<u>791,695</u>	<u>67,546,722</u>

44. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

(a) Credit risk (continued)

(iii) *Loans and advances to customers (continued)**Neither past due nor impaired (continued)**The Group (continued)*

	31 December 2012			30 September 2013		
	High Quality	Standard Quality	Total	High Quality	Standard Quality	Total
Unsecured loans	4,474,890	428	4,475,318	3,789,145	38,421	3,827,566
Guaranteed loans	34,758,476	230,005	34,988,481	45,159,635	582,869	45,742,504
Loans secured						
by mortgages	31,458,459	280,561	31,739,020	40,129,940	329,209	40,459,149
Pledged loans	15,234,197	71,000	15,305,197	13,492,111	8,500	13,500,611
	<u>85,926,022</u>	<u>581,994</u>	<u>86,508,016</u>	<u>102,570,831</u>	<u>958,999</u>	<u>103,529,830</u>

The Bank

	31 December 2010			31 December 2011		
	High Quality	Standard Quality	Total	High Quality	Standard Quality	Total
Unsecured loans	2,306,361	26	2,306,387	3,266,363	27	3,266,390
Guaranteed loans	19,026,086	206,398	19,232,484	27,674,310	721,000	28,395,310
Loans secured						
by mortgages	19,843,264	161,736	20,005,000	22,128,705	69,876	22,198,581
Pledged loans	10,987,112	–	10,987,112	11,266,866	–	11,266,866
	<u>52,162,823</u>	<u>368,160</u>	<u>52,530,983</u>	<u>64,336,244</u>	<u>790,903</u>	<u>65,127,147</u>

	31 December 2012			30 September 2013		
	High Quality	Standard Quality	Total	High Quality	Standard Quality	Total
Unsecured loans	4,379,849	309	4,380,158	3,704,556	38,421	3,742,977
Guaranteed loans	32,271,831	227,881	32,499,712	41,085,268	582,869	41,668,137
Loans secured						
by mortgages	29,915,729	280,561	30,196,290	37,754,601	329,139	38,083,740
Pledged loans	13,920,002	71,000	13,991,002	12,501,831	8,500	12,510,331
	<u>80,487,411</u>	<u>579,751</u>	<u>81,067,162</u>	<u>95,046,256</u>	<u>958,929</u>	<u>96,005,185</u>

44. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

(a) Credit risk (continued)

(iii) *Loans and advances to customers (continued)**Past due but not impaired*

The following tables present the ageing analysis of each type of loans and advances to customers of the Group and the Bank that are subject to credit risk which are past due but not impaired as at the end of the reporting period:

The Group

	31 December 2010			31 December 2011		
	Corporate Loans and advances	Personal loans	Total	Corporate Loans and advances	Personal loans	Total
Past due for:						
Less than one month	48,406	71,858	120,264	44,770	16,393	61,163
One to two months	51,500	17,127	68,627	182,230	8,213	190,443
Two to three months	11,999	7,396	19,395	–	9,096	9,096
Over three months	14,919	227,751	242,670	–	254,137	254,137
	<u>126,824</u>	<u>324,132</u>	<u>450,956</u>	<u>227,000</u>	<u>287,839</u>	<u>514,839</u>
Fair value of collateral held	<u>63,756</u>	<u>65,484</u>	<u>129,240</u>	<u>22,700</u>	<u>31,293</u>	<u>53,993</u>
	31 December 2012			30 September 2013		
	Corporate Loans and advances	Personal loans	Total	Corporate Loans and advances	Personal loans	Total
Past due for:						
Less than one month	3,700	35,325	39,025	254,499	55,649	310,148
One to two months	19,914	14,331	34,245	35,790	15,170	50,960
Two to three months	30,000	8,728	38,728	30,802	11,065	41,867
Over three months	59,669	28,453	88,122	28,899	146,834	175,733
	<u>113,283</u>	<u>86,837</u>	<u>200,120</u>	<u>349,990</u>	<u>228,718</u>	<u>578,708</u>
Fair value of collateral held	<u>30,984</u>	<u>59,641</u>	<u>90,625</u>	<u>322,782</u>	<u>117,913</u>	<u>440,695</u>

The Bank

	31 December 2010			31 December 2011		
	Corporate Loans and advances	Personal loans	Total	Corporate Loans and advances	Personal loans	Total
Past due for:						
Less than one month	48,406	71,858	120,264	44,770	16,393	61,163
One to two months	51,500	17,127	68,627	182,230	8,213	190,443
Two to three months	11,999	5,942	17,941	–	7,164	7,164
Over three months	14,919	227,751	242,670	–	253,884	253,884
	<u>126,824</u>	<u>322,678</u>	<u>449,502</u>	<u>227,000</u>	<u>285,654</u>	<u>512,654</u>
Fair value of collateral held	<u>63,227</u>	<u>63,407</u>	<u>126,634</u>	<u>22,700</u>	<u>28,171</u>	<u>50,871</u>

44. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

(a) Credit risk (continued)

(iii) *Loans and advances to customers (continued)**Past due but not impaired (continued)**The Bank (continued)*

	31 December 2012			30 September 2013		
	Corporate Loans and advances	Personal loans	Total	Corporate Loans and advances	Personal loans	Total
Past due for:						
Less than one month	3,300	35,016	38,316	244,728	52,536	297,264
One to two months	19,914	13,561	33,475	32,500	14,524	47,024
Two to three months	30,000	8,438	38,438	30,802	10,653	41,455
Over three months	59,669	28,005	87,674	27,281	141,028	168,309
	<u>112,883</u>	<u>85,020</u>	<u>197,903</u>	<u>335,311</u>	<u>218,741</u>	<u>554,052</u>
Fair value of collateral held	<u>30,984</u>	<u>57,046</u>	<u>88,030</u>	<u>315,482</u>	<u>74,193</u>	<u>389,675</u>

Impaired

Impaired loans and advances are defined as those loans and advances have objective evidence of impairment as a result of one or more events that occurred after initial recognition and that event has an impact on the estimated future cash flows of loans and advances that can be reliably estimated.

The fair values of collateral that the Group and the Bank hold relating to loans individually determined to be impaired as at 30 September 2013 amounted to RMB160.736 million (31 December 2012 RMB12.940 million; 31 December 2011 RMB27.631 million; 31 December 2010 RMB3.854 million). The collateral mainly consists of land, buildings, equipment and also others.

(iv) *Debt securities*

The credit risk of debt securities mainly arises from the risk that the issuer might default on a payment or go into liquidation. Debt securities by different types of issuers are generally subject to different degrees of credit risk.

The following tables present an analysis of the Group's total credit risk exposures of debt securities by types of issuers and investments:

The Group

31 December 2010	Receivables	Held-to-maturity investments	Available-for-sale financial assets	Financial assets held-for-trading	Total
Neither past due nor impaired					
Governments and central bank	1,494,764	1,360,359	386,872	1,413,773	4,655,768
Policy banks	—	2,542,568	2,447,867	3,904,858	8,895,293
Banks and other financial institutions	1,560,099	—	—	—	1,560,099
Corporate entities	<u>1,150,716</u>	<u>1,959,113</u>	<u>3,600</u>	<u>—</u>	<u>3,113,429</u>
Total	<u>4,205,579</u>	<u>5,862,040</u>	<u>2,838,339</u>	<u>5,318,631</u>	<u>18,224,589</u>

44. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

(a) Credit risk (continued)

(iv) Debt securities (continued)

The Group (continued)

31 December 2011	Receivables	Held-to-maturity investments	Available-for-sale financial assets	Financial assets held-for-trading	Total
Neither past due nor impaired					
Governments and central bank	992,581	1,260,427	–	499,166	2,752,174
Policy banks	–	9,067,934	3,776,882	2,838,352	15,683,168
Banks and other financial institutions	5,257,000	–	–	–	5,257,000
Corporate entities	7,385,932	1,958,423	1,549,661	1,443,296	12,337,312
Total	13,635,513	12,286,784	5,326,543	4,780,814	36,029,654

31 December 2012	Receivables	Held-to-maturity investments	Available-for-sale financial assets	Financial assets held-for-trading	Total
Neither past due nor impaired					
Governments and central bank	589,346	1,060,386	49,900	1,417,653	3,117,285
Policy banks	–	8,922,329	5,876,747	4,188,832	18,987,908
Banks and other financial institutions	5,819,832	–	–	–	5,819,832
Corporate entities	16,324,155	2,340,818	2,293,037	2,272,474	23,230,484
Total	22,733,333	12,323,533	8,219,684	7,878,959	51,155,509

30 September 2013	Receivables	Held-to-maturity investments	Available-for-sale financial assets	Financial assets held-for-trading	Total
Neither past due nor impaired					
Governments and central bank	220,512	1,041,177	701,369	1,235,769	3,198,827
Policy banks	–	9,806,075	8,212,121	4,118,407	22,136,603
Banks and other financial institutions	3,403,000	329,000	–	–	3,732,000
Corporate entities	14,413,824	3,173,714	3,299,581	1,847,420	22,734,539
Total	18,037,336	14,349,966	12,213,071	7,201,596	51,801,969

44. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

(a) Credit risk (continued)

(iv) Debt securities (continued)

The Bank

31 December 2010	Receivables	Held-to-maturity investments	Available-for-sale financial assets	Financial assets held-for-trading	Total
Neither past due nor impaired					
Governments and central bank	1,494,764	1,360,359	386,872	1,413,773	4,655,768
Policy banks	–	2,542,568	2,447,867	3,904,858	8,895,293
Banks and other financial institutions	800,000	–	–	–	800,000
Corporate entities	1,150,716	1,959,113	3,600	–	3,113,429
Total	3,445,480	5,862,040	2,838,339	5,318,631	17,464,490
31 December 2011	Receivables	Held-to-maturity investments	Available-for-sale financial assets	Financial assets held-for-trading	Total
Neither past due nor impaired					
Governments and central bank	992,581	1,260,427	–	499,166	2,752,174
Policy banks	–	9,067,934	3,776,882	2,838,352	15,683,168
Banks and other financial institutions	5,242,000	–	–	–	5,242,000
Corporate entities	7,385,932	1,958,423	1,549,661	1,443,296	12,337,312
Total	13,620,513	12,286,784	5,326,543	4,780,814	36,014,654
31 December 2012	Receivables	Held-to-maturity investments	Available-for-sale financial assets	Financial assets held-for-trading	Total
Neither past due nor impaired					
Governments and central bank	589,346	1,060,386	49,900	1,417,653	3,117,285
Policy banks	–	8,922,329	5,876,747	4,188,832	18,987,908
Banks and other financial institutions	5,819,832	–	–	–	5,819,832
Corporate entities	16,324,155	2,340,818	2,293,037	2,272,474	23,230,484
Total	22,733,333	12,323,533	8,219,684	7,878,959	51,155,509

44. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

(a) Credit risk (continued)

(iv) *Debt securities (continued)**The Bank (continued)*

30 September 2013	Receivables	Held-to-maturity investments	Available-for-sale financial assets	Financial assets held-for-trading	Total
Neither past due nor impaired					
Governments and central bank	220,512	1,041,177	701,369	1,235,769	3,198,827
Policy banks	–	9,806,075	8,212,121	4,118,407	22,136,603
Banks and other financial institutions	3,403,000	329,000	–	–	3,732,000
Corporate entities	14,413,824	3,173,714	3,299,581	1,847,420	22,734,539
Total	18,037,336	14,349,966	12,213,071	7,201,596	51,801,969

(b) Liquidity risk

Liquidity risk is the risk that capital will not be sufficient or funds will not be raised at reasonable cost in a timely manner for the repayment of debts due. This may arise from amount or maturity mismatches of assets and liabilities.

The Group manages its liquidity risk through the Asset and Liability Management Department and aims at:

- optimising the structure of assets and liabilities;
- maintaining the stability of the deposit base;
- projecting cash flows and evaluating the level of current assets; and
- in terms of liquidity of the branches, maintaining an efficient internal fund transfer mechanism.

The Group and the Bank's expected remaining maturity of its financial instruments may vary significantly from the following analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance although they have been classified as repayable on demand in the following tables.

44. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

(b) Liquidity risk (continued)

(i) Analysis of the remaining maturity of the assets and liabilities is set out below:

The Group

31 December 2010	Overdue	Repayable on demand	Less than One month	One to three months	Three months to one year	One to five years	More than five years	Undated	Total
Assets:									
Cash and balances with central bank	–	8,570,935	–	–	–	–	–	14,842,281	23,413,216
Due from banks and other financial institutions	–	2,736,464	2,512,150	2,567,711	2,021,611	–	–	–	9,837,936
Financial assets held for trading	–	–	988,652	–	99,588	1,451,653	2,778,738	–	5,318,631
Reverse repurchase agreements	–	–	8,281,408	8,451,380	1,091,543	39,133	–	–	17,863,464
Loans and advances to customers	500,270	–	2,901,999	8,012,586	23,748,461	8,369,979	9,667,191	–	53,200,486
Financial investments	–	–	–	810,100	1,041,860	6,254,319	4,799,679	24,620	12,930,578
Other assets (including deferred income tax assets)	8,957	11,749	3,903	552,271	665,040	261,540	109,428	1,656,736	3,269,624
Total assets	509,227	11,319,148	14,688,112	20,394,048	28,668,103	16,376,624	17,355,036	16,523,637	125,833,935
Liabilities									
Due to banks and other financial institutions	–	34,718	1,221,772	953,873	383,866	–	–	–	2,594,229
Repurchase agreements	–	121	–	2,375,923	495,683	–	–	–	2,871,727
Due to customers	–	76,322,864	4,513,518	10,354,291	19,342,481	2,358,473	–	–	112,891,627
Debt securities issued	–	–	–	–	–	1,000,000	–	–	1,000,000
Others liabilities	–	208,138	112,252	195,911	656,640	156,088	8,590	–	1,337,619
Total liabilities	–	76,565,841	5,847,542	13,879,998	20,878,670	3,514,561	8,590	–	120,695,202
Net liquidity gap	509,227	(65,246,693)	8,840,570	6,514,050	7,789,433	12,862,063	17,346,446	16,523,637	5,138,733

44. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

(b) Liquidity risk (continued)

(i) Analysis of the remaining maturity of the assets and liabilities is set out below: (continued)

The Group (continued)

31 December 2011	Overdue	Repayable on demand	Less than One month	One to three months	Three months to one year	One to five years	More than five years	Undated	Total
Assets:									
Cash and balances with central bank	–	8,229,664	–	–	–	–	–	22,706,067	30,935,731
Due from banks and other financial institutions	–	3,392,314	696,567	6,799,473	5,018,689	–	–	–	15,907,043
Financial assets held for trading	–	–	–	129,543	758,998	2,697,069	1,195,204	–	4,780,814
Reverse repurchase agreements	–	–	29,841,914	10,380,355	9,751,302	–	–	–	49,973,571
Loans and advances to customers	671,080	–	4,492,577	11,140,225	30,357,474	9,171,406	11,185,388	–	67,018,150
Financial investments	–	–	–	117,729	7,173,128	13,972,486	9,985,497	24,620	31,273,460
Investments in an associate	–	–	–	–	–	–	–	1,000,000	1,000,000
Other assets (including deferred income tax assets)	6,266	3,011	1,474	986,713	861,424	353,446	71,759	3,488,497	5,772,590
Total assets	677,346	11,624,989	35,032,532	29,554,038	53,921,015	26,194,407	22,437,848	27,219,184	206,661,359
Liabilities:									
Due to central bank	–	–	144,946	–	29,818	–	–	–	174,764
Due to banks and other financial institutions	–	399,774	862,043	7,209,193	9,380,116	200,000	–	–	18,051,126
Repurchase agreements	–	121	1,009,509	26,962,894	–	–	–	–	27,972,524
Due to customers	–	91,921,877	7,979,926	13,380,960	26,756,555	5,923,108	–	–	145,962,426
Debt securities issued	–	–	–	–	–	1,000,000	–	–	1,000,000
Other liabilities	–	368,411	224,307	339,546	837,478	192,816	7,586	–	1,970,144
Total liabilities	–	92,690,183	10,220,731	47,892,593	37,003,967	7,315,924	7,586	–	195,130,984
Net liquidity gap	677,346	(81,065,194)	24,811,801	(18,338,555)	16,917,048	18,878,483	22,430,262	27,219,184	11,530,375

44. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

(b) Liquidity risk (continued)

(i) Analysis of the remaining maturity of the assets and liabilities is set out below: (continued)

The Group (continued)

31 December 2012	Overdue	Repayable on demand	Less than One month	One to three months	Three months to one year	One to five years	More than five years	Undated	Total
Assets:									
Cash and balances with central bank	–	18,723,121	–	–	–	–	–	33,135,390	51,858,511
Due from banks and other financial institutions	–	2,723,531	2,388,000	9,412,764	5,043,610	378,900	–	–	19,946,805
Financial assets held for trading	–	–	–	405,852	709,398	4,898,372	1,865,337	–	7,878,959
Reverse repurchase agreements	–	–	29,630,226	12,049,982	10,065,440	–	–	–	51,745,648
Loans and advances to customers	404,764	–	3,815,579	14,010,005	40,325,670	13,641,008	13,101,053	–	85,298,079
Financial investments	–	–	663,459	3,708,056	11,030,265	19,963,807	7,910,963	24,620	43,301,170
Investments in an associate	–	–	–	–	–	–	–	1,017,014	1,017,014
Other assets (including deferred income tax assets)	22,609	210,453	202,193	780,418	1,169,596	333,575	28,578	6,296,544	9,043,966
Total assets	427,373	21,657,105	36,699,457	40,367,077	68,343,979	39,215,662	22,905,931	40,473,568	270,090,152
Liabilities:									
Due to central bank	–	–	116,904	103,625	374,332	–	–	–	594,861
Due to banks and other financial institutions	–	1,771,465	2,537,838	9,565,758	22,048,487	600,000	–	–	36,523,548
Repurchase agreements	–	121	12,204,287	8,138,991	2,489,256	–	–	–	22,832,655
Due to customers	–	101,121,840	8,532,037	17,835,874	49,297,386	9,855,247	–	–	186,642,384
Debt securities issued	–	–	–	–	–	3,500,000	–	–	3,500,000
Other liabilities	–	877,072	578,915	674,051	691,031	238,507	147	–	3,059,723
Total liabilities	–	103,770,498	23,969,981	36,318,299	74,900,492	14,193,754	147	–	253,153,171
Net liquidity gap	427,373	(82,113,393)	12,729,476	4,048,778	(6,556,513)	25,021,908	22,905,784	40,473,568	16,936,981

44. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

(b) Liquidity risk (continued)

(i) Analysis of the remaining maturity of the assets and liabilities is set out below: (continued)

The Group (continued)

30 September 2013	Overdue	Repayable on demand	Less than One month	One to three months	Three months to one year	One to five years	More than five years	Undated	Total
Assets:									
Cash and balances with central bank ...	–	7,010,649	–	–	–	–	–	33,719,001	40,729,650
Due from banks and other financial institutions	–	3,313,646	5,610,000	4,174,914	10,081,446	4,550,000	–	–	27,730,006
Financial assets held for trading	–	–	79,956	170,045	307,197	5,042,382	1,602,016	–	7,201,596
Reverse repurchase agreements	–	–	12,640,910	4,781,177	5,211,448	5,150,000	–	–	27,783,535
Loans and advances to customers	923,150	–	6,134,120	11,924,428	57,340,509	11,841,107	14,475,086	–	102,638,400
Financial investments	–	–	163,328	2,021,758	10,998,497	23,797,512	7,619,278	44,620	44,644,993
Investments in an associate	–	–	–	–	–	–	–	993,733	993,733
Other assets (including deferred income tax assets)	–	371,173	14,064	14,674	82,834	70,850	182,617	9,202,000	9,938,212
Total assets	923,150	10,695,468	24,642,378	23,086,996	84,021,931	50,451,851	23,878,997	43,959,354	261,660,125
Liabilities:									
Due to central bank	–	10,000	40,440	165,798	172,770	10,000	356,988	–	755,996
Due to banks and other financial institutions	–	314,521	5,582,664	5,768,589	16,992,309	6,050,000	2,500,000	–	37,208,083
Repurchase agreements	–	–	736,518	5,553,269	–	–	–	–	6,289,787
Due to customers	–	91,535,770	11,678,534	23,431,869	45,850,156	18,633,662	–	–	191,129,991
Debt securities issued	–	–	–	–	–	3,500,000	–	–	3,500,000
Other liabilities	–	1,785,898	824,082	895,299	225,634	36,798	152	–	3,767,863
Total liabilities	–	93,646,189	18,862,238	35,814,824	63,240,869	28,230,460	2,857,140	–	242,651,720
Net liquidity gap	923,150	(82,950,721)	5,780,140	(12,727,828)	20,781,062	22,221,391	21,021,857	43,959,354	19,008,405

44. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

(b) Liquidity risk (continued)

(i) Analysis of the remaining maturity of the assets and liabilities is set out below: (continued)

The Bank

31 December 2010	Overdue	Repayable on demand	Less than One month	One to three months	Three months to one year	One to five years	More than five years	Undated	Total
Assets:									
Cash and balances with central bank	–	8,209,184	–	–	–	–	–	14,769,468	22,978,652
Due from banks and other financial institutions	–	4,472,769	2,030,100	2,075,000	2,021,611	–	–	–	10,599,480
Financial assets held for trading	–	–	988,652	–	99,588	1,451,653	2,778,738	–	5,318,631
Reverse repurchase agreements	–	–	8,281,408	8,451,380	1,091,543	39,133	–	–	17,863,464
Loans and advances to customers	497,429	–	2,883,271	7,970,971	23,581,314	8,016,519	9,639,192	–	52,588,696
Financial investments	–	–	–	50,000	1,041,860	6,254,320	4,799,679	24,620	12,170,479
Investments in subsidiaries	–	–	–	–	–	–	–	437,800	437,800
Other assets (including deferred income tax assets)	8,955	11,749	3,817	540,048	660,804	254,172	116,467	1,638,336	3,234,348
Total assets	506,384	12,693,702	14,187,248	19,087,399	28,496,720	16,015,797	17,334,076	16,870,224	125,191,550
Liabilities									
Due to banks and other financial institutions	–	569,799	1,160,000	905,645	383,866	–	–	–	3,019,310
Repurchase agreements	–	121	–	2,375,923	495,683	–	–	–	2,871,727
Due to customers	–	75,764,261	4,438,221	10,181,555	19,260,672	2,290,048	–	–	111,934,757
Debt securities issued	–	–	–	–	–	1,000,000	–	–	1,000,000
Other liabilities	–	202,199	109,912	196,458	656,356	155,739	8,590	–	1,329,254
Total liabilities	–	76,536,380	5,708,133	13,659,581	20,796,577	3,445,787	8,590	–	120,155,048
Net liquidity gap	506,384	(63,842,678)	8,479,115	5,427,818	7,700,143	12,570,010	17,325,486	16,870,224	5,036,502

44. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

(b) Liquidity risk (continued)

(i) Analysis of the remaining maturity of the assets and liabilities is set out below: (continued)

The Bank (continued)

31 December 2011	Overdue	Repayable on demand	Less than One month	One to three months	Three months to one year	One to five years	More than five years	Undated	Total
Assets:									
Cash and balances with central bank ...	–	8,001,977	–	–	–	–	–	22,339,627	30,341,604
Due from banks and other financial institutions	–	3,699,789	815,179	5,770,693	5,018,689	–	–	–	15,304,350
Financial assets held for trading	–	–	–	129,543	758,998	2,697,069	1,195,204	–	4,780,814
Reverse repurchase agreements	–	–	29,841,914	10,390,271	9,751,302	–	–	–	49,983,487
Loans and advances to customers	667,456	–	4,397,473	10,819,365	28,999,596	8,611,332	11,125,503	–	64,620,725
Financial investments	–	–	–	117,729	7,158,128	13,972,486	9,985,497	24,620	31,258,460
Investments in an associate and subsidiaries	–	–	–	–	–	–	–	1,867,000	1,867,000
Other assets (including deferred income tax assets)	6,266	3,658	1,444	966,317	849,515	325,605	95,691	3,400,487	5,648,983
Total assets	673,722	11,705,424	35,056,010	28,193,918	52,536,228	25,606,492	22,401,895	27,631,734	203,805,423
Liabilities:									
Due to central bank	–	–	19,733	–	–	–	–	–	19,733
Due to banks and other financial institutions	–	1,532,144	812,043	6,864,193	9,330,116	200,000	–	–	18,738,496
Repurchase agreements	–	121	1,009,509	26,962,894	–	–	–	–	27,972,524
Due to customers	–	89,744,115	7,791,782	13,065,475	26,287,582	5,878,376	–	–	142,767,330
Debt securities issued	–	–	–	–	–	1,000,000	–	–	1,000,000
Other liabilities	–	349,980	218,506	339,194	832,680	192,397	7,583	–	1,940,340
Total liabilities	–	91,626,360	9,851,573	47,231,756	36,450,378	7,270,773	7,583	–	192,438,423
Net liquidity gap	673,722	(79,920,936)	25,204,437	(19,037,838)	16,085,850	18,335,719	22,394,312	27,631,734	11,367,000

44. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

(b) Liquidity risk (continued)

(i) Analysis of the remaining maturity of the assets and liabilities is set out below: (continued)

The Bank (continued)

31 December 2012	Overdue	Repayable on demand	Less than One month	One to three months	Three months to one year	One to five years	More than five years	Undated	Total
Assets:									
Cash and balances with central bank	–	18,324,654	–	–	–	–	–	32,336,545	50,661,199
Due from banks and other financial institutions	–	2,185,920	3,001,000	8,816,651	4,999,260	378,900	–	–	19,381,731
Financial assets held for trading	–	–	–	405,852	709,398	4,898,372	1,865,337	–	7,878,959
Reverse repurchase agreements	–	–	29,630,226	12,100,294	9,752,495	–	–	–	51,483,015
Loans and advances to customers	395,537	–	–	16,518,559	37,314,254	12,724,884	12,979,625	–	79,932,859
Financial investments	–	–	663,459	3,708,055	11,030,265	19,963,808	7,910,963	24,620	43,301,170
Investments in an associate and subsidiaries	–	–	–	–	–	–	–	2,159,014	2,159,014
Other assets (including deferred income tax assets)	22,210	205,601	195,011	752,698	1,159,598	542,388	58,910	5,896,052	8,832,468
Total assets	417,747	20,716,175	33,489,696	42,302,109	64,965,270	38,508,352	22,814,835	40,416,231	263,630,415
Liabilities:									
Due to central bank	–	–	33,752	29,918	19,943	–	–	–	83,613
Due to banks and other financial institutions	–	2,613,593	2,529,451	9,534,145	21,953,487	600,000	–	–	37,230,676
Repurchase agreements	–	121	12,204,287	8,182,219	2,290,134	–	–	–	22,676,761
Due to customers	–	97,560,892	8,129,082	16,993,512	48,109,667	9,640,010	–	–	180,433,163
Debt securities issued	–	–	–	–	–	3,500,000	–	–	3,500,000
Other liabilities	–	848,473	565,037	676,661	681,675	233,365	146	–	3,005,357
Total liabilities	–	101,023,079	23,461,609	35,416,455	73,054,906	13,973,375	146	–	246,929,570
Net liquidity gap	417,747	(80,306,904)	10,028,087	6,885,654	(8,089,636)	24,534,977	22,814,689	40,416,231	16,700,845

44. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

(b) Liquidity risk (continued)

(i) Analysis of the remaining maturity of the assets and liabilities is set out below: (continued)

The Bank (continued)

30 September 2013	Overdue	Repayable on demand	Less than One month	One to three months	Three months to one year	One to five years	More than five years	Undated	Total
Assets:									
Cash and balances with central bank	–	6,801,570	–	–	–	–	–	32,763,264	39,564,834
Due from banks and other financial institutions	–	2,130,905	5,610,000	2,035,410	14,292,220	4,550,000	–	–	28,618,535
Financial assets held for trading	–	–	79,956	170,045	307,197	5,042,382	1,602,016	–	7,201,596
Reverse repurchase agreements	–	–	12,640,910	4,781,177	4,811,448	5,150,000	–	–	27,383,535
Loans and advances to customers	892,690	–	16,541,744	–	52,625,616	10,792,278	14,346,808	–	95,199,136
Financial investments	–	–	163,328	2,021,758	10,998,497	23,797,512	7,619,278	44,620	44,644,993
Investments in an associate and subsidiaries	–	–	–	–	–	–	–	2,135,733	2,135,733
Other assets (including deferred income tax assets)	23,764	730,540	545,423	569,115	647,030	96,664	330,944	6,773,964	9,717,444
Total assets	916,454	9,663,015	35,581,361	9,577,505	83,682,008	49,428,836	23,899,046	41,717,581	254,465,806
Liabilities:									
Due to central bank	–	–	9,495	38,929	–	–	–	–	48,424
Due to banks and other financial institutions	–	1,407,038	5,643,527	5,831,480	16,818,639	6,050,000	2,500,000	–	38,250,684
Repurchase agreements	–	–	736,518	5,553,269	–	–	–	–	6,289,787
Due to customers	–	86,148,800	11,254,717	22,581,520	44,859,794	19,167,411	–	–	184,012,242
Debt securities issued	–	–	–	–	–	3,500,000	–	–	3,500,000
Other liabilities	–	841,110	510,300	570,741	1,072,179	705,332	6,649	–	3,706,311
Total liabilities	–	88,396,948	18,154,557	34,575,939	62,750,612	29,422,743	2,506,649	–	235,807,448
Net liquidity gap	916,454	(78,733,933)	17,426,804	(24,998,434)	20,931,396	20,006,093	21,392,397	41,717,581	18,658,358

44. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

(b) Liquidity risk (continued)

(ii) *Maturity analysis of contractual undiscounted cash flows*

The tables below summarize the maturity profile of the Group's and of the Bank's financial instruments based on the contractual undiscounted cash flows. The balances of some items in the tables below are different from the balances on the statement of financial position as the tables incorporate all cash flows relating to both principal and interest. The Group and the Bank's expected cash flows on these instruments may vary significantly from the following analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance although they have been classified as repayable on demand in the following tables.

The Group

31 December 2010	Overdue	Repayable on demand	Less than One month	One to three months	Three months to one year	One to five years	More than five years	Undated	Total
Financial assets:									
Cash and balances with central bank	–	8,570,935	–	–	–	–	–	14,842,281	23,413,216
Due from banks and other financial institutions (*)	–	2,736,464	10,879,519	11,115,767	3,160,070	39,133	–	–	27,930,953
Financial assets held for trading	–	–	1,009,992	24,537	204,242	2,223,727	3,066,119	–	6,528,617
Loans and advances to customers (**)	321,135	–	3,039,600	8,392,511	25,488,709	11,126,898	12,670,952	512,651	61,552,456
Financial investments	–	–	14	877,933	1,282,065	7,311,928	5,819,503	24,620	15,316,063
Other financial assets	–	–	–	–	33,929	8,089	–	–	42,018
Total financial assets	321,135	11,307,399	14,929,125	20,410,748	30,169,015	20,709,775	21,556,574	15,379,552	134,783,323
Financial liabilities:									
Due to banks and other financial institutions (***)	–	94,839	1,241,470	3,349,924	904,593	–	–	–	5,590,826
Due to customers	–	76,371,051	4,554,911	10,449,250	19,725,223	2,670,970	–	–	113,771,405
Debt securities issued	–	–	–	–	60,000	1,180,000	–	–	1,240,000
Other financial liabilities	–	10,211	–	–	396,501	121,298	–	–	528,010
Total financial liabilities	–	76,476,101	5,796,381	13,799,174	21,086,317	3,972,268	–	–	121,130,241

(*) Includes reverse repurchase agreements

(**) Undated loans and advances to customers which are impaired or not impaired but overdue for more than one month are included.

(***) Includes repurchase agreements.

44. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

(b) Liquidity risk (continued)

(ii) Maturity analysis of contractual undiscounted cash flows (continued)

The Group (continued)

31 December 2011	Overdue	Repayable on demand	Less than One month	One to three months	Three months to one year	One to five years	More than five years	Undated	Total
Financial assets:									
Cash and balances with central bank	–	8,229,664	–	–	–	–	–	22,706,067	30,935,731
Due from banks and other financial institutions (*)	–	3,392,314	31,646,792	17,605,579	15,247,503	–	–	–	67,892,188
Financial assets held for trading	–	–	7,983	149,576	916,924	3,173,271	1,307,105	–	5,554,859
Loans and advances to customers (**)	222,316	–	4,642,539	11,512,086	31,518,587	13,913,478	16,353,875	617,591	78,780,472
Financial investments	–	–	175,206	303,814	8,436,616	16,672,433	11,216,478	24,620	36,829,167
Other financial assets	–	5	–	–	10,001	8,955	–	–	18,961
Total financial assets	222,316	11,621,983	36,472,520	29,571,055	56,129,631	33,768,137	28,877,458	23,348,278	220,011,378
Financial liabilities:									
Due to central bank	–	–	144,946	–	29,818	–	–	–	174,764
Due to banks and other financial institutions (***)	–	399,895	1,910,257	34,801,760	9,634,238	227,237	–	–	46,973,387
Due to customers	–	91,963,525	8,069,843	13,531,735	27,382,923	7,130,593	–	–	148,078,619
Debt securities issued	–	–	–	–	60,000	1,120,000	–	–	1,180,000
Other financial liabilities	–	32,586	–	–	311,508	43,109	–	–	387,203
Total financial liabilities	–	92,396,006	10,125,046	48,333,495	37,418,487	8,520,939	–	–	196,793,973

(*) Includes reverse repurchase agreements.

(**) Undated loans and advances to customers which are impaired or not impaired but overdue for more than one month are included.

(***) Includes repurchase agreements.

44. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

(b) Liquidity risk (continued)

(ii) Maturity analysis of contractual undiscounted cash flows (continued)

The Group (continued)

31 December 2012	Overdue	Repayable on demand	Less than one month	One to three months	Three months to one year	One to five years	More than five years	Undated	Total
Financial assets:									
Cash and balances with central bank	–	18,723,121	–	–	–	–	–	33,135,390	51,858,511
Due from banks and other financial institutions (*)	–	2,723,531	32,198,708	21,741,153	15,377,679	378,900	–	–	72,419,971
Financial assets held for trading	–	–	14,990	492,296	936,414	5,734,335	2,092,129	–	9,270,164
Loans and advances to customers (**)	62,781	–	4,032,874	14,807,867	43,605,756	19,208,090	18,736,627	611,338	101,065,333
Financial investments	–	–	795,761	4,340,268	12,629,274	23,063,179	8,880,864	24,620	49,733,966
Other financial assets	–	197,678	–	–	41,899	7,930	–	–	247,507
Total financial assets	62,781	21,644,330	37,042,333	41,381,584	72,591,022	48,392,434	29,709,620	33,771,348	284,595,452
Financial liabilities:									
Due to central bank	–	–	116,904	103,625	374,332	–	–	–	594,861
Due to banks and other financial institutions (***)	–	1,771,586	15,007,406	18,039,788	25,379,678	666,000	–	–	60,864,458
Due to customers	–	101,137,731	8,631,276	18,043,329	50,449,320	12,007,675	–	–	190,269,331
Debt securities issued	–	–	–	–	173,750	4,015,000	–	–	4,188,750
Other financial liabilities	–	173,813	163,199	199,958	56,281	5,819	–	–	599,070
Total financial liabilities	–	103,083,130	23,918,785	36,386,700	76,433,361	16,694,494	–	–	256,516,470

(*) Includes reverse repurchase agreements.

(**) Undated loans and advances to customers which are impaired or not impaired but overdue for more than one month are included.

(***) Includes repurchase agreements.

44. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

(b) Liquidity risk (continued)

(ii) Maturity analysis of contractual undiscounted cash flows (continued)

The Group (continued)

30 September 2013	Overdue	Repayable on demand	Less than One month	One to three months	Three months to one year	One to five years	More than five years	Undated	Total
Financial assets:									
Cash and balances with central bank	–	7,010,649	–	–	–	–	–	33,719,001	40,729,650
Due from banks and other financial institutions (*)	–	2,130,904	18,381,584	9,458,970	25,650,522	9,841,412	5,410,550	–	70,873,942
Financial assets held for trading	–	–	89,818	226,517	543,560	5,801,138	1,844,418	–	8,505,451
Loans and advances to customers (**)	495,922	–	6,774,476	13,100,261	60,496,461	17,578,810	20,672,226	632,250	119,750,406
Financial investments	–	–	218,261	2,433,210	12,851,841	27,242,842	8,776,432	44,620	51,567,206
Other financial assets	–	6,882	–	358,838	143,567	7,830	1,310	–	518,427
Total financial assets	495,922	9,148,435	25,464,139	25,577,796	99,685,951	60,472,032	36,704,936	34,395,871	291,945,082
Financial liabilities:									
Due to central bank	–	12,653	40,440	165,798	267,097	12,653	451,679	–	950,320
Due to banks and other financial institutions (***)	607,199	5,736,333	6,596,811	11,361,804	17,798,330	8,927,255	–	–	51,027,732
Due to customers	–	95,541,526	12,958,355	30,253,575	47,856,634	19,449,102	–	–	206,059,192
Debt securities issued	–	–	–	–	–	3,793,750	–	–	3,793,750
Other financial liabilities	–	5,974	41,393	8,346	663,662	21,665	24	–	741,064
Total financial liabilities	607,199	101,296,486	19,636,999	41,789,523	66,585,723	32,204,425	451,703	–	262,572,058

(*) Includes reverse repurchase agreements.

(**) Undated loans and advances to customers which are impaired or not impaired but overdue for more than one month are included.

(***) Includes repurchase agreements.

44. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

(b) Liquidity risk (continued)

(ii) Maturity analysis of contractual undiscounted cash flows (continued)

The Bank

31 December 2010	Overdue	Repayable on demand	Less than One month	One to three months	Three months to one year	One to five years	More than five years	Undated	Total
Financial assets:									
Cash and balances with central bank	–	8,209,184	–	–	–	–	–	14,769,468	22,978,652
Due from banks and other financial institutions (*)	–	4,472,769	10,352,489	11,642,797	3,160,070	39,133	–	–	29,667,258
Financial assets held for trading	–	–	1,009,992	24,537	204,242	2,223,727	3,066,119	–	6,528,617
Loans and advances to customers (**)	318,091	–	3,039,600	8,392,511	25,309,628	10,748,200	12,640,954	512,651	60,961,635
Financial investments	–	–	14	877,933	1,282,065	7,311,928	5,819,503	24,620	15,316,063
Other financial assets	–	–	–	–	33,929	8,089	–	–	42,018
Total financial assets	318,091	12,681,953	14,402,095	20,937,778	29,989,934	20,331,077	21,526,576	15,306,739	135,494,243
Financial liabilities:									
Due to banks and other financial institutions (***)	–	569,920	1,180,439	3,302,455	904,593	–	–	–	5,957,407
Due to customers	–	75,812,447	4,554,911	10,449,250	19,643,415	2,602,546	–	–	113,062,569
Debt securities issued	–	–	–	–	60,000	1,180,000	–	–	1,240,000
Other financial liabilities	–	10,211	–	–	395,260	121,298	–	–	526,769
Total financial liabilities	–	76,392,578	5,735,350	13,751,705	21,003,268	3,903,844	–	–	120,786,745

(*) Includes reverse repurchase agreements.

(**) Undated loans and advances to customers which are impaired or not impaired but overdue for more than one month are included.

(***) Includes repurchase agreements.

44. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

(b) Liquidity risk (continued)

(ii) Maturity analysis of contractual undiscounted cash flows (continued)

The Bank (continued)

31 December 2011	Overdue	Repayable on demand	Less than One month	One to three months	Three months to one year	One to five years	More than five years	Undated	Total
Financial assets:									
Cash and balances with central bank	-	8,001,977	-	-	-	-	-	22,339,627	30,341,604
Due from banks and other financial institutions (*)	-	3,699,789	31,646,792	17,605,579	15,247,503	-	-	-	68,199,663
Financial assets held for trading	-	-	7,983	149,576	916,924	3,173,271	1,307,105	-	5,554,859
Loans and advances to customers (**)	218,411	-	4,642,539	11,512,086	30,055,338	13,309,942	16,289,343	617,591	76,645,250
Financial investments	-	-	175,206	303,814	8,421,616	16,672,433	11,216,478	24,620	36,814,167
Other financial assets	-	5	-	-	8,211	8,955	-	-	17,171
Total financial assets	218,411	11,701,771	36,472,520	29,571,055	54,649,592	33,164,601	28,812,926	22,981,838	217,572,714
Financial liabilities:									
Due to central bank	-	-	19,733	-	-	-	-	-	19,733
Due to banks and other financial institutions (***)	-	1,532,265	1,860,394	34,459,228	9,584,238	227,237	-	-	47,663,363
Due to customers	-	89,785,763	8,069,843	13,531,735	26,913,949	7,085,861	-	-	145,387,151
Debt securities issued	-	-	-	-	60,000	1,120,000	-	-	1,180,000
Other financial liabilities	-	32,586	-	-	298,994	43,109	-	-	374,689
Total financial liabilities	-	91,350,614	9,949,970	47,990,963	36,857,181	8,476,207	-	-	194,624,936

(*) Includes reverse repurchase agreements.

(**) Undated loans and advances to customers which are impaired or not impaired but overdue for more than one month are included.

(***) Includes repurchase agreements.

44. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

(b) Liquidity risk (continued)

(ii) Maturity analysis of contractual undiscounted cash flows (continued)

The Bank (continued)

31 December 2012	Overdue	Repayable on demand	Less than One month	One to three months	Three months to one year	One to five years	More than five years	Undated	Total
Financial assets:									
Cash and balances with central bank	–	18,324,654	–	–	–	–	–	32,336,545	50,661,199
Due from banks and other financial institutions (*)	–	2,185,921	32,725,228	21,214,633	15,020,384	378,900	–	–	71,525,066
Financial assets held for trading	–	–	14,990	492,296	936,414	5,734,335	2,092,129	–	9,270,164
Loans and advances to customers (**) . .	52,698	–	4,032,874	14,807,867	40,351,620	18,218,126	18,605,412	611,338	96,679,935
Financial investments	–	–	795,761	4,340,268	12,495,461	23,034,180	8,880,864	24,620	49,571,154
Other financial assets	–	197,678	–	–	39,948	7,930	–	–	245,556
Total financial assets	52,698	20,708,253	37,568,853	40,855,064	68,843,827	47,373,471	29,578,405	32,972,503	277,953,074
Financial liabilities:									
Due to central bank	–	–	33,752	29,918	19,943	–	–	–	83,613
Due to banks and other financial institutions (***)	–	2,613,714	14,999,270	18,051,760	25,205,842	666,000	–	–	61,536,586
Due to customers	–	97,576,782	8,631,276	18,043,329	49,261,602	11,792,437	–	–	185,305,426
Debt securities issued	–	–	–	–	173,750	4,015,000	–	–	4,188,750
Other financial liabilities	–	173,813	163,199	199,958	50,930	5,819	–	–	593,719
Total financial liabilities	–	100,364,309	23,827,497	36,324,965	74,712,067	16,479,256	–	–	251,708,094

(*) Includes reverse repurchase agreements.

(**) Undated loans and advances to customers which are impaired or not impaired but overdue for more than one month are included.

(***) Includes repurchase agreements.

44. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

(b) Liquidity risk (continued)

(ii) Maturity analysis of contractual undiscounted cash flows (continued)

The Bank (continued)

30 September 2013	Overdue	Repayable on demand	Less than One month	One to three months	Three months to one year	One to five years	More than five years	Undated	Total
Financial assets:									
Cash and balances with central bank	-	6,801,570	-	-	-	-	-	32,763,264	39,564,834
Due from banks and other financial institutions (*)	-	2,130,904	18,381,584	6,875,003	25,650,522	9,841,412	5,410,550	-	68,289,975
Financial assets held for trading ...	-	-	89,818	226,517	543,560	5,801,138	1,844,418	-	8,505,451
Loans and advances to customers (**)	481,852	-	17,109,379	1,104,608	55,546,022	16,359,939	20,478,051	613,716	111,693,567
Financial investments	-	-	218,261	2,433,210	12,451,841	27,242,842	8,776,432	44,620	51,167,206
Other financial assets	-	-	-	356,777	141,996	7,830	1,310	-	507,913
Total financial assets	481,852	8,932,474	35,799,042	10,996,115	94,333,941	59,253,161	36,510,761	33,421,600	279,728,946
Financial liabilities:									
Due to central bank	-	-	9,500	39,000	-	-	-	-	48,500
Due to banks and other financial institutions (***)	1,055,001	5,736,542	6,498,194	11,595,578	17,798,330	8,927,255	-	-	51,610,900
Due to customers	-	92,241,306	12,510,744	29,208,548	46,203,558	18,777,286	-	-	198,941,442
Debt securities issued	-	-	-	-	-	3,793,750	-	-	3,793,750
Other financial liabilities	-	5,602	40,715	8,166	132,536	20,028	24	-	207,071
Total financial liabilities	1,055,001	97,983,450	19,059,153	40,851,292	64,134,424	31,518,319	24	-	254,601,663

(*) Includes reverse repurchase agreements.

(**) Undated loans and advances to customers which are impaired or not impaired but overdue for more than one month are included.

(***) Includes repurchase agreements.

44. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

(b) Liquidity risk (continued)

(iii) Analysis of credit commitments by contractual expiry date

Management expects that not all of the commitments will be drawn before the expiry of the commitments.

The Group

	Repayable on demand	Less than One months	One to three months	Three months to one year	One to five years	More than five years	Undated	Total
31 December 2010								
Credit								
commitments	2,342	2,823,249	4,747,704	8,253,253	10,421	–	–	15,836,969
31 December 2011								
Credit								
commitments	48,125	3,761,011	7,802,077	14,314,422	8,514	–	–	25,934,149
31 December 2012								
Credit								
commitments	42,802	26,629,488	7,447,880	15,261,792	7,380	–	–	49,389,342
30 September 2013								
Credit								
commitments	1,293,798	8,750,844	18,068,270	20,289,221	436,376	–	180,000	49,018,509

The Bank

	Repayable on demand	Less than One months	One to three months	Three months to one year	One to five years	More than five years	Undated	Total
31 December 2010								
Credit								
commitments	2,342	2,823,249	4,747,704	8,253,253	10,421	–	–	15,836,969
31 December 2011								
Credit								
commitments	48,125	3,761,011	7,802,077	14,314,422	8,514	–	–	25,934,149
31 December 2012								
Credit								
commitments	42,802	26,601,513	7,440,394	15,222,725	7,380	–	–	49,314,814
30 September 2013								
Credit								
commitments	1,293,798	8,664,296	17,834,605	19,422,246	2,286	–	180,000	47,397,231

(c) Market risk

Market risk is the risk of loss, in respect of the Group's on and off-balance sheet activities, arising from adverse movements in market rates including interest rates, foreign exchange rates, commodity prices and stock prices. Market risk arises from both the Group's trading and non-trading businesses.

The Group's market risk contains interest rate risk and currency risk.

44. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)**(c) Market risk (continued)**

The Group is primarily exposed to structural interest rate risk arising from commercial banking and position risk arising from treasury transactions.

The Group's currency risk mainly results from the risk arising from exchange rate fluctuations on its foreign exchange exposures. Foreign exchange exposures include the mismatch of foreign exchange assets and liabilities, and off-balance sheet foreign exchange positions arising from derivative transactions.

Sensitivity analysis, interest rate repricing gap analysis and foreign exchange risk concentration analysis are the major market risk management tools used by the Group. The Bank uses different management methods to control market risk comprising of trading book and banking book risks respectively.

(i) Currency risk

The Group conducts its businesses mainly in RMB, with certain transactions denominated in USD, JPY, Ruble ("RUB") and, to a lesser extent, other currencies. Transactions in foreign currencies mainly arise from the Group's treasury operations, foreign exchange dealings and overseas investments.

The exchange rate of RMB to USD is managed under a floating exchange rate system.

The tables below indicate a sensitivity analysis of exchange rate changes of the currencies to which the Group had significant exposure on its monetary assets and liabilities and its forecasted cash flows. The analysis calculates the effect of a reasonably possible movement in the currency rates against RMB, with all other variables held constant, on profit before tax and equity. A negative amount in the table reflects a potential net reduction in profit before tax or equity, while a positive amount reflects a potential net increase. This effect, however, is based on the assumption that the Group's foreign exchange exposures as at the year end are kept unchanged and, therefore, have not incorporated actions that would be taken by the Group to mitigate the adverse impact of this foreign exchange risk.

The Group sets trading limits, stop loss limits and exposure limits to foreign exchange transactions for manage foreign exchange risk and to keep currency risk within limits. Base on the guidelines provided by Risk Management Committee, laws and regulations as well as evaluation on the current market, the Group sets its risk limits and minimise the possibility of mismatch through more reasonable allocation of foreign currency source and deployment.

The Group/Bank

Currency	Change in rate	Effect on profit before tax			
		31 December			30 September
		2010	2011	2012	2013
USD	-1%	(2,585)	(2,660)	(4,512)	(9,272)
JPY	-1%	(6)	(69)	(58)	(36)
RUB	-1%	(13)	(135)	(169)	(415)

While the table above indicates the effect on profit before tax of 1% depreciation of USD, JPY and RUB, there will be an opposite effect with the same amount if the currencies appreciate by the same percentage.

44. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

(c) Market risk (continued)

(i) Currency risk (continued)

A breakdown of the assets and liabilities analysed by currency is as follows:

The Group

31 December 2010	RMB	USD (equivalent to RMB)	JPY (equivalent to RMB)	RUB (equivalent to RMB)	Others (equivalent to RMB)	Total
Assets:						
Cash and balances with central bank	23,401,353	5,875	4,266	958	764	23,413,216
Due from banks and other financial institutions	9,599,946	222,878	676	442	13,994	9,837,936
Financial assets held for trading	5,318,631	—	—	—	—	5,318,631
Reverse repurchase agreements	17,863,464	—	—	—	—	17,863,464
Loans and advances to customers	52,953,293	247,193	—	—	—	53,200,486
Financial investments	12,930,578	—	—	—	—	12,930,578
Property and equipment	1,656,736	—	—	—	—	1,656,736
Deferred income tax . . .	136,012	—	—	—	—	136,012
Others	1,476,639	237	—	—	—	1,476,876
Total assets	125,336,652	476,183	4,942	1,400	14,758	125,833,935
Liabilities:						
Due to banks and other financial institutions	2,498,457	93,306	—	—	2,466	2,594,229
Repurchase agreements	2,871,727	—	—	—	—	2,871,727
Due to customers	112,752,190	124,087	4,332	65	10,953	112,891,627
Income tax payable	125,794	—	—	—	—	125,794
Debt securities issued	1,000,000	—	—	—	—	1,000,000
Others	1,211,531	259	—	—	35	1,211,825
Total liabilities	120,459,699	217,652	4,332	65	13,454	120,695,202
Net position	4,876,953	258,531	610	1,335	1,304	5,138,733
Credit commitments . . .	15,750,106	80,050	6,432	—	381	15,836,969

44. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

(c) Market risk (continued)

(i) Currency risk (continued)

A breakdown of the assets and liabilities analysed by currency is as follows: (continued)

The Group (continued)

31 December 2011	RMB	USD (equivalent to RMB)	JPY (equivalent to RMB)	RUB (equivalent to RMB)	Others (equivalent to RMB)	Total
Assets:						
Cash and balances with central bank	30,903,102	13,896	12,689	4,413	1,631	30,935,731
Due from banks and other financial institutions	15,594,251	289,699	3,479	9,211	10,403	15,907,043
Financial assets held for trading	4,780,814	—	—	—	—	4,780,814
Reverse repurchase agreements	49,973,571	—	—	—	—	49,973,571
Loans and advances to customers	66,503,763	514,387	—	—	—	67,018,150
Financial investments	31,273,460	—	—	—	—	31,273,460
Investments in an associate	1,000,000	—	—	—	—	1,000,000
Property and equipment	3,488,497	—	—	—	—	3,488,497
Deferred income tax . . .	166,713	296	—	—	—	167,009
Others	2,112,537	4,547	—	—	—	2,117,084
Total assets	<u>205,796,708</u>	<u>822,825</u>	<u>16,168</u>	<u>13,624</u>	<u>12,034</u>	<u>206,661,359</u>
Liabilities:						
Due to central bank . . .	174,764	—	—	—	—	174,764
Due to banks and other financial institutions	17,660,341	390,785	—	—	—	18,051,126
Repurchase agreements	27,972,524	—	—	—	—	27,972,524
Due to customers	145,778,441	165,361	9,244	115	9,265	145,962,426
Income tax payable . . .	201,231	—	—	—	—	201,231
Debt securities issued	1,000,000	—	—	—	—	1,000,000
Others	1,768,237	643	—	—	33	1,768,913
Total liabilities	<u>194,555,538</u>	<u>556,789</u>	<u>9,244</u>	<u>115</u>	<u>9,298</u>	<u>195,130,984</u>
Net position	<u>11,241,170</u>	<u>266,036</u>	<u>6,924</u>	<u>13,509</u>	<u>2,736</u>	<u>11,530,375</u>
Credit commitments . . .	<u>25,708,359</u>	<u>221,367</u>	<u>3,608</u>	<u>—</u>	<u>815</u>	<u>25,934,149</u>

44. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

(c) Market risk (continued)

(i) Currency risk (continued)

A breakdown of the assets and liabilities analysed by currency is as follows: (continued)

The Group (continued)

31 December 2012	RMB	USD	JPY	RUB	Others	Total
		(equivalent to RMB)	(equivalent to RMB)	(equivalent to RMB)	(equivalent to RMB)	
Assets:						
Cash and balances with central bank	51,808,132	9,720	13,105	25,393	2,161	51,858,511
Due from banks and other financial institutions	19,735,795	192,330	14,256	2,006	2,418	19,946,805
Financial assets held for trading	7,878,959	—	—	—	—	7,878,959
Reverse repurchase agreements	51,745,648	—	—	—	—	51,745,648
Loans and advances to customers	84,142,234	1,153,699	90	—	2,056	85,298,079
Financial investments	43,301,170	—	—	—	—	43,301,170
Investments in an associate	1,017,014	—	—	—	—	1,017,014
Property and equipment	6,038,230	—	—	—	—	6,038,230
Deferred income tax	257,289	1,024	—	—	1	258,314
Others	2,741,966	5,450	4	—	2	2,747,422
Total assets	268,666,437	1,362,223	27,455	27,399	6,638	270,090,152
Liabilities:						
Due to central bank	594,861	—	—	—	—	594,861
Due to banks and other financial institutions	36,112,335	396,672	—	10,323	4,218	36,523,548
Repurchase agreements	22,832,655	—	—	—	—	22,832,655
Due to customers	186,103,921	514,172	21,686	131	2,474	186,642,384
Income tax payable	311,148	—	—	—	—	311,148
Debt securities issued	3,500,000	—	—	—	—	3,500,000
Others	2,748,452	90	—	25	8	2,748,575
Total liabilities	252,203,372	910,934	21,686	10,479	6,700	253,153,171
Net position	16,463,065	451,289	5,769	16,920	(62)	16,936,981
Credit commitments	48,999,616	386,053	587	—	3,086	49,389,342

44. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

(c) Market risk (continued)

(i) Currency risk (continued)

A breakdown of the assets and liabilities analysed by currency is as follows: (continued)

The Group (continued)

30 September 2013	RMB	USD (equivalent to RMB)	JPY (equivalent to RMB)	RUB (equivalent to RMB)	Others (equivalent to RMB)	Total
Assets:						
Cash and balances with central bank	40,643,172	41,054	21,943	21,798	1,683	40,729,650
Due from banks and other financial institutions	27,113,096	543,560	38,206	23,720	11,424	27,730,006
Financial assets held for trading	7,201,596	—	—	—	—	7,201,596
Reverse repurchase agreements	27,783,535	—	—	—	—	27,783,535
Loans and advances to customers	101,740,014	898,386	—	—	—	102,638,400
Financial investments	44,644,993	—	—	—	—	44,644,993
Investments in an associate ...	993,733	—	—	—	—	993,733
Property and equipment	6,542,553	—	—	—	—	6,542,553
Deferred income tax	370,784	—	—	—	—	370,784
Others	3,024,875	—	—	—	—	3,024,875
Total assets	260,058,351	1,483,000	60,149	45,518	13,107	261,660,125
Liabilities:						
Due to central bank	755,996	—	—	—	—	755,996
Due to banks and other financial institutions	37,165,582	42,456	—	—	45	37,208,083
Repurchase agreements	6,289,787	—	—	—	—	6,289,787
Due to customers	190,565,922	501,788	56,583	1,848	3,850	191,129,991
Income tax payable	272,924	—	—	—	—	272,924
Debt securities issued	3,500,000	—	—	—	—	3,500,000
Others	3,479,905	11,508	—	2,174	1,352	3,494,939
Total liabilities	242,030,116	555,752	56,583	4,022	5,247	242,651,720
Net position	18,028,235	927,248	3,566	41,496	7,860	19,008,405
Credit commitments	48,613,328	404,281	—	—	900	49,018,509

44. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

(c) Market risk (continued)

(i) Currency risk (continued)

A breakdown of the assets and liabilities analysed by currency is as follows: (continued)

The Bank

31 December 2010	RMB	USD	JPY	RUB	Others	Total
		(equivalent to RMB)	(equivalent to RMB)	(equivalent to RMB)	(equivalent to RMB)	
Assets:						
Cash and balances with central bank	22,966,789	5,875	4,266	958	764	22,978,652
Due from banks and other financial institutions	10,361,490	222,878	676	442	13,994	10,599,480
Financial assets held for trading	5,318,631	—	—	—	—	5,318,631
Reverse repurchase agreements	17,863,464	—	—	—	—	17,863,464
Loans and advances to customers	52,341,503	247,193	—	—	—	52,588,696
Financial investments	12,170,479	—	—	—	—	12,170,479
Investments in subsidiaries	437,800	—	—	—	—	437,800
Property and equipment	1,638,336	—	—	—	—	1,638,336
Deferred income tax	135,743	—	—	—	—	135,743
Others	1,460,269	—	—	—	—	1,460,269
Total assets	124,694,504	475,946	4,942	1,400	14,758	125,191,550
Liabilities:						
Due to banks and other financial institutions	2,923,538	93,306	—	—	2,466	3,019,310
Repurchase agreements	2,871,727	—	—	—	—	2,871,727
Due to customers	111,795,320	124,087	4,332	65	10,953	111,934,757
Income tax payable	125,676	—	—	—	—	125,676
Debt securities issued	1,000,000	—	—	—	—	1,000,000
Others	1,203,571	7	—	—	—	1,203,578
Total liabilities	119,919,832	217,400	4,332	65	13,419	120,155,048
Net position	4,774,672	258,546	610	1,335	1,339	5,036,502
Credit commitments	15,750,106	80,050	6,432	—	381	15,836,969

44. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

(c) Market risk (continued)

(i) Currency risk (continued)

A breakdown of the assets and liabilities analysed by currency is as follows: (continued)

The Bank (continued)

31 December 2011	RMB	USD	JPY	RUB	Others	Total
		(equivalent to RMB)	(equivalent to RMB)	(equivalent to RMB)	(equivalent to RMB)	
Assets:						
Cash and balances with central bank	30,308,975	13,896	12,689	4,413	1,631	30,341,604
Due from banks and other financial institutions	14,991,558	289,699	3,479	9,211	10,403	15,304,350
Financial assets held for trading	4,780,814	—	—	—	—	4,780,814
Reverse repurchase agreements	49,983,487	—	—	—	—	49,983,487
Loans and advances to customers	64,106,338	514,387	—	—	—	64,620,725
Financial investments ...	31,258,460	—	—	—	—	31,258,460
Investments in subsidiaries and an associate	1,867,000	—	—	—	—	1,867,000
Property and equipment	3,400,487	—	—	—	—	3,400,487
Deferred income tax	160,195	296	—	—	—	160,491
Others	2,083,458	4,547	—	—	—	2,088,005
Total assets	202,940,772	822,825	16,168	13,624	12,034	203,805,423
Liabilities:						
Due to central bank	19,733	—	—	—	—	19,733
Due to banks and other financial institutions	18,347,711	390,785	—	—	—	18,738,496
Repurchase agreements	27,972,524	—	—	—	—	27,972,524
Due to customers	142,583,345	165,361	9,244	115	9,265	142,767,330
Income tax payable	196,150	—	—	—	—	196,150
Debt securities issued ...	1,000,000	—	—	—	—	1,000,000
Others	1,743,514	643	—	—	33	1,744,190
Total liabilities	191,862,977	556,789	9,244	115	9,298	192,438,423
Net position	11,077,795	266,036	6,924	13,509	2,736	11,367,000
Credit commitments	25,708,359	221,367	3,608	—	815	25,934,149

44. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

(c) Market risk (continued)

(i) Currency risk (continued)

A breakdown of the assets and liabilities analysed by currency is as follows: (continued)

The Bank (continued)

31 December 2012	RMB	USD	JPY	RUB	Others	Total
		(equivalent to RMB)	(equivalent to RMB)	(equivalent to RMB)	(equivalent to RMB)	
Assets:						
Cash and balances with central bank	50,610,820	9,720	13,105	25,393	2,161	50,661,199
Due from banks and other financial institutions	19,170,722	192,330	14,255	2,006	2,418	19,381,731
Financial assets held for trading	7,878,959	—	—	—	—	7,878,959
Reverse repurchase agreements	51,483,015	—	—	—	—	51,483,015
Loans and advances to customers	78,777,014	1,153,699	90	—	2,056	79,932,859
Financial investments	43,301,170	—	—	—	—	43,301,170
Investments in subsidiaries and an associate	2,159,014	—	—	—	—	2,159,014
Property and equipment	5,896,052	—	—	—	—	5,896,052
Deferred income tax	241,873	1,024	—	—	1	242,898
Others	2,688,062	5,450	4	—	2	2,693,518
Total assets	262,206,701	1,362,223	27,454	27,399	6,638	263,630,415
Liabilities:						
Due to central bank	83,613	—	—	—	—	83,613
Due to banks and other financial institutions	36,819,463	396,672	—	10,323	4,218	37,230,676
Repurchase agreements	22,676,761	—	—	—	—	22,676,761
Due to customers	179,894,700	514,172	21,686	131	2,474	180,433,163
Income tax payable	295,808	—	—	—	—	295,808
Debt securities issued	3,500,000	—	—	—	—	3,500,000
Others	2,709,426	90	—	25	8	2,709,549
Total liabilities	245,979,771	910,934	21,686	10,479	6,700	246,929,570
Net position	16,226,930	451,289	5,768	16,920	(62)	16,700,845
Credit commitments	48,936,019	375,122	587	—	3,086	49,314,814

44. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

(c) Market risk (continued)

(i) Currency risk (continued)

A breakdown of the assets and liabilities analysed by currency is as follows: (continued)

The Bank (continued)

30 September 2013	RMB	USD	JPY	RUB	Others	Total
		(equivalent to RMB)	(equivalent to RMB)	(equivalent to RMB)	(equivalent to RMB)	
Assets:						
Cash and balances with central bank	39,478,356	41,054	21,943	21,798	1,683	39,564,834
Due from banks and other financial institutions	28,001,624	543,560	38,207	23,720	11,424	28,618,535
Financial assets held for trading	7,201,596	—	—	—	—	7,201,596
Reverse repurchase agreements	27,383,535	—	—	—	—	27,383,535
Loans and advances to customers	94,300,750	898,386	—	—	—	95,199,136
Financial investments	44,644,993	—	—	—	—	44,644,993
Investments in subsidiaries and an associate	2,135,733	—	—	—	—	2,135,733
Property and equipment	6,406,737	—	—	—	—	6,406,737
Deferred income tax	354,563	—	—	—	—	354,563
Others	2,956,144	—	—	—	—	2,956,144
Total assets	252,864,031	1,483,000	60,150	45,518	13,107	254,465,806
Liabilities:						
Due to central bank	48,424	—	—	—	—	48,424
Due to banks and other financial institutions	38,208,183	42,456	—	—	45	38,250,684
Repurchase agreements	6,289,787	—	—	—	—	6,289,787
Due to customers	183,448,174	501,788	56,583	1,847	3,850	184,012,242
Income tax payable	264,112	—	—	—	—	264,112
Debt securities issued	3,500,000	—	—	—	—	3,500,000
Others	3,427,165	11,508	—	2,174	1,352	3,442,199
Total liabilities	235,185,845	555,752	56,583	4,021	5,247	235,807,448
Net position	17,678,186	927,248	3,567	41,497	7,860	18,658,358
Credit commitments	46,992,050	404,281	—	—	900	47,397,231

44. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

(c) Market risk (continued)

(ii) *Interest rate risk*

The Group's bank account interest rate risk mainly arises from the mismatches between the repricing dates of interest-generating assets and interest-bearing liabilities. The Group's interest-generating assets and interest-bearing liabilities are mainly denominated in RMB. The PBOC establishes RMB interest rate policy which includes a cap for RMB deposit rates and a floor for RMB loan rates.

The Group manages its interest rate risk by:

- regularly monitoring the macroeconomic factors that may have impact on the PBOC benchmark interest rates;
- optimising the differences in timing between contractual repricing (maturities) of interest-generating assets and interest-bearing liabilities; and
- managing the deviation of the pricing of interest-generating assets and interest-bearing liabilities from the PBOC benchmark interest rates.

A principal part of the Group's management of interest rate risk is to monitor the sensitivity of projected net interest income under varying interest rate scenarios (simulation modeling). The Group aims to mitigate the impact of prospective interest rate movements which could reduce future net interest income, while balancing the cost of such hedging on the current revenue.

The following tables demonstrate the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's and the Bank's net interest income and equity.

The sensitivity of the net interest income is the effect of the assumed changes in interest rates on the net interest income, arising from the financial assets and financial liabilities held at year end that are subject to repricing within the coming year. The sensitivity of equity is the effect of the assumed changes in interest rates on other comprehensive income, calculated by revaluing fixed rate available-for-sale financial assets held at year end.

Interest rate risk of the Group's trading book, mainly exists in transactions, including those of bonds. For the management of interest rate risk, the Group uses explicit criteria for the classification of financial assets in the trading account, revaluating the market value of trading account assets daily, sets trading limits, stop-loss limits and risk limitation for the purpose of limit management. The Group also monitors and controls this by frequency.

The Group

	Effect on net interest income				Effect on equity			
	31 December		30 September		31 December		30 September	
Change in basis points	2010	2011	2012	2013	2010	2011	2012	2013
+100 basis points . . .	(153,081)	(108,781)	(80,611)	(188,498)	(47,193)	(101,073)	(153,869)	(181,651)
-100 basis points . . .	153,081	108,781	80,611	188,498	49,984	107,202	162,276	192,667

44. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

The Bank

Change in basis points	Effect on net interest income				Effect on equity			
	31 December			30 September	31 December			30 September
	2010	2011	2012	2013	2010	2011	2012	2013
+100 basis points . . .	(155,202)	(109,384)	(85,890)	(186,731)	(47,193)	(101,073)	(153,869)	(181,651)
-100 basis points . . .	155,202	109,384	85,890	186,731	49,984	107,202	162,276	192,667

The interest rate sensitivities set out in the tables above are for illustration only and are based on simplified scenarios. The figures represent the effect of the pro forma movements in net interest income and equity based on the projected yield curve scenarios and the Group's and the Bank's current interest rate risk profile. This effect, however, does not incorporate actions that would be taken by management to mitigate the impact of interest rate risk. The projections above also assume that interest rates of all maturities move by the same amount and, therefore, do not reflect the potential impact on net interest income and equity in the case where some rates change while others remain unchanged.

44. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

The tables below summarise the contractual repricing or maturity dates, whichever is earlier, of the Group's assets and liabilities:

The Group

31 December 2010	Less than three months	Three months to one year	One to five years	More than five years	Non-interest- bearing	Total
Assets:						
Cash and balances with central bank	23,042,247	–	–	–	370,969	23,413,216
Due from banks and other financial institutions	7,814,325	2,021,611	–	2,000	–	9,837,936
Financial assets held for trading	2,231,462	930,959	1,249,193	907,017	–	5,318,631
Reverse repurchase agreements	16,732,788	1,091,543	39,133	–	–	17,863,464
Loans and advances to customers	31,176,402	11,342,545	5,010,841	5,127,140	543,558	53,200,486
Financial investments	1,704,942	1,041,145	5,885,480	4,209,341	89,670	12,930,578
Property and equipment	–	–	–	–	1,656,736	1,656,736
Deferred income tax	–	–	–	–	136,012	136,012
Others	–	–	–	–	1,476,876	1,476,876
Total assets	82,702,166	16,427,803	12,184,647	10,245,498	4,273,821	125,833,935
Liabilities:						
Due to banks and other financial institutions	2,208,023	383,866	–	–	2,340	2,594,229
Repurchase agreements	2,375,923	495,683	–	–	121	2,871,727
Due to customers	91,242,312	19,047,393	2,363,542	532	237,848	112,891,627
Income tax payable	–	–	–	–	125,794	125,794
Debt securities issued	–	–	1,000,000	–	–	1,000,000
Others	–	–	–	–	1,211,825	1,211,825
Total liabilities	95,826,258	19,926,942	3,363,542	532	1,577,928	120,695,202
Total interest sensitivity gap	(13,124,092)	(3,499,139)	8,821,105	10,244,966	N/A	N/A

44. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)**(c) Market risk (continued)****(ii) Interest rate risk (continued)**

The tables below summarise the contractual repricing or maturity dates, whichever is earlier, of the Group's assets and liabilities: (continued)

The Group (continued)

31 December 2011	Less than three months	Three months to one year	One to five years	More than five years	Non-interest- bearing	Total
Assets:						
Cash and balances with central bank	30,246,622	–	–	–	689,109	30,935,731
Due from banks and other financial institutions	10,887,669	5,019,374	–	–	–	15,907,043
Financial assets held for trading	505,735	1,085,059	2,321,022	868,998	–	4,780,814
Reverse repurchase agreements	36,240,848	13,732,723	–	–	–	49,973,571
Loans and advances to customers	42,302,780	14,464,808	5,149,120	4,163,946	937,496	67,018,150
Financial investments	3,904,727	8,938,065	11,340,199	7,002,132	88,337	31,273,460
Investments in an associate	–	–	–	–	1,000,000	1,000,000
Property and equipment	–	–	–	–	3,488,497	3,488,497
Deferred income tax	–	–	–	–	167,009	167,009
Others	–	–	–	–	2,117,084	2,117,084
Total assets	124,088,381	43,240,029	18,810,341	12,035,076	8,487,532	206,661,359
Liabilities:						
Due to central bank	144,946	29,818	–	–	–	174,764
Due to banks and other financial institutions	8,468,670	9,380,116	200,000	–	2,340	18,051,126
Repurchase agreements	27,972,403	–	–	–	121	27,972,524
Due to customers	97,033,920	37,003,271	11,545,639	–	379,596	145,962,426
Income tax payable	–	–	–	–	201,231	201,231
Debt securities issued	–	–	1,000,000	–	–	1,000,000
Others	–	–	–	–	1,768,913	1,768,913
Total liabilities	133,619,939	46,413,205	12,745,639	–	2,352,201	195,130,984
Total interest sensitivity gap	(9,531,558)	(3,173,176)	6,064,702	12,035,076	N/A	N/A

44. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

The tables below summarise the contractual repricing or maturity dates, whichever is earlier, of the Group's assets and liabilities: (continued)

The Group (continued)

31 December 2012	Less than three months	Three months to one year	One to five years	More than five years	Non-interest- bearing	Total
Assets:						
Cash and balances with central bank	51,043,256	—	—	—	815,255	51,858,511
Due from banks and other financial institutions	14,564,295	5,382,510	—	—	—	19,946,805
Financial assets held for trading	1,072,247	1,028,443	4,228,259	1,550,010	—	7,878,959
Reverse repurchase agreements	41,680,208	10,065,440	—	—	—	51,745,648
Loans and advances to customers	26,494,513	54,940,285	2,964,189	495,856	403,236	85,298,079
Financial investments	14,820,277	9,614,559	13,464,246	5,343,738	58,350	43,301,170
Investments in an associate	—	—	—	—	1,017,014	1,017,014
Property and equipment	—	—	—	—	6,038,230	6,038,230
Deferred income tax	—	—	—	—	258,314	258,314
Others	—	121	793	—	2,746,508	2,747,422
Total assets	149,674,796	81,031,358	20,657,487	7,389,604	11,336,907	270,090,152
Liabilities:						
Due to central bank	207,528	367,333	20,000	—	—	594,861
Due to banks and other financial institutions	13,882,721	17,473,487	5,165,000	—	2,340	36,523,548
Repurchase agreements	20,343,278	2,489,256	—	—	121	22,832,655
Due to customers	127,205,848	48,426,415	9,883,598	6,098	1,120,425	186,642,384
Income tax payable	—	—	—	—	311,148	311,148
Debt securities issued	—	—	3,500,000	—	—	3,500,000
Others	—	—	—	—	2,748,575	2,748,575
Total liabilities	161,639,375	68,756,491	18,568,598	6,098	4,182,609	253,153,171
Total interest sensitivity gap	(11,964,579)	12,274,867	2,088,889	7,383,506	N/A	N/A

44. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

The tables below summarise the contractual repricing or maturity dates, whichever is earlier, of the Group's assets and liabilities: (continued)

The Group (continued)

30 September 2013	Less than three months	Three months to one year	One to five years	More than five years	Non-interest- bearing	Total
Assets:						
Cash and balances with central bank	39,660,185	–	–	–	1,069,465	40,729,650
Due from banks and other financial institutions	8,712,986	14,467,020	4,550,000	–	–	27,730,006
Financial assets held for trading	714,481	816,980	4,329,644	1,340,491	–	7,201,596
Reverse repurchase agreements	17,422,087	5,211,448	5,150,000	–	–	27,783,535
Loans and advances to customers	26,437,799	73,726,055	1,296,941	129,097	1,048,508	102,638,400
Financial investments	13,153,517	7,222,472	10,820,266	13,433,242	15,496	44,644,993
Investments in an associate	–	–	–	–	993,733	993,733
Property and equipment	–	–	–	–	6,542,553	6,542,553
Deferred income tax	–	–	–	–	370,784	370,784
Others	–	–	–	–	3,024,875	3,024,875
Total assets	106,101,055	101,443,975	26,146,851	14,902,830	13,065,414	261,660,125
Liabilities:						
Due to central bank	755,996	–	–	–	–	755,996
Due to banks and other financial institutions	12,136,843	16,521,240	6,050,000	2,500,000	–	37,208,083
Repurchase agreements	6,289,787	–	–	–	–	6,289,787
Due to customers	124,374,616	46,239,001	19,453,630	–	1,062,744	191,129,991
Income tax payable	–	–	–	–	272,924	272,924
Debt securities issued	–	–	3,500,000	–	–	3,500,000
Others	–	–	–	–	3,494,939	3,494,939
Total liabilities	143,557,242	62,760,241	29,003,630	2,500,000	4,830,607	242,651,720
Total interest sensitivity gap	(37,456,187)	38,683,734	(2,856,779)	12,402,830	N/A	N/A

44. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

The tables below summarise the contractual repricing or maturity dates, whichever is earlier, of the Bank's assets and liabilities:

The Bank

31 December 2010	Less than three months	Three months to one year	One to five years	More than five years	Non-interest- bearing	Total
Assets:						
Cash and balances with central bank	22,616,151	–	–	–	362,501	22,978,652
Due from banks and other financial institutions	8,575,869	2,021,611	–	2,000	–	10,599,480
Financial assets held for trading	2,231,462	930,959	1,249,193	907,017	–	5,318,631
Reverse repurchase agreements	16,732,788	1,091,543	39,133	–	–	17,863,464
Loans and advances to customers	31,046,430	10,863,569	5,010,841	5,127,140	540,716	52,588,696
Financial investments	944,843	1,041,145	5,885,479	4,209,341	89,671	12,170,479
Investments in subsidiaries	–	–	–	–	437,800	437,800
Property and equipment	–	–	–	–	1,638,336	1,638,336
Deferred income tax	–	–	–	–	135,743	135,743
Others	–	–	–	–	1,460,269	1,460,269
Total assets	82,147,543	15,948,827	12,184,646	10,245,498	4,665,036	125,191,550
Liabilities:						
Due to banks and other financial institutions	2,633,104	383,866	–	–	2,340	3,019,310
Repurchase agreements	2,375,923	495,683	–	–	121	2,871,727
Due to customers	90,435,675	18,965,584	2,295,118	532	237,848	111,934,757
Income tax payable	–	–	–	–	125,676	125,676
Debt securities issued	–	–	1,000,000	–	–	1,000,000
Others	–	–	–	–	1,203,578	1,203,578
Total liabilities	95,444,702	19,845,133	3,295,118	532	1,569,563	120,155,048
Total interest sensitivity gap	(13,297,159)	(3,896,306)	8,889,528	10,244,966	N/A	N/A

44. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

The tables below summarise the contractual repricing or maturity dates, whichever is earlier, of the Bank's assets and liabilities: (continued)

The Bank (continued)

31 December 2011	Less than three months	Three months to one year	One to five years	More than five years	Non-interest- bearing	Total
Assets:						
Cash and balances with central bank	29,688,982	–	–	–	652,622	30,341,604
Due from banks and other financial institutions	10,284,976	5,019,374	–	–	–	15,304,350
Financial assets held for trading	505,735	1,085,059	2,321,022	868,998	–	4,780,814
Reverse repurchase agreements	36,250,764	13,732,723	–	–	–	49,983,487
Loans and advances to customers	41,910,215	12,463,571	5,149,120	4,163,946	933,873	64,620,725
Financial investments	3,904,727	8,923,065	11,340,199	7,002,132	88,337	31,258,460
Investments in subsidiaries and an associate	–	–	–	–	1,867,000	1,867,000
Property and equipment	–	–	–	–	3,400,487	3,400,487
Deferred income tax	–	–	–	–	160,491	160,491
Others	–	–	–	–	2,088,005	2,088,005
Total assets	122,545,399	41,223,792	18,810,341	12,035,076	9,190,815	203,805,423
Liabilities:						
Due to central bank	19,733	–	–	–	–	19,733
Due to banks and other financial institutions	9,206,040	9,330,116	200,000	–	2,340	18,738,496
Repurchase agreements	27,972,403	–	–	–	121	27,972,524
Due to customers	94,352,530	36,534,297	11,500,907	–	379,596	142,767,330
Income tax payable	–	–	–	–	196,150	196,150
Debt securities issued	–	–	1,000,000	–	–	1,000,000
Others	–	–	–	–	1,744,190	1,744,190
Total liabilities	131,550,706	45,864,413	12,700,907	–	2,322,397	192,438,423
Total interest sensitivity gap	(9,005,307)	(4,640,621)	6,109,434	12,035,076	N/A	N/A

44. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

The tables below summarise the contractual repricing or maturity dates, whichever is earlier, of the Bank's assets and liabilities: (continued)

The Bank (continued)

31 December 2012	Less than three months	Three months to one year	One to five years	More than five years	Non-interest- bearing	Total
Assets:						
Cash and balances with central bank	49,892,537	–	–	–	768,662	50,661,199
Due from banks and other financial institutions	14,003,571	5,378,160	–	–	–	19,381,731
Financial assets held for trading	1,072,247	1,028,443	4,228,259	1,550,010	–	7,878,959
Reverse repurchase agreements	41,730,520	9,752,495	–	–	–	51,483,015
Loans and advances to customers	25,132,367	51,699,114	2,330,077	375,764	395,537	79,932,859
Financial investments	14,820,276	9,614,559	13,464,247	5,343,738	58,350	43,301,170
Investments in subsidiaries and an associate	–	–	–	–	2,159,014	2,159,014
Property and equipment	–	–	–	–	5,896,052	5,896,052
Deferred income tax	–	–	–	–	242,898	242,898
Others	–	–	–	–	2,693,518	2,693,518
Total assets	146,651,518	77,472,771	20,022,583	7,269,512	12,214,031	263,630,415
Liabilities:						
Due to central bank	63,670	19,943	–	–	–	83,613
Due to banks and other financial institutions	14,674,849	17,423,487	5,130,000	–	2,340	37,230,676
Repurchase agreements	20,386,506	2,290,134	–	–	121	22,676,761
Due to customers	123,280,811	47,252,086	9,644,617	771	254,878	180,433,163
Income tax payable	–	–	–	–	295,808	295,808
Debt securities issued	–	–	3,500,000	–	–	3,500,000
Others	–	–	–	–	2,709,549	2,709,549
Total liabilities	158,405,836	66,985,650	18,274,617	771	3,262,696	246,929,570
Total interest sensitivity gap	(11,754,318)	10,487,121	1,747,966	7,268,741	N/A	N/A

44. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

The tables below summarise the contractual repricing or maturity dates, whichever is earlier, of the Bank's assets and liabilities: (continued)

The Bank (continued)

30 September 2013	Less than three months	Three months to one year	One to five years	More than five years	Non-interest- bearing	Total
Assets:						
Cash and balances with central bank	38,557,780	–	–	–	1,007,054	39,564,834
Due from banks and other financial institutions	9,776,315	14,292,220	4,550,000	–	–	28,618,535
Financial assets held for trading	714,481	816,980	4,329,644	1,340,491	–	7,201,596
Reverse repurchase agreements	17,422,087	4,811,448	5,150,000	–	–	27,383,535
Loans and advances to customers	21,712,007	71,168,401	1,296,941	129,097	892,690	95,199,136
Financial investments	13,153,517	7,222,472	10,820,266	13,433,242	15,496	44,644,993
Investments in subsidiaries and an associate	–	–	–	–	2,135,733	2,135,733
Property and equipment	–	–	–	–	6,406,737	6,406,737
Deferred income tax	–	–	–	–	354,563	354,563
Others	–	–	–	–	2,956,144	2,956,144
Total assets	101,336,187	98,311,521	26,146,851	14,902,830	13,768,417	254,465,806
Liabilities:						
Due to central bank	48,424	–	–	–	–	48,424
Due to banks and other financial institutions	12,882,044	16,818,640	6,050,000	2,500,000	–	38,250,684
Repurchase agreements	6,289,787	–	–	–	–	6,289,787
Due to customers	118,922,293	44,859,794	19,167,411	–	1,062,744	184,012,242
Income tax payable	–	–	–	–	264,112	264,112
Debt securities issued	–	–	3,500,000	–	–	3,500,000
Others	–	–	–	–	3,442,199	3,442,199
Total liabilities	138,142,548	61,678,434	28,717,411	2,500,000	4,769,055	235,807,448
Total interest sensitivity gap	(36,806,361)	36,633,087	(2,570,560)	12,402,830	N/A	N/A

44. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)**(d) Capital management**

The Group's objectives on capital management are:

- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- To support the Group's stability and growth;
- To allocate capital using an efficient and risk-based approach to optimise the risk adjusted return to the shareholders; and
- To maintain an adequate capital base to support the development of its business.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust its profit distribution policy, issue or redeem own shares, long term subordinated bonds, convertible bonds and hybrid instruments.

Capital adequacy and the use of regulatory capital are monitored regularly by the Group's management based on regulations issued by the CBRC. The required information is filed with the CBRC by the Group and the Bank semi-annually and quarterly.

The CBRC requires each bank to maintain the capital adequacy ratio and core capital adequacy ratio not below the minimum of 8% and 4%, respectively. In addition, those individual banking subsidiaries or branches incorporated outside Mainland China are also directly regulated and supervised by their local banking supervisors. There are certain differences in the capital adequacy requirements of different countries.

The on-balance sheet risk-weighted assets are measured using different risk weights, which are determined according to the credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with adjustments made to reflect the more contingent nature of any potential losses. Market risk capital adjustment is calculated using the standardised approach.

The Group computes the capital adequacy ratio and core capital adequacy ratio in accordance with "Regulations Governing Capital Adequacy of Commercial Banks" and related regulations promulgated by the CBRC. The requirements pursuant to these regulations may have significant differences comparing to those applicable in Hong Kong and other countries.

The capital adequacy ratios and related components of the Group are computed in accordance with the statutory financial statements of the Group prepared under PRC GAAP. During the year, the Group has complied in full with all its externally imposed capital requirements.

From 2013 onwards, the Group started to implement "The Trail Measures for Capital Management of Commercial Banks" and continue to improve the disclosure information on an ongoing basis.

44. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)**(d) Capital management (continued)**

The Group calculates the capital adequacy ratios in accordance with “Regulations Governing Capital Adequacy of Commercial Banks” and relevant requirements promulgated by the CBRC.

The Group	31 December			30 September
	2010	2011	2012	2013
Core capital adequacy ratio	9.04%	11.37%	11.94%	12.04%
Capital adequacy ratio	11.75%	12.61%	12.97%	13.04%
Components of capital base				
Core capital:				
Share capital	2,100,333	6,187,823	7,560,198	8,246,900
Qualified part of capital reserve (i) ...	12,111	2,261,668	4,204,734	4,069,757
Surplus reserve and general reserves (i)	969,469	1,289,524	1,820,011	3,140,024
Qualified part of retained earnings (i)	1,986,199	1,237,313	3,007,410	3,358,457
None-controlling interests	95,554	144,750	172,241	192,555
Total core capital	5,163,666	11,121,078	16,764,594	19,007,693
Supplementary capital:				
General provisions for loan impairment (ii)	545,712	654,386	897,481	1,042,840
Long term subordinated bonds	1,000,000	1,000,000	1,000,000	1,000,000
Other supplementary capital	—	10,743	—	—
Total supplementary capital	1,545,712	1,665,129	1,897,481	2,042,840
Total capital base before deductions ...	6,709,378	12,786,207	18,662,075	21,050,533
Deductions:				
Unconsolidated equity investments (iii)	—	(1,000,000)	(1,000,000)	(1,000,000)
Business enterprise equity investments (iii)	(400)	(400)	(400)	(400)
Net capital base	6,708,978	11,785,807	17,661,675	20,050,133
Net core capital base	5,163,466	10,620,878	16,264,394	18,507,493
Risk weighted assets				
On-balance sheet	52,769,219	82,081,985	117,843,282	128,721,191
Off-balance sheet	4,350,819	11,358,105	18,346,757	20,331,022
Total risk-weighted assets	57,120,038	93,440,090	136,190,039	149,052,213
Market risk capital	—	—	—	374,018

- (i) Pursuant to the Administrative Measures of Capital Adequacy Ratios of Commercial Banks issued by the CBRC, reserves include the valid portion of capital reserve and retained profits, surplus reserve and general reserve.
- (ii) Pursuant to the Notice on Specifying the Calculating Method of General Provisions for Loan Impairment issued by the CBRC, the general provisions for loan impairment included in supplementary capital should not exceed 1% of the total loan balance since the second quarter of 2010.
- (iii) Pursuant to the Administrative Measures of Capital Adequacy Ratios of Commercial Banks issued by the CBRC, 100% and 50% of costs of investment in unconsolidated equity investments were deducted when calculating the net capital base and net core capital base, respectively.

44. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)**(d) Capital management (continued)**

Since 1 January 2013, the Group began to disclose the capital adequacy ratio in accordance with the “Trial Measures for Capital Management of Commercial Banks” and will continue to promote the content of this disclosure. the CBRC requires that a commercial bank maintains its core tier 1 capital adequacy ratio above 5%, the tier 1 capital adequacy ratio above 6% and the capital adequacy ratio above 8%.

	<u>30 September 2013</u>
Core capital	
Qualified part of share capital	8,246,900
Qualified part of capital reserve	4,069,757
Surplus reserve and general reserve	3,140,024
Retained earnings	3,358,457
Qualified part of non-controlling interests	192,555
Core tier 1 Capital deductibles items:	
Full deductibles items	(41,502)
Net core tier 1 capital	18,966,191
Net other tier 1 capital	—
Net tier 1 capital	18,966,191
Net tier 2 capital	2,580,732
Net capital	<u>21,546,923</u>
On-balance sheet risk-weighted assets	128,211,626
Off-balance sheet risk-weighted assets	19,743,678
Credit risk-weighted assets	147,955,304
Market risk-weighted assets	4,675,224
Operational risk-weighted assets	10,129,272
Total risk-weighted assets	<u>162,759,800</u>
Core tier 1 capital adequacy ratio	11.65%
Tier 1 capital adequacy ratio	11.65%
Capital adequacy ratio	13.24%

45. FAIR VALUE OF FINANCIAL INSTRUMENTS*Determination of fair value and fair value hierarchy*

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable, and

Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

45. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)*Determination of fair value and fair value hierarchy (continued)*

The following tables show an analysis of financial instruments measured or disclosed at fair value by level of the fair value hierarchy:

The Group

31 December 2010	Level 1	Level 2	Level 3	Total
<u>Financial assets measured at fair value</u>				
Financial assets held for trading				
Debt securities	–	5,318,631	–	5,318,631
Available-for-sale financial assets				
Debt securities	–	2,838,339	–	2,838,339
	–	8,156,970	–	8,156,970
	=	=	=	=
<u>Financial assets disclosed at fair value</u>				
Receivables	–	–	4,109,741	4,109,741
Held-to-maturity investments	–	–	5,698,919	5,698,919
	–	–	9,808,660	9,808,660
	=	=	=	=
<u>Financial liabilities disclosed at fair value</u>				
Subordinated bonds	–	–	981,248	981,248
	=	=	=	=
31 December 2011	Level 1	Level 2	Level 3	Total
<u>Financial assets measured at fair value</u>				
Financial assets held for trading				
Debt securities	–	4,780,814	–	4,780,814
Available-for-sale financial assets				
Debt securities	–	5,326,543	–	5,326,543
	–	10,107,357	–	10,107,357
	=	=	=	=
<u>Financial assets disclosed at fair value</u>				
Receivables	–	–	13,583,721	13,583,721
Held-to-maturity investments	–	–	12,149,483	12,149,483
	–	–	25,733,204	25,733,204
	=	=	=	=
<u>Financial liabilities disclosed at fair value</u>				
Subordinated bonds	–	–	958,085	958,085
	=	=	=	=

45. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)*Determination of fair value and fair value hierarchy (continued)*

The following tables show an analysis of financial instruments measured or disclosed at fair value by level of the fair value hierarchy (continued):

The Group (continued)

31 December 2012	Level 1	Level 2	Level 3	Total
<u>Financial assets measured at fair value</u>				
Financial assets held for trading				
Debt securities	–	7,878,959	–	7,878,959
Available-for-sale financial assets				
Debt securities	–	8,219,684	–	8,219,684
	–	16,098,643	–	16,098,643
	=	=	=	=
<u>Financial assets disclosed at fair value</u>				
Receivables	–	–	22,686,667	22,686,667
Held-to-maturity investments	–	–	12,082,138	12,082,138
	–	–	34,768,805	34,768,805
	=	=	=	=
<u>Financial liabilities disclosed at fair value</u>				
Subordinated bonds	–	–	1,010,817	1,010,817
Financial bonds	–	–	2,430,005	2,430,005
	–	–	3,440,822	3,440,822
	=	=	=	=
30 September 2013	Level 1	Level 2	Level 3	Total
<u>Financial assets measured at fair value</u>				
Financial assets held for trading				
Debt securities	–	7,201,596	–	7,201,596
Available-for-sale financial assets				
Debt securities	–	12,213,071	–	12,213,071
Funds	–	20,000	–	20,000
	–	12,233,071	–	12,233,071
	–	19,434,667	–	19,434,667
	=	=	=	=
<u>Financial assets disclosed at fair value</u>				
Receivables	–	–	18,023,144	18,023,144
Held-to-maturity investments	–	–	13,901,436	13,901,436
	–	–	31,924,580	31,924,580
	=	=	=	=
<u>Financial assets disclosed at fair value</u>				
Subordinated bonds	–	–	1,001,439	1,001,439
Financial bonds	–	–	2,439,183	2,439,183
	–	–	3,440,622	3,440,622
	=	=	=	=

45. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)*Determination of fair value and fair value hierarchy (continued)*

The following tables show an analysis of financial instruments measured or disclosed at fair value by level of the fair value hierarchy (continued):

The Bank

31 December 2010	Level 1	Level 2	Level 3	Total
<u>Financial assets measured at fair value</u>				
Financial assets held for trading				
Debt securities	–	5,318,631	–	5,318,631
Available-for-sale financial assets				
Debt securities	–	2,838,339	–	2,838,339
	–	8,156,970	–	8,156,970
	=	=	=	=
<u>Financial assets disclosed at fair value</u>				
Receivables	–	–	3,349,641	3,349,641
Held-to-maturity investments	–	–	5,698,919	5,698,919
	–	–	9,048,560	9,048,560
	=	=	=	=
<u>Financial assets disclosed at fair value</u>				
Subordinated bonds	–	–	981,248	981,248
	=	=	=	=
31 December 2011	Level 1	Level 2	Level 3	Total
<u>Financial assets measured at fair value</u>				
Financial assets held for trading				
Debt securities	–	4,780,814	–	4,780,814
Available-for-sale financial assets				
Debt securities	–	5,326,543	–	5,326,543
	–	10,107,357	–	10,107,357
	=	=	=	=
<u>Financial assets disclosed at fair value</u>				
Receivables	–	–	13,568,721	13,568,721
Held-to-maturity investments	–	–	12,149,483	12,149,483
	–	–	25,718,204	25,718,204
	=	=	=	=
<u>Financial assets disclosed at fair value</u>				
Subordinated bonds	–	–	958,085	958,085
	=	=	=	=

45. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)*Determination of fair value and fair value hierarchy (continued)*

The following tables show an analysis of financial instruments measured or disclosed at fair value by level of the fair value hierarchy (continued):

The Bank (continued)

31 December 2012	Level 1	Level 2	Level 3	Total
<u>Financial assets measured at fair value</u>				
Financial assets held for trading				
Debt securities	–	7,878,959	–	7,878,959
Available-for-sale financial assets				
Debt securities	–	8,219,684	–	8,219,684
	–	16,098,643	–	16,098,643
	=	=	=	=
<u>Financial assets disclosed at fair value</u>				
Receivables	–	–	22,686,667	22,686,667
Held-to-maturity investments	–	–	12,082,138	12,082,138
	–	–	34,768,805	34,768,805
	=	=	=	=
<u>Financial assets disclosed at fair value</u>				
Subordinated bonds	–	–	1,010,817	1,010,817
Financial bonds	–	–	2,430,005	2,430,005
	–	–	3,440,822	3,440,822
	=	=	=	=
30 September 2013	Level 1	Level 2	Level 3	Total
<u>Financial assets measured at fair value</u>				
Financial assets held for trading				
Debt securities	–	7,201,596	–	7,201,596
Available-for-sale financial assets				
Debt securities	–	12,213,071	–	12,213,071
Funds	–	20,000	–	20,000
	–	12,233,071	–	12,233,071
	–	19,434,667	–	19,434,667
	=	=	=	=
<u>Financial assets disclosed at fair value</u>				
Receivables	–	–	18,023,144	18,023,144
Held-to-maturity investments	–	–	13,901,436	13,901,436
	–	–	31,924,580	31,924,580
	=	=	=	=
<u>Financial assets disclosed at fair value</u>				
Subordinated bonds	–	–	1,001,439	1,001,439
Financial bonds	–	–	2,439,183	2,439,183
	–	–	3,440,622	3,440,622
	=	=	=	=

45. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)*Determination of fair value and fair value hierarchy (continued)*

Financial assets held for trading and available-for-sale financial assets are stated at fair value by reference to the quoted market prices when available. If quoted market prices are not available then fair values are estimated on the basis of discounted cash flows or pricing models. For debt securities, the fair value of these bonds are determined based on the valuation results provided by China Central Depository Trust & Clearing Co., Ltd., which are determined based on a valuation technique for which all significant inputs are observable market data.

Subject to the existence of an active market, such as an authorised securities exchange, the market value is the best reflection of the fair value of financial instruments. As there is no available market value for certain of the financial assets and liabilities held and issued by the Group, the discounted cash flow method or other valuation methods described below are adopted to determine the fair values of these assets and liabilities:

- (i) The receivables are not quoted in an active market. In the absence of any other relevant observable market, the fair values of receivables are estimated on the basis of pricing models or discounted cash flows.
- (ii) The fair values of held-to-maturity investments, subordinated bonds and financial bonds are determined with reference to the available market values. If quoted market prices are not available, then fair values are estimated on the basis of pricing models or discounted cash flows.

All of the above-mentioned assumptions and methods provide a consistent basis for the calculation of the fair values of the Group and the Bank's assets and liabilities. However, other institutions may use different assumptions and methods. Therefore, the fair values disclosed by different financial institutions may not be entirely comparable.

Those financial instruments for which their carrying amounts are the reasonable approximations of their fair values because, for example, they are short term in nature or repriced at current market rates frequently, are as follows:

Assets

Balances with central bank
Due from banks and other financial institutions
Reverse repurchase agreements
Loans and advances to customers
Other financial assets

Liabilities

Due to banks and other financial institutions
Repurchase agreements
Due to customers
Other financial liabilities

46. SIGNIFICANT EVENTS

On 19 April 2013 and 10 May 2013, the draft resolution for the issuance of qualified tier II capital instruments was approved at the 10th meeting of the Bank's 5th board of directors and the annual general meeting of 2012 fiscal year. On 10 September 2013, the resolution on relevant deliberations over the issuance of qualified tier II capital instruments was approved at the 14th meeting of the Bank's 5th board of directors. The Bank is authorised to issue fixed-interest-rate capital bonds not exceeding RMB 4 billion with a term of less than 5 years, and the funds raised net of issuance expense will be used under the applicable law and with the approval of the authorities to fortify the tier II capital base of the Bank.

On 10 September 2013 and 26 September 2013, at the 14th meeting of the Bank's 5th board of directors and the 2nd extraordinary general meeting of 2013 fiscal year, the resolution for issuance of the special financial bonds for rural loans was approved. The Bank is authorised to issue special financial bonds not exceeding RMB10 billion with a term of less than 5 years the funds raised will be specially used for rural loans.

47. SUBSEQUENT EVENT

Propose to set up a new subsidiary:

To diversify the Bank's business operations, the Bank applied to the CBRC to set up a financial leasing company and have received preliminary approval Yin Jian Fu 2014 No. 35 from the CBRC on 15 January 2014. The Bank should complete the preparatory work for the setting up of such financial leasing company within six months of obtaining the approval from CBRC. As at the date of this accountants' report, such preparation work is still at the initial stage.

III SUBSEQUENT FINANCIAL STATEMENTS

The Bank, the Group together with any subsidiaries of the Group, have no audited financial statements as at any period after 30 September 2013. Save as disclosed in this report, no dividend distribution has been declared or made by the Group in respect of any period subsequent 30 September 2013.

Yours faithfully

Ernst & Young
Certified Public Accountants
Hong Kong

In accordance with the Hong Kong Listing Rules and Banking (Disclosure) Rules, the Group discloses the unaudited supplemental financial information as follow:

(a) Liquidity ratio

	31 December			30 September
	2010	2011	2012	2013
RMB current assets to RMB current liabilities	<u>47.48%</u>	<u>42.62%</u>	<u>40.22%</u>	<u>40.68%</u>
Foreign currency current assets to foreign currency current liabilities	<u>177.20%</u>	<u>307.11%</u>	<u>145.93%</u>	<u>232.97%</u>

These liquidity ratios are calculated based on relevant regulations provided by the CBRC and Chinese accounting policies.

(b) Currency concentrations

	USD	EUR	HKD	Others	Total
31 December 2010					
Current asset	476,183	13,309	986	6,805	497,283
Current liability	(217,652)	(12,929)	(313)	(4,609)	(235,503)
Net position	<u>258,531</u>	<u>380</u>	<u>673</u>	<u>2,196</u>	<u>261,780</u>
31 December 2011					
Current asset	822,825	5,623	5,676	30,527	864,651
Current liability	(556,789)	(3,729)	(5,414)	(9,514)	(575,446)
Net position	<u>266,036</u>	<u>1,894</u>	<u>262</u>	<u>21,013</u>	<u>289,205</u>
31 December 2012					
Current asset	1,362,223	3,378	2,268	55,846	1,423,715
Current liability	(910,934)	(4,907)	(1,286)	(32,672)	(949,799)
Net position	<u>451,289</u>	<u>(1,529)</u>	<u>982</u>	<u>23,174</u>	<u>473,916</u>
30 September 2013					
Current asset	1,483,000	6,356	3,263	109,155	1,601,774
Current liability	(555,752)	(2,563)	(1,246)	(62,043)	(621,604)
Net position	<u>927,248</u>	<u>3,793</u>	<u>2,017</u>	<u>47,112</u>	<u>980,170</u>

(c) Cross-border claims

The Group is principally engaged in business operations within Mainland China, and regards all claims on third parties outside Mainland China as cross-border claims.

Cross-border claims include due from banks and other financial institutions.

A country or geographical area is reported where it constitutes 10% or more of the aggregate amount of crossborder claims, after taking into account any risk transfers. Risk transfers are only made if the claims are guaranteed by a party in 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.

(c) Cross-border claims (continued)

	31 December			30 September
	2010	2011	2012	2013
Due from banks and other financial institutions				
Asia Pacific excluding Mainland China	915	11,116	–	43,776
– of which attributed to Hong Kong	118	3,859	–	1,611
Europe	13,967	12,625	4,124	5,603
North and South America	49,838	14,647	164,179	524,531
Total	<u>64,720</u>	<u>38,388</u>	<u>168,303</u>	<u>573,910</u>

(d) Loans and advances to customers

(i) Overdue loans and advances to customers

	31 December			30 September
	2010	2011	2012	2013
Amount for overdue loans and advances to customers				
Between 3 and 6 months	183,591	120,347	113,629	96,562
Between 6 and 12 months	183,590	169,556	215,983	330,617
Over 12 months	237,871	285,313	178,282	443,292
As a percentage of the total gross loans and advances to customers				
Between 3 and 6 months	0.34%	0.18%	0.13%	0.09%
Between 6 and 12 months	0.34%	0.25%	0.25%	0.32%
Over 12 months	0.45%	0.42%	0.20%	0.42%
	<u>1.13%</u>	<u>0.85%</u>	<u>0.58%</u>	<u>0.83%</u>

The definition of overdue loans and advances to customers is set out as follows:

Loans and advances with a specific repayment date are classified as overdue when the principal or interest is overdue.

For loans and advances repayable by regular instalments, if part of the instalments is overdue, the whole amounts of these loans and advances would be classified as overdue.

(ii) Overdue and impaired loans and advances to customers by geographical distribution

31 December 2010

	Overdue loans and advances to customers			Impaired loans and advances to customers		
	Gross amount	Individually assessed to be impaired	Individually assessed allowance for impairment losses	Individually assessed to be impaired	Individually assessed allowance for impairment losses	Collectively assessed allowance for impairment losses
Heilongjiang region	799,039	243,393	238,395	243,783	238,518	458,631
Northeastern China	14,408	–	–	–	–	64,039
Southwest China	–	–	–	–	–	28,917
Northern China	80	–	–	–	–	31,721
Other region	1,562	–	–	–	–	2,271
Total	<u>815,089</u>	<u>243,393</u>	<u>238,395</u>	<u>243,783</u>	<u>238,518</u>	<u>585,579</u>

(d) Loans and advances to customers (continued)

(ii) Overdue and impaired loans and advances to customers by geographical distribution (continued)

31 December 2011

	Overdue loans and advances to customers			Impaired loans and advances to customers		
	Gross amount	Individually assessed to be impaired	Individually assessed allowance for impairment losses	Individually assessed to be impaired	Individually assessed allowance for impairment losses	Collectively assessed allowance for impairment losses
Heilongjiang region	666,449	152,035	145,208	201,035	157,631	1,027,237
Northeastern China	24,080	10,000	9,675	10,000	9,675	102,297
Southwest China	—	—	—	—	—	84,807
Northern China	3,002	—	—	—	—	71,892
Other region	1,273	—	—	—	—	12,040
Total	<u>694,804</u>	<u>162,035</u>	<u>154,883</u>	<u>211,035</u>	<u>167,306</u>	<u>1,298,273</u>

31 December 2012

	Overdue loans and advances to customers			Impaired loans and advances to customers		
	Gross amount	Individually assessed to be impaired	Individually assessed allowance for impairment losses	Individually assessed to be impaired	Individually assessed allowance for impairment losses	Collectively assessed allowance for impairment losses
Heilongjiang region	574,890	100,332	89,293	110,332	92,293	1,238,207
Northeastern China	30,671	—	—	—	—	264,941
Southwest China	11,298	—	—	—	—	214,826
Northern China	18,061	—	—	—	—	116,997
Other region	9,470	—	—	—	—	38,989
Total	<u>644,390</u>	<u>100,332</u>	<u>89,293</u>	<u>110,332</u>	<u>92,293</u>	<u>1,873,960</u>

30 September 2013

	Overdue loans and advances to customers			Impaired loans and advances to customers		
	Gross amount	Individually assessed to be impaired	Individually assessed allowance for impairment losses	Individually assessed to be impaired	Individually assessed allowance for impairment losses	Collectively assessed allowance for impairment losses
Heilongjiang region	1,087,409	190,598	130,204	206,298	133,344	1,275,631
Northeastern China	148,988	—	—	—	—	354,126
Southwest China	3,072	—	—	—	—	394,166
Northern China	41,416	—	—	—	—	156,793
Other region	26,647	5,180	3,746	5,180	3,746	54,276
Total	<u>1,307,532</u>	<u>195,778</u>	<u>133,950</u>	<u>211,478</u>	<u>137,090</u>	<u>2,234,992</u>

(e) Overdue due from banks and other financial institutions

	31 December			30 September
	2010	2011	2012	2013
The Group's gross due from banks and other financial institutions which have been overdue with respect to either principal or interest for a period of:				
Over 12 months	500	—	—	—
As a percentage of total gross placements with banks and other financial institutions:				
Over 12 months	0.00%	—	—	—

(f) Overdue placements with banks and other financial institutions

	31 December			30 September
	2010	2011	2012	2013
The Group's gross placements with banks and other financial institutions which have been overdue with respect to either principal or interest for a period of:				
Over 12 months	5,466	—	—	—
As a percentage of total gross placements with banks and other financial institutions:				
Over 12 months	1.73%	—	—	—

(g) Exposures to Mainland China non-bank entities

	31 December			30 September
	2010	2011	2012	2013
On-balance sheet exposure	47,088,965	64,740,740	85,918,097	102,508,831
Off-balance sheet exposure	15,836,969	25,934,149	49,389,342	49,018,509
Individually assessed allowance for impairment losses	238,518	167,306	92,293	137,090

In addition to those disclosed above, exposures to other non-bank counterparties outside Mainland China to which credit is granted for use in Mainland China are considered insignificant to the Group.

The information set forth in this appendix does not form part of the Accountants' Reports as set forth in Appendix I to this prospectus, and is included herein for illustrative purposes only. For the purpose of this Appendix, Harbin Bank Co., Ltd. is referred to as the "Bank" and, together with its subsidiary, the "Group".

The following unaudited pro forma financial information prepared in accordance with Rule 4.29 of the Hong Kong Listing Rules is for illustrative purposes only, and is set out here to provide investors with further information about how the proposed listing of the shares of the Bank might have affected the consolidated net tangible assets after completion of the Global Offering. Although reasonable care has been exercised in preparing the said information, prospective investors who read the information should bear in mind that these figures are inherently subject to adjustments and may not give a complete picture of the Group's financial results and position of the financial period concerned.

(A) UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following unaudited pro forma adjusted consolidated net tangible assets have been prepared based on the consolidated net tangible assets as of 30 September 2013 as extracted from the Accountants' Report of the financial information of the Group for the years ended 31 December 2010, 2011, 2012 and the nine months ended 30 September 2013, the text of which is set out in Appendix I to this prospectus, and is adjusted as described below.

The unaudited pro forma adjusted consolidated net tangible assets have been prepared for illustrative purposes only and, because of their nature, they may not give a true picture of the financial position of the Group.

The following unaudited pro forma adjusted consolidated net tangible assets have been prepared to show the effect on the consolidated net tangible assets as of 30 September 2013 as if the Global Offering had occurred on 30 September 2013.

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

Notes:

- (1) The consolidated net tangible assets attributable to equity holders of the Bank as of 30 September 2013 is compiled based on the Accountants' Report set out in Appendix I to the prospectus, which is based on the consolidated net assets attributable to equity holders of the Bank at 30 September 2013 of RMB18,816 million with an adjustment for intangible assets of RMB37,493 thousand at 30 September 2013.

- (2) The estimated net proceeds from the Global Offering are based on the Offer Price of HK\$2.89 per share and HK\$3.33 per share after deduction of the underwriting fees and other related expenses payable by the Bank, and do not take into account any shares which may be issued upon the exercise of the Over-allotment Option.
- (3) The unaudited pro forma adjusted consolidated net tangible assets attributable to equity holders of the Bank do not take into account the effect of the profit for the period from and including 1 October 2013 to the date immediately preceding the date of the Global Offering and the distribution of such profit to the shareholders during that period.
- (4) The unaudited pro forma adjusted consolidated net tangible assets per share are arrived at after adjustments referred to in note (2) above on the basis that 10,995,599,553 shares (comprised 8,246,899,553 shares issued and outstanding on 30 September 2013 and 2,748,700,000 shares to be newly issued pursuant to the Global Offering) are issued and outstanding following the completion of the Global Offering and that the over-allotment option is not exercised.
- (5) The translation of Renminbi into Hong Kong dollars has been made at the rate of RMB0.79004 to HK\$1.00, the medium rate set by SAFE for foreign exchange transactions prevailing on 10 March 2014. No representation is made that the Hong Kong dollar amounts have been, could have been or could be converted to Renminbi, or *vice versa*, at that rate or at any other rates or at all.

(B) REPORT FROM THE REPORTING ACCOUNTANTS ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from the reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong, in respect of the unaudited pro forma financial information.



22nd Floor
CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

**INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE
COMPILATION OF PRO FORMA FINANCIAL INFORMATION****To the Directors of Harbin Bank Co., Ltd.**

We have completed our assurance engagement to report on the compilation of pro forma financial information of Harbin Bank Co. Ltd. (the "Bank") and its subsidiaries (hereinafter collectively referred to as the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The pro forma financial information consists of the pro forma consolidated net tangible assets as of 30 September 2013 and related notes as set out on pages III-1 to III-2 of the prospectus issued by the Company (the "Pro Forma Financial Information"). The applicable criteria on the basis of which the Directors have compiled the Pro Forma Financial Information are described in note A of Appendix III to the prospectus.

The Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the global offering of shares of the Company on the Group's financial position as at 30 September 2013 as if the transaction had taken place at 30 September 2013. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's financial statements for the period ended 30 September 2013, on which an accountants' report has been published.

Directors' responsibility 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 "Hong Kong Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "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 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 accountant 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 AG7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* issued by HKICPA.

For purposes 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 the prospectus is solely to illustrate the impact of the global offering of shares of the Company on unadjusted financial information of the Group as if 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 the transaction 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 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 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.

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 purpose of the Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,

Ernst & Young

Certified Public Accountants

Hong Kong

19 March 2014

APPENDIX IV UNAUDITED PRELIMINARY FINANCIAL INFORMATION OF THE BANK FOR THE YEAR ENDED 31 DECEMBER 2013

The following is the preliminary financial information of our Group for the year ended 31 December 2013 (the “2013 Preliminary Financial Information”) together with a management’s discussion and analysis of our Group’s financial condition and results of operations. The preliminary financial information has been prepared in accordance with IFRS. The consolidated 2013 Preliminary Financial Information is not audited. You are advised that the 2013 Preliminary Financial Information in this Appendix is subject to change.

CONSOLIDATED INCOME STATEMENT

(All amounts expressed in thousands of RMB unless otherwise stated)

	Notes	For the year ended 31 December	
		2012	2013
Interest income	4	12,993,170	14,141,665
Interest expense	4	(6,334,803)	(7,323,890)
NET INTEREST INCOME	4	6,658,367	6,817,775
Fee and commission income	5	811,437	1,376,550
Fee and commission expense	5	(132,787)	(129,428)
NET FEE AND COMMISSION INCOME	5	678,650	1,247,122
Net trading income	6	356,579	283,851
Net loss on financial investments	7	(87,409)	(46,534)
Other operating income, net	8	105,019	241,622
OPERATING INCOME		7,711,206	8,543,836
Operating expenses	9	(3,025,519)	(3,590,990)
Impairment losses on:			
Loans and advances to customers		(837,225)	(517,717)
Others		1,019	11,657
OPERATING PROFIT		3,849,481	4,446,786
Share of profits of an associate		9,429	3,231
PROFIT BEFORE TAX		3,858,910	4,450,017
Income tax expense	10	(987,451)	(1,078,926)
PROFIT FOR THE YEAR		<u>2,871,459</u>	<u>3,371,091</u>
Attributable to:			
Equity holders of the parent company		2,864,250	3,350,342
Non-controlling interests		7,209	20,749
		<u>2,871,459</u>	<u>3,371,091</u>
EARNINGS PER SHARE (RMB yuan)			
– basic and diluted	12	<u>0.37</u>	<u>0.41</u>

**APPENDIX IV UNAUDITED PRELIMINARY FINANCIAL INFORMATION OF
THE BANK FOR THE YEAR ENDED 31 DECEMBER 2013**

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(All amounts expressed in thousands of RMB unless otherwise stated)

	Notes	For the year ended 31 December	
		2012	2013
Profit for the year		2,871,459	3,371,091
Other comprehensive income (after tax, net):			
<i>Other comprehensive income to be reclassified to profit or loss in subsequent year:</i>			
Net loss on available-for-sale financial assets		(40,063)	(157,823)
Share of other comprehensive income of an associate		7,585	(56,291)
Subtotal of other comprehensive loss for the year		(32,478)	(214,114)
Total comprehensive income for the year		<u>2,838,981</u>	<u>3,156,977</u>
Total comprehensive income attributable to:			
Equity holders of the parent		2,831,772	3,136,228
Non-controlling interests		7,209	20,749
		<u>2,838,981</u>	<u>3,156,977</u>

**APPENDIX IV UNAUDITED PRELIMINARY FINANCIAL INFORMATION OF
THE BANK FOR THE YEAR ENDED 31 DECEMBER 2013**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(All amounts expressed in thousands of RMB unless otherwise stated)

		As of 31 December	
	Notes	2012	2013
ASSETS			
Cash and balances with central bank		51,858,511	51,552,089
Due from banks and other financial institutions		19,946,805	33,871,192
Financial assets held for trading		7,878,959	2,512,264
Reverse repurchase agreements		51,745,648	51,110,948
Loans and advances to customers	13	85,298,079	103,515,015
Financial investments		43,301,170	68,523,601
Investments in an associate		1,017,014	963,955
Property and equipment		6,038,230	7,314,942
Deferred income tax assets		258,314	333,855
Other assets		2,747,422	2,477,579
TOTAL ASSETS		<u>270,090,152</u>	<u>322,175,440</u>
LIABILITIES			
Due to central bank		594,861	787,198
Due to banks and other financial institutions		36,523,548	50,610,868
Repurchase agreements		22,832,655	19,091,166
Due to customers		186,642,384	224,178,126
Income tax payable		311,148	262,941
Debt securities issued		3,500,000	3,500,000
Other liabilities		2,748,575	3,817,854
TOTAL LIABILITIES		<u>253,153,171</u>	<u>302,248,153</u>
EQUITY			
Equity attributable to equity holders of the parent company			
Share capital		7,560,198	8,246,900
Reserves		6,025,456	7,449,935
Retained profits		3,179,086	4,030,707
		16,764,740	19,727,542
Non-controlling interests		172,241	199,745
TOTAL EQUITY		<u>16,936,981</u>	<u>19,927,287</u>
TOTAL EQUITY AND LIABILITIES		<u>270,090,152</u>	<u>322,175,440</u>

**APPENDIX IV UNAUDITED PRELIMINARY FINANCIAL INFORMATION OF
THE BANK FOR THE YEAR ENDED 31 DECEMBER 2013**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(All amounts expressed in thousands of RMB unless otherwise stated)

	Attributable to equity holders of the parent company											
		Reserves										
	Issued share capital	Capital Reserve	Surplus reserve	General reserve	Investment revaluation reserve	Other reserves	Subtotal	Retained profits	Total	Non- controlling interests	Total equity	
Balance as at												
1 January 2012	6,187,823	2,262,379	587,816	701,708	15,826	–	3,567,729	1,630,073	11,385,625	144,750	11,530,375	
Profit for the year	–	–	–	–	–	–	–	2,864,250	2,864,250	7,209	2,871,459	
Other comprehensive income												
– Change in fair value of available-for-sale investments, net of tax	–	–	–	–	(40,063)	–	(40,063)	–	(40,063)	–	(40,063)	
– Share of other comprehensive income of an associate	–	–	–	–	–	7,585	7,585	–	7,585	–	7,585	
Total comprehensive income	–	–	–	–	(40,063)	7,585	(32,478)	2,864,250	2,831,772	7,209	2,838,981	
Capital contributed by owners	980,000	1,960,000	–	–	–	–	1,960,000	–	2,940,000	20,000	2,960,000	
Dividends – 2011 final	–	–	–	–	–	–	–	(392,375)	(392,375)	–	(392,375)	
Appropriation to surplus reserve	–	–	281,870	–	–	–	281,870	(281,870)	–	–	–	
Appropriation to general reserve(i) . .	–	–	–	248,617	–	–	248,617	(248,617)	–	–	–	
Retained profits converted into share capital	392,375	–	–	–	–	–	–	(392,375)	–	–	–	
Others	–	–	–	–	–	(282)	(282)	–	(282)	282	–	
Balance as at 31 December 2012	7,560,198	4,222,379	869,686	950,325	(24,237)	7,303	6,025,456	3,179,086	16,764,740	172,241	16,936,981	

(i) Includes the appropriation made by subsidiaries in the amount of RMB14.760 million.

**APPENDIX IV UNAUDITED PRELIMINARY FINANCIAL INFORMATION OF
THE BANK FOR THE YEAR ENDED 31 DECEMBER 2013**

Attributable to equity holders of the parent company											
	Issued share capital	Reserves					Subtotal	Retained profits	Total	Non- controlling interests	Total equity
		Capital Reserve	Surplus reserve	General reserve	Investment revaluation reserve	Other reserves					
Balance as at											
1 January 2013 . . .	7,560,198	4,222,379	869,686	950,325	(24,237)	7,303	6,025,456	3,179,086	16,764,740	172,241	16,936,981
Profit for the year . .	–	–	–	–	–	–	–	3,350,342	3,350,342	20,749	3,371,091
Other											
comprehensive											
income											
– Change in fair											
value of											
available-for-											
sale											
investments, net											
of tax	–	–	–	–	(157,823)	–	(157,823)	–	(157,823)	–	(157,823)
– Share of other											
comprehensive											
income of an											
associate	–	–	–	–	–	(56,291)	(56,291)	–	(56,291)	–	(56,291)
Total comprehensive											
income	–	–	–	–	(157,823)	(56,291)	(214,114)	3,350,342	3,136,228	20,749	3,156,977
Capital contributed											
by owners	–	–	–	–	–	–	–	–	–	5,004	5,004
Dividends – 2012											
final	–	–	–	–	–	–	–	(171,675)	(171,675)	–	(171,675)
Appropriation to											
surplus reserve . . .	–	–	320,331	–	–	–	320,331	(320,331)	–	–	–
Appropriation to											
general											
reserve(i)	–	–	–	1,320,013	–	–	1,320,013	(1,320,013)	–	–	–
Retained profits											
converted into											
share capital	686,702	–	–	–	–	–	–	(686,702)	–	–	–
Others	–	–	–	–	–	(1,751)	(1,751)	–	(1,751)	1,751	–
Balance as at											
31 December											
2013	8,246,900	4,222,379	1,190,017	2,270,338	(182,060)	(50,739)	7,449,935	4,030,707	19,727,542	199,745	19,927,287

(i) Includes the appropriation made by subsidiaries in the amount of RMB35.479 million.

NOTES TO FINANCIAL STATEMENTS

(All amounts expressed in thousands of RMB unless otherwise stated)

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) and interpretations promulgated by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance. All IFRSs effective for the accounting period commencing from 1 January 2013, together with the relevant transitional provisions, have been early adopted by the Group in preparation of the Financial Information throughout the Relevant Periods.

These financial statements have been prepared under the historical cost convention, except for financial assets held for trading and available-for-sale financial assets (unless the fair value cannot be reliably measured) that have been measured at fair value. These financial statements are presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries for the years ended 31 December 2012 and 2013. The financial statements of the subsidiaries are prepared for the same reporting period as the Bank, using consistent accounting policies.

2. IMPACT OF ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised IFRSs and IASs that have been issued but are not yet effective, in these financial statements:

IFRS 9	<i>Financial Instruments</i> ³
HKFRS 9, HKFRS 7 and HKAS 39 Amendments	<i>Hedge Accounting and amendments to HKFRS 9, HKFRS 7 and HKAS 39</i> ³
IFRS 10, IFRS 12 and IAS 27 Amendments	<i>Investment Entities</i> ¹
IAS 19 Amendments	<i>Amendments to HKAS 19 Employee Benefits – Defined Benefit Plans: Employee Contributions</i> ²
IAS 32 Amendments	<i>Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities</i> ¹
IAS 39 Amendments	<i>Novation of Derivatives and Continuation of Hedge Accounting</i> ¹
IFRIC 21	<i>Levies</i> ¹

¹ Effective for annual periods beginning on or after 1 January 2014

² Effective for annual periods beginning on or after 1 July 2014

³ No mandatory effective date yet determined but is available for adoption

3. SEGMENT INFORMATION

For management purposes, we are organised into four different operating segments as below:

Corporate banking

The corporate banking primarily covers the provision of financial products and services to corporate customers. The products and services include deposits, loans, settlement and clearing and other relating to trading business.

Personal banking

The personal banking primarily covers the provision of financial products and services to individual customers. The products and services include deposits, bank cards and credit cards, personal loans and collateral loans, and personal wealth management services.

Treasury operations

The treasury operations primarily comprise money market transactions, investments in securities and other financial assets, bond underwriting and distribution, financial derivatives transactions and interbank discounts and rediscounts of bills, for our own accounts or on behalf of customers.

Others

This represents business other than corporate banking, personal banking and treasury banking, whose assets, liabilities, income and expenses cannot directly attributable or cannot be allocated to a segment on a reasonable basis.

**APPENDIX IV UNAUDITED PRELIMINARY FINANCIAL INFORMATION OF
THE BANK FOR THE YEAR ENDED 31 DECEMBER 2013**

3. SEGMENT INFORMATION (continued)

Inter-segment transfer price is calculated in accordance with the sources and funding period, matching the interest rates announced by the PBOC and the interbank market rates. Expenses are allocated between segments based on benefits.

	Corporate banking	Personal banking	Treasury operations	Others	Total
<u>Year ended 31 December 2012</u>					
External net interest income	1,499,386	1,939,153	3,219,828	–	6,658,367
Internal net interest income/ (expense)	1,003,467	286,024	(1,289,491)	–	–
Net fee and commission income . . .	65,542	3,539	609,569	–	678,650
Other income, net (i)	17,158	–	268,664	88,367	374,189
Operating income	2,585,553	2,228,716	2,808,570	88,367	7,711,206
Operating expenses	(1,239,034)	(615,841)	(1,141,492)	(29,152)	(3,025,519)
Impairment losses on:					
Loans and advances to customers	(333,484)	(503,741)	–	–	(837,225)
Others	1,999	–	–	(980)	1,019
Operating profit	1,015,034	1,109,134	1,667,078	58,235	3,849,481
Share of profits of an associate . . .	–	–	–	9,429	9,429
Profit before tax	1,015,034	1,109,134	1,667,078	67,664	3,858,910
Income tax expense					(987,451)
Profit for the year					<u>2,871,459</u>
Other segment information:					
Depreciation and amortisation . . .	70,702	46,431	89,687	1,435	208,255
Capital expenditure	952,502	625,520	1,208,271	19,329	2,805,622
<u>As of 31 December 2012</u>					
Segment assets	<u>87,740,237</u>	<u>49,828,440</u>	<u>131,117,864</u>	<u>1,403,611</u>	<u>270,090,152</u>
Segment liabilities	<u>136,037,077</u>	<u>56,218,371</u>	<u>60,518,261</u>	<u>379,462</u>	<u>253,153,171</u>
Other segment information:					
Credit commitments	<u>48,349,017</u>	<u>1,040,325</u>	<u>–</u>	<u>–</u>	<u>49,389,342</u>

(i) Includes trading income, net income from financial investments and other net operating income.

**APPENDIX IV UNAUDITED PRELIMINARY FINANCIAL INFORMATION OF
THE BANK FOR THE YEAR ENDED 31 DECEMBER 2013**

3. SEGMENT INFORMATION (continued)

	Corporate banking	Personal banking	Treasury operations	Others	Total
<u>Year ended 31 December 2013</u>					
External net interest income	1,368,598	1,917,640	3,531,537	–	6,817,775
Internal net interest income/ (expense)	1,144,257	408,999	(1,553,256)	–	–
Net fee and commission income . . .	277,379	108,053	861,690	–	1,247,122
Other income, net (i)	116,410	–	237,317	125,212	478,939
Operating income	2,906,644	2,434,692	3,077,288	125,212	8,543,836
Operating expenses	(1,480,265)	(887,703)	(1,163,590)	(59,432)	(3,590,990)
Impairment losses on:					
Loans and advances to customers	(250,911)	(266,806)	–	–	(517,717)
others	–	–	–	11,657	11,657
Operating profit	1,175,468	1,280,183	1,913,698	77,437	4,446,786
Share of profits of an associate . . .	–	–	–	3,231	3,231
Profit before tax	1,175,468	1,280,183	1,913,698	80,668	4,450,017
Income tax expense					(1,078,926)
Profit for the period					3,371,091
Other segment information:					
Depreciation and amortisation . . .	89,891	75,296	104,471	4,269	273,927
Capital expenditure	518,754	434,523	602,893	24,635	1,580,805
<u>As of 31 December 2013</u>					
Segment assets	96,748,549	58,822,129	164,884,267	1,720,495	322,175,440
Segment liabilities	161,983,865	68,470,209	71,160,705	633,374	302,248,153
Other segment information:					
Credit commitments	47,700,560	217,633	180,000	–	48,098,193

(i) Includes trading income, net income from financial investments and other net operating income.

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4. NET INTEREST INCOME

	For the year ended 31 December	
	2012	2013
Interest income on:		
Loans and advances to customers	6,537,440	7,621,205
Reverse repurchase agreements	2,140,515	2,251,530
Available for sale financial assets	269,272	439,120
Held-to-maturity financial investments	483,866	565,680
Receivables	1,921,011	1,368,540
Due from central bank	490,242	602,087
Due from banks and other financial institutions	1,150,824	1,293,503
Subtotal	<u>12,993,170</u>	<u>14,141,665</u>
Interest expense on:		
Due to customers	(2,967,699)	(4,160,741)
Repurchase agreements	(1,400,270)	(1,001,818)
Due to banks and other financial institutions	(1,822,705)	(1,963,740)
Debt securities issued	(131,202)	(174,226)
Due to central bank	(12,927)	(23,365)
Subtotal	<u>(6,334,803)</u>	<u>(7,323,890)</u>
Net interest income	<u>6,658,367</u>	<u>6,817,775</u>
Included: interest income on impaired loans	<u>17,057</u>	<u>36,169</u>
Interest income on:		
Listed debt instruments	753,138	1,004,800
Unlisted debt instruments	12,240,032	13,136,865
Subtotal	<u>12,993,170</u>	<u>14,141,665</u>

5. NET FEE AND COMMISSION INCOME

	For the year ended 31 December	
	2012	2013
FEE AND COMMISSION INCOME:		
Advisory and consulting fees	273,765	488,221
Settlement and clearing fees	95,299	83,410
Agency and custodian fees	374,902	617,264
Bank card fees	47,877	149,264
Others	19,594	38,391
Subtotal	<u>811,437</u>	<u>1,376,550</u>
FEE AND COMMISSION EXPENSE:		
Settlement and clearing fees	(13,185)	(16,120)
Agency fees	(37,691)	(7,473)
Bank card fees	(44,015)	(69,539)
Others	(37,896)	(36,296)
Subtotal	<u>(132,787)</u>	<u>(129,428)</u>
NET FEE AND COMMISSION INCOME	<u>678,650</u>	<u>1,247,122</u>

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THE BANK FOR THE YEAR ENDED 31 DECEMBER 2013**

6. NET TRADING INCOME

	For the year ended 31 December	
	2012	2013
Listed in mainland China:		
Debt securities	356,579	283,851

The above amounts include gains and losses arising from the buying and selling of, interest income on, and changes in the fair value of financial assets held for trading.

7. NET LOSS ON FINANCIAL INVESTMENTS

	For the year ended 31 December	
	2012	2013
Dividends from available-for-sale equity investments	507	579
Loss on disposal of available-for-sale financial assets, net	(87,916)	(47,113)
Total	(87,409)	(46,534)

8. OTHER OPERATING INCOME, NET

	For the year ended 31 December	
	2012	2013
Net gain on disposal of property and equipment	209	—
Net gain on sale of repossessed assets	8,887	121,160
Gain/(loss) from foreign exchange, net	8,271	(4,750)
Leasing income	6,319	3,681
Government grants and subsidy	63,045	97,162
Penalty	5	180
Others	18,283	24,189
Total	105,019	241,622

9. OPERATING EXPENSES

	For the year ended 31 December	
	2012	2013
Staff costs	1,342,058	1,558,984
General and administrative expenses	638,034	725,677
Business tax and surcharges	364,068	528,158
Depreciation and amortisation	208,255	273,927
Leasing expense	172,099	199,053
Others	301,005	305,191
Total	3,025,519	3,590,990

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THE BANK FOR THE YEAR ENDED 31 DECEMBER 2013**

10. INCOME TAX EXPENSE

	For the year ended 31 December	
	2012	2013
Current income tax expense	1,065,402	1,101,859
Deferred income tax expense	(77,951)	(22,933)
	<u>987,451</u>	<u>1,078,926</u>

11. DIVIDENDS

	For the year ended 31 December	
	2012	2013
Dividends on ordinary shares declared and paid:		
Final dividend for 2012:		
RMB 0.025 per share**		
(2011: RMB 0.1 per share*)	<u>392,375</u>	<u>171,675</u>
Dividends on ordinary shares proposed for		
Approval (not recognised as of 31 December):		
Final dividend for 2013:***		
(2012: RMB 0.025 per share**)	<u>171,675</u>	<u>—</u>

(*): Based on the 2011 weighted average number of share capital of RMB 0.1 per share distributed in cash

(**): Based on the 2012 weighted average number of share capital of RMB 0.025 per share distributed in cash

(***): Final dividends plan of 2013 is under consideration by the management of our Bank

12. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the following:

	For the year ended 31 December	
	2012	2013
Earnings:		
Profit attributable to equity holders of the parent company	<u>2,864,250</u>	<u>3,350,342</u>
Shares:		
Weighted average number of ordinary shares outstanding (in thousand shares)	7,791,708	8,246,900
Basic and diluted earnings per share (RMB yuan)	<u>0.37</u>	<u>0.41</u>

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THE BANK FOR THE YEAR ENDED 31 DECEMBER 2013**

13. LOANS AND ADVANCES TO CUSTOMERS

	As of 31 December	
	2012	2013
Corporate loans and advances	51,108,045	63,538,241
Personal loans	34,810,052	40,498,599
Discounted bills	1,346,235	1,904,481
	<u>87,264,332</u>	<u>105,941,321</u>
Less: Allowance for impairment	<u>(1,966,253)</u>	<u>(2,426,306)</u>
	<u>85,298,079</u>	<u>103,515,015</u>
	As of 31 December	
	2012	2013
Loans and advances for which allowance for impairment losses are:		
Unimpaired loans and advances	86,708,136	105,037,131
Impaired loans and advances to Customers		
Individually assessed	110,332	190,910
Collectively assessed	445,864	713,280
	<u>87,264,332</u>	<u>105,941,321</u>
Less: Allowance for impairment losses:		
Unimpaired loans and advances	1,700,497	1,966,911
Impaired loans and advances to customers		
Individually assessed	92,293	79,224
Collectively assessed	173,463	380,171
	<u>1,966,253</u>	<u>2,426,306</u>
Net loans and advances for which allowance for impairment losses are:		
Unimpaired loans and advances	85,007,639	103,070,220
Impaired loans and advances to customers		
Individually assessed	18,039	111,686
Collectively assessed	272,401	333,109
	<u>85,298,079</u>	<u>103,515,015</u>
Percentage of impaired loans and advances	<u>0.64%</u>	<u>0.85%</u>

APPENDIX IV UNAUDITED PRELIMINARY FINANCIAL INFORMATION OF THE BANK FOR THE YEAR ENDED 31 DECEMBER 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Operational Overview

In response to the slowdown of the domestic economy, the acceleration of the financial market reforms and increasingly stringent regulatory policies in the PRC, and an increasingly competitive industry in 2013, we, under the leadership of the Board and the supervision of the Supervisory Board, proactively reacted to the challenges. In particular, we accelerated our business transformation, implemented our strategy of focusing on the development of featured microcredit business, sought to stabilise our business operations, diversified our business, strengthened our risk management systems, explored transition opportunities and improved our profitability.

Profitability

For the year ended 31 December 2013, net profit attributable to the equity shareholders of our Bank increased by 17.0% to RMB3,350.3 million from RMB2,864.3 million for the year ended 31 December 2012, primarily due to increases in our net interest income and net fee and commission income. Net interest income increased by 2.4% to RMB6,817.8 million for the year ended 31 December 2013 from RMB6,658.4 million for the year ended 31 December 2012. Net fee and commission income increased by 83.8% to RMB1,247.1 million for the year ended 31 December 2013 from RMB678.7 million for the year ended 31 December 2012, primarily due to our development of our advisory and consultancy, settlement, custodian and other intermediary businesses. Return on assets decreased to 1.14% in the year ended 31 December 2013 from 1.20% for the year ended 31 December 2012, and return on equity decreased to 18.36% for the year ended 31 December 2013 from 20.35% for the year ended 31 December 2012.

Business Scale

As of 31 December 2013, our total assets were RMB322,175.4 million compared to RMB270,090.2 million as of 31 December 2012, primarily attributable to increases in our loans and advances to customers and financial investments. Loans and advances to customers totaled RMB105,941.3 million as of 31 December 2013 compared to RMB87,264.4 million as of 31 December 2012. Our total due to customers was RMB224,178.1 million as of 31 December 2013 compared to RMB186,642.4 million as of 31 December 2012. This increase was largely the result of the expansion of our network and our efforts to attract customer deposits.

Assets Quality

As of 31 December 2013, our non-performing loans amounted to RMB904.2 million and our non-performing loans ratio was 0.85% compared to RMB556.2 million and 0.64% as of 31 December 2012. The significant increases in our non-performing loans and non-performing loans ratio were largely attributable to a slowdown in the economic development in the PRC and the floods in Heilongjiang in the summer of 2013, which we believe increased defaults in loans to farmers in the Heilongjiang region. Our impairment losses on loans ratio rose to 2.29% compared to 2.25% as of 31 December 2012 and our impairment coverage ratio declined to 268.34% as of 31 December 2013 from 353.52% as of 31 December 2012.

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SUMMARY OF KEY FINANCIAL AND OPERATING INDICATORS

The following table sets forth a summary of key financial and operating indicators as of and for the years ended 31 December 2012 and 2013.

	For the year ended 31 December	
	2012	2013
Profitability indicators		
Return on average total assets ⁽¹⁾	1.20%	1.14%
Return on average equity ⁽²⁾	20.35%	18.36%
Net interest spread ⁽³⁾	3.06%	2.56%
Net interest margin ⁽⁴⁾	3.09%	2.64%
Net fee and commission income to operating income ratio	8.80%	14.60%
Cost-to-income ratio ⁽⁵⁾	34.51%	35.85%
	As of 31 December	
	2012	2013
Capital adequacy indicators⁽⁶⁾		
Core capital adequacy ratio	11.94%	11.67%
Capital adequacy ratio	12.97%	12.55%
Assets quality indicators		
Non-performing loans ratio ⁽⁷⁾	0.64%	0.85%
Impairment coverage ratio ⁽⁸⁾	353.52%	268.34%
Impairment losses on loans ⁽⁹⁾	2.25%	2.29%
Other indicators		
Loan-to-deposit ratio	46.75%	47.26%

Notes:

- (1) The percentage of net profit for a period to the average balance of the total assets at the beginning and the end of that period.
- (2) The percentage of net profit attributable to the equity shareholders of our Bank for a period to the average balance of total equity attributable to equity holders of the parent company at the beginning and the end of that period.
- (3) Calculated as the difference between the average yield on total interest-earning assets and the average cost on total interest bearing liabilities, calculated based on the daily average of the interest-earning assets and interest-bearing liabilities.
- (4) Calculated by dividing net interest income by average interest-earning assets, calculated based on the daily average of the interest-earning assets.
- (5) Calculated with the operating cost after the business tax and surcharges and divided by the operating income.
- (6) Calculated pursuant to the Capital Adequacy Measures and other relevant regulations in the PRC and in accordance with the PRC GAAP. Since 2013, we have calculated and disclosed the capital adequacy ratio in accordance with the New Capital Adequacy Measures. See "Supervision and Regulation — Supervision Over Capital Adequacy". According to the New Capital Adequacy Measures, our core tier 1 capital adequacy ratio, tier 1 capital adequacy ratio and capital adequacy ratio were 10.68%, 10.68% and 11.95%, respectively, as of 31 December 2013.
- (7) Calculated with the total non-performing loans divided by the total loans to customers.
- (8) Calculated with the allowance for impairment loss divided by the total non-performing loans.
- (9) Calculated with the allowance for impairment loss on loan divided by the total loans to customers.

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ANALYSIS OF KEY ITEMS IN THE CONSOLIDATED INCOME STATEMENT

Net Interest Income, Net Interest Spread and Net Interest Margin

The following tables set forth, for the years ended 31 December 2012 and 2013, the average balance of our interest-earning assets and interest-bearing liabilities, interest income and expense from these assets and liabilities, and the average yield of these interest-earning assets and the average cost of these interest-bearing liabilities.

	For the years ended 31 December					
	2012			2013		
	Average balance ⁽⁶⁾	Interest income	Average yield	Average balance ⁽⁶⁾	Interest income	Average yield
(in millions of RMB, except percentage)						
Interest-earning Assets						
Loans and advances to customers	81,767.1	6,537.5	8.00%	99,990.5	7,621.2	7.62%
Investments in debt securities ⁽¹⁾	41,719.7	2,674.2	6.41%	40,288.8	2,373.3	5.89%
Cash and balances with central bank	33,070.0	490.2	1.48%	41,262.6	602.1	1.46%
Due from banks and other financial institutions ⁽²⁾	58,894.2	3,291.3	5.59%	76,989.1	3,545.0	4.60%
Total interest-earning assets	<u>215,451.0</u>	<u>12,993.2</u>	6.03%	<u>258,531.0</u>	<u>14,141.7</u>	5.47%
Interest-bearing Liabilities						
Due to customers	148,032.3	2,967.7	2.00%	185,801.6	4,160.7	2.24%
Due to banks and other financial institutions ⁽³⁾	62,497.1	3,223.0	5.16%	61,956.7	2,965.6	4.79%
Debt securities issued	2,571.0	131.2	5.10%	3,500.0	174.2	4.98%
Due to central bank	428.1	12.9	3.01%	664.3	23.4	3.52%
Total interest-bearing liabilities	<u>213,528.5</u>	<u>6,334.8</u>	2.97%	<u>251,922.6</u>	<u>7,323.9</u>	2.91%
Net interest income		<u>6,658.4</u>			<u>6,817.8</u>	
Net interest spread⁽⁴⁾			<u>3.06%</u>			<u>2.56%</u>
Net interest margin⁽⁵⁾			<u>3.09%</u>			<u>2.64%</u>

Notes:

- (1) Include available-for-sale financial assets, held-to-maturity investments and investments in receivables.
- (2) Include due from banks and other financial institutions and financial assets held under reverse repurchase agreements.
- (3) Include due to banks and other financial institutions and financial assets sold under reverse repurchase agreements.
- (4) Calculated as the difference between the average yield on total interest-earning assets and the average cost on total interest-bearing liabilities, calculated based on the daily average of the interest-earning assets and interest-bearing liabilities.
- (5) Calculated by dividing net interest income by the average interest earning assets, calculated based on the daily average of the interest-earning assets.
- (6) Calculated as the average of our daily balances.

Interest Income

For the year ended 31 December 2013, our interest income increased by 8.8% to RMB14,141.7 million from RMB12,993.2 million for the year ended 31 December 2012. The increase was primarily

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attributable to a 20.0% increase in the average balance of interest-earning assets from RMB 215,451.0 million for the year ended 31 December 2012 to RMB 258,531.0 million for the year ended 31 December 2013, mainly as a result of increases in our loans and advances to customers and other banks and financial institutions. The average yield of our interest-earning assets decreased from 6.03% for the year ended 31 December 2012 to 5.47% for the year ended 31 December 2013, which was primarily the result of liberalisation of interest rates and increasing industry competitions in the PRC banking industry in 2013.

Interest Income from Loans and Advances to Customers

For the year ended 31 December 2013, interest income from loans and advances to customers increased by 16.6% from RMB6,537.5 million for the year ended 31 December 2012 to RMB7,621.2 million for the year ended 31 December 2013, primarily as a result of a 22.3% increase in average balance of loans and advances to customers, which in turn was attributable to an expansion of our branch network and our efforts to develop our microcredit business. The average yield of our loans decreased from 8.00% for the year ended 31 December 2012 to 7.62% for the year ended 31 December 2013. The decrease in average yield of total loans to customers was mainly due to the liberalisation of interest rates and increasingly competitive industry, causing decreases in the average yields of both corporate loans and personal loans.

Interest Income from Investments in Debt Securities

Interest income from investments in debt securities decreased by 11.3% from RMB2,674.2 million for the year ended 31 December 2012 to RMB2,373.3 million for the year ended 31 December 2013, principally due to a 3.4% decrease in the average balance of our investments in debt securities from RMB41,719.7 million in 2012 to RMB40,288.8 million in 2013, and a decrease in the average yield of our investments in debt securities from 6.41% in 2012 to 5.89% in 2013. The decrease in the average balance of our investments in debt securities was primarily due to a decrease in the average balance of investments in receivables, and the decrease in the average yield of our investments in debt securities was due to a decrease in the average balance of investments in receivables with higher yields than other debt securities investments.

Interest Income from Cash and Balances with Central Bank

Interest income from cash and balances with central bank increased by 22.8% from RMB490.2 million for the year ended 31 December 2012 to RMB602.1 million for the year ended 31 December 2013, primarily due to an increase in the average balance of our cash and balances with central bank. The average balance of our cash and balances with central bank for the year ended 31 December 2013 was RMB41,262.6 million, representing an increase of 24.8% compared to that for the year ended 31 December 2012, primarily attributable to the expansion of the scale of our deposits from customers.

Interest Income from Due from Banks and Other Financial Institutions

Interest income from due from banks and other financial institutions increased by 7.7% from RMB3,291.3 million for the year ended 31 December 2012 to RMB3,545.0 million for the year ended 31 December 2013, primarily due to an increase in the average balance of the relevant assets. The average balance for the year ended 31 December 2013 was RMB76,989.1 million, representing an increase of 30.7% compared to that for the year ended 31 December 2012. This increase was primarily attributable to an increase in our lending and advances to banks and other financial institutions as

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deposits from our customers increased in 2013. The average yield of these assets decreased from 5.59% in the year ended 31 December 2012 to 4.60% in the year ended 31 December 2013, mainly due to our decision to prioritise liquidity and to reduce the proportion of due from banks and other financial institutions during a tight market when such assets generally have relatively higher yields.

Interest Expense

Our interest expense increased by 15.6% from RMB6,334.8 million for the year ended 31 December 2012 to RMB7,323.9 million for the year ended 31 December 2013, primarily due to an increase of 18.0% in the average balance of the interest-bearing liabilities from RMB213,528.5 million in 2012 to RMB251,922.6 million in 2013 due to a significant increase in our due to customers, which was in turn attributable to our efforts to attract customer deposits.

Interest Expense on Due to Customers

Our interest expense on due to customers increased by 40.2% from RMB2,967.7 million for the year ended 31 December 2012 to RMB4,160.7 million for the year ended 31 December 2013. The increase was primarily due to (i) an increase of 25.5% in the average balance of total deposits from customers from RMB148,032.3 million in 2012 to RMB185,801.6 million in 2013, and (ii) an increase in the average cost of our deposits from customers from 2.00% in 2012 to 2.24% in 2013. The increase in the average balance of total deposits from customers primarily attributable to the expansion of the scale of our deposits from customers, while the increase in average cost of our deposits was primarily due to the interest rate liberalisation which resulted in an increased market competition.

Interest Expense on Due to Banks and Other Financial Institutions

Our interest expense on due to banks and other financial institutions decreased by 8.0% from RMB3,223.0 million for the year 31 December 2012 to RMB2,965.6 million for the year ended 31 December 2013. The decrease was mainly due to a decrease in the average balance of the relevant liabilities from RMB62,497.1 million for the year ended 31 December 2012 by 0.9% to RMB61,956.7 million for the ended 31 December 2013, and a decrease in the average cost of the underlying liabilities from 5.16% for the year ended 31 December 2012 to 4.79% for the year ended 31 December 2013. The average balance of the underlying liabilities decreased mainly because we reduced funds from banks at the time of tight market liquidity. The decrease in the average cost of the underlying liabilities was mainly because we reduced funds from banks and other financial institutions so as to ensure our liquidity at the time of tight market liquidity.

Interest Expense on Debt Securities Issued

Our interest expense on debt securities issued increased from RMB131.2 million for the years ended 31 December 2012 to and RMB174.2 million for the year ended 31 December 2013 mainly due to an issuance of RMB2,500 million aggregate principal amount of financial bonds by us to provide stable mid- and long-term funding to support our business. See “Financial Information – Indebtedness”.

Net Interest Spread and Net Interest Margin

Our net interest spread decreased from 3.06% for the year ended 31 December 2012 to 2.56% for the year ended 31 December 2013 and our net interest margin decreased from 3.09% for the year ended 31 December 2012 to 2.64% for the year ended 31 December 2013. These decreases were mainly due to a

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larger decline in the average yield of interest-earning assets relative to the decline in the average cost on interest-bearing liabilities in 2013, which was in turn attributable to increases in the interest rates of our due to customers as the PBOC increased the upper limit of floating range of Renminbi-denominated deposit interest rate to 110% of the benchmark interest rate in the second half of 2012.

Net Fee and Commission Income

Our net fee and commission income increased from RMB678.7 million for the year ended 31 December 2012 to RMB1,247.1 million for the year ended 31 December 2013. The increase was largely due to a significant increase in our advisory and consulting fees, agency and custodian fees and bank card as a result of the development of the related business. For the year ended 31 December 2013, our advisory and consulting fees, agency and custodian fees and bank card fees amounted to RMB488.2 million, RMB617.3 million and RMB149.3 million, respectively, compared to RMB273.8 million, RMB374.9 million and RMB47.9 million, respectively, for the year ended 31 December 2012.

Net Trading Income

Our net trading income decreased by 20.4% from RMB356.6 million for the year ended 31 December 2012 to RMB 283.9 million for the year ended 31 December 2013. The decrease was mainly due to the change in the conditions of the bond market.

Net Loss on Financial Investments

We had net losses of RMB46.5 million for the year ended 31 December 2013 compared to net losses of RMB87.4 million for the year ended 31 December 2012. This decrease was largely due to a decrease in the loss on disposal of available-for-sale financial assets from RMB87.9 million for the year ended 31 December 2012 to RMB47.1 million for the year ended 31 December 2013 as a result of fluctuations in bond markets and a decrease in trading volumes of bonds.

Other Operating Income, Net

Our other operating income increased by 130.1% from RMB105.0 million for the year ended 31 December 2012 to RMB241.6 million for the year ended 31 December 2013. The increase was primarily due to the net gain generated from our disposal of repossessed assets.

Operating Expenses

Our operating expenses increased by 18.7% from RMB3,025.5 million for the year ended 31 December 2012 to RMB3,591.0 million for the year ended 31 December 2013. The increase was primarily due to growth in our staff cost and business tax and surcharges. The growth in our staff cost resulted primarily from an increase in the number of staff at branches and employee salary and benefits payment as a result of opening additional branches. The increase in business tax and surcharges was primarily the result of the growth in our operating income.

Impairment Losses

Our impairment losses for the year ended 31 December 2013 were RMB506.1 million, representing a decrease of 39.5% from RMB836.2 million for the year ended 31 December 2012. The decrease was mainly due to a decrease in the impairment allowances for loans, which was largely attributable to a decrease in our non-performing loans that were subject to write-off. Based on the actual amount of loans

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to customers and requirements of regulatory authorities on dynamic adjustment of provisions for losses on loans and advances to customers, we wrote off non-performing loans of RMB342.7 million in 2012 resulting in a relatively lower level of non-performing loans that required provisions in 2013.

Income Tax Expenses

Our income tax for the year ended 31 December 2013 amounted to RMB1,078.9 million, representing a 9.3% increase from RMB987.5 million for the year ended 31 December 2012, which was generally consistent with the increase in our operating profit.

ANALYSIS OF KEY ITEMS OF FINANCIAL POSITION

Assets

As of 31 December 2013, our total assets amounted to RMB322,175.4 million, representing an increase of 19.3% compared to RMB270,090.2 million as of 31 December 2012. The increase was mainly due to the increase in our loans and advances to customers, due from banks and other financial institutions and investment securities and other financial assets.

The following table sets forth, as of the dates indicated, the components of our total assets.

	As of 31 December			
	2012		2013	
	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentage)			
Loans and advances to customers, gross	87,264.4	32.3%	105,941.3	32.9%
Allowance for impairment losses	(1,966.3)	(0.7%)	(2,426.3)	(0.8%)
Loans and advances to customers, net	85,298.1	31.6%	103,515.0	32.1%
Investment securities and other financial assets, net	51,180.1	18.9%	71,035.9	22.1%
Cash and balances with central bank	51,858.5	19.2%	51,552.1	16.0%
Due from banks and other financial institutions	19,946.8	7.4%	33,871.2	10.5%
Reverse repurchase agreements	51,745.6	19.2%	51,110.9	15.9%
Other assets	10,061.1	3.7%	11,090.3	3.4%
Total assets	270,090.2	100.0%	322,175.4	100.0%

Loans and Advances to Customers

As of 31 December 2013, our total loans and advances to customers amounted to RMB105,941.3 million, representing an increase of 21.4% compared to RMB87,264.4 million as of 31 December 2012.

The following table sets forth, as of the dates indicated, a breakdown of our loans by business lines.

	As of 31 December			
	2012		2013	
	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentage)			
Corporate loans	51,108.1	58.6%	63,538.2	60.0%
Personal loans	34,810.1	39.9%	40,498.6	38.2%
Discounted bills	1,346.2	1.5%	1,904.5	1.8%
Total loans and advances to customers	87,264.4	100.0%	105,941.3	100.0%

APPENDIX IV UNAUDITED PRELIMINARY FINANCIAL INFORMATION OF THE BANK FOR THE YEAR ENDED 31 DECEMBER 2013

Corporate Loans

Our corporate loans amounted to RMB63,538.2 million as of 31 December 2013, representing an increase of 24.3% compared to RMB51,108.1 million as of 31 December 2012, mainly due to an increase in our corporate loans (in particular, loans to Small Enterprises) to respond to the PRC government's policies on promoting the development of SMEs.

The following table sets forth a breakdown of our corporate loans by customer type as of the dates indicated.

	As of 31 December			
	2012		2013	
	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentage)			
Loans to Small Enterprises	23,638.0	46.3%	32,661.2	51.4%
Other corporate loans excluding loans to Small Enterprises ...	24,470.1	53.7%	30,877.0	48.6%
Total corporate loans	51,108.1	100.0%	63,538.2	100.0%

Our loans to Small Enterprises amounted to RMB32,661.2 million as of 31 December 2013, representing an increase of 38.2% compared to RMB23,638.0 million as of 31 December 2012. The increase in our loans to Small Enterprises was primarily due to our focus on developing our microcredit business to respond to the national policy on promoting the development of SMEs. As of 31 December 2012 and 2013, our loans to Small Enterprises accounted for 46.3% and 51.4%, respectively, of our total corporate loans.

Personal Loans

Our personal loans amounted to RMB40,498.6 million as of 31 December 2013, representing an increase of 16.3% compared to RMB34,810.1 million as of 31 December 2012. This increase was mainly attributable to our continued development of personal loans as a response to the PRC government's policies to support financial institutions in developing financial services for SMEs and financial services for rural areas. Our personal loans (including loans to Small Enterprise Owners and farmers) are an important component of our microcredit business, which increased under our strategy of focusing on the development of our microcredit business.

The following table sets forth a breakdown of our personal loans by product type as of the dates indicated.

	As of 31 December			
	2012		2013	
	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentage)			
Loans to Small Enterprise Owners	13,731.2	39.4%	15,380.5	38.0%
Personal consumption loans	11,203.3	32.2%	15,870.2	39.2%
Loans to farmers	9,875.6	28.4%	9,247.9	22.8%
Total of personal loans	34,810.1	100.0%	40,498.6	100.0%

Loans to Small Enterprise Owners and personal consumption loans both increased as at 31 December 2013 compared to 31 December 2012, primarily due to our efforts to increase personal loans. Our loans to farmers amounted to RMB9,247.9 million as of 31 December 2013, representing a decrease of 6.4% compared to RMB9,875.6 million as of 31 December 2012.

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Distribution of Loans by Industry

The following table sets forth the distribution of our corporate loans by industry as of the dates indicated:

	As of 31 December			
	2012		2013	
	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentage)			
Agriculture, forestry, animal husbandry and fishing	2,277.9	4.5%	4,163.2	6.6%
Mining	880.1	1.7%	874.6	1.4%
Manufacturing	10,793.9	21.1%	13,603.7	21.4%
Production and supply of electricity, gas and water	1,460.9	2.9%	1,535.6	2.4%
Construction	3,269.6	6.4%	5,171.5	8.1%
Transportation, storage and postal services	966.3	1.9%	2,194.0	3.4%
Information transmission, computer services and software	636.7	1.2%	544.2	0.9%
Commercial trade	18,512.6	36.2%	21,778.9	34.3%
Lodging and catering	880.5	1.7%	1,234.0	1.9%
Finance	671.7	1.3%	20.0	0.0%
Real estate	2,443.9	4.8%	2,236.3	3.5%
Leasing and commercial services	2,562.8	5.0%	5,523.2	8.7%
Scientific research technological Services and geological prospecting	138.9	0.3%	179.9	0.3%
Water, environment and public utility management and investment industry	3,059.6	6.0%	2,543.6	4.0%
Resident services and other services	1,013.9	2.0%	992.2	1.6%
Education	518.3	1.0%	481.2	0.8%
Health, social security and social welfare	379.6	0.7%	264.4	0.4%
Culture, sports and entertainment	140.5	0.3%	180.3	0.3%
Public administration and social organisations	500.4	1.0%	17.4	0.0%
Total for corporate loans	51,108.1	100.0%	63,538.2	100.0%

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Borrower Concentration

As of 31 December 2013, our Bank was in compliance with the lending limit of 10% of our net capital to any single borrower. The following table sets forth, as of 31 December 2013, our 10 largest single borrowers (excluding group borrowers) in terms of loan balance, none of which was a non-performing loan.

		As of 31 December 2013		
	Industry	Loan balance	% of total loans	% of net capital
(in millions of RMB, except percentages)				
Borrower A	Agriculture, forestry, husbandry and fishery	1,000.0	0.94%	4.50%
Borrower B	Wholesale and service	996.0	0.94%	4.48%
Borrower C	Manufacturing	754.7	0.71%	3.39%
Borrower D	Manufacturing	600.0	0.57%	2.70%
Borrower E	Wholesale and service	505.8	0.48%	2.28%
Borrower F	Water conservation, environment, public utility management and investment	500.0	0.47%	2.25%
Borrower G	Transportation, storage and postal services	500.0	0.47%	2.25%
Borrower H	Water conservation, environment, public utility management and investment	500.0	0.47%	2.25%
Borrower I	Real estate	470.0	0.44%	2.11%
Borrower J	Real estate	447.6	0.42%	2.01%
Total		6,274.1	5.92%	28.22%

Asset Quality of Our Loan Portfolio

The non-performing loan balance of our total loan portfolio increased by 62.6% from RMB556.2 million as of 31 December 2012 to RMB904.2 million as of 31 December 2013. This increase was mainly due to the impact of floods in Heilongjiang in the summer of 2013 and the considerable fluctuation of grain prices during the periods, resulting in the increase of overdue loans to farmers and a consequent increase in our non-performing loans.

The following table sets forth, as of 31 December 2012 and 2013, our loans and advances to customers in each category of our five-category loan classification.

	As of 31 December			
	2012		2013	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentage)				
Pass	86,128.3	98.7%	103,945.6	98.1%
Special mention	579.9	0.7%	1,091.5	1.0%
Substandard	377.6	0.4%	405.4	0.4%
Doubtful	94.9	0.1%	265.3	0.3%
Loss	83.7	0.1%	233.5	0.2%
Total loans to customers	<u>87,264.4</u>	<u>100.0%</u>	<u>105,941.3</u>	<u>100.0%</u>

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THE BANK FOR THE YEAR ENDED 31 DECEMBER 2013**

Distribution of Loans by Geographical Region

The following table sets forth, as of 31 December 2012 and 2013, the distribution of our non-performing loans by geographical region. For our definitions of geographical regions, see “Financial Information – Summary of Segment Operating Results”.

	As of 31 December			
	2012		2013	
	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentage)			
Heilongjiang region	43,112.1	49.4%	53,879.6	50.9%
Other Northeast region	23,787.5	27.2%	18,343.1	17.3%
Southwest region	11,834.1	13.6%	23,555.6	22.2%
Northern China	6,273.8	7.2%	7,517.2	7.1%
Other regions	2,256.9	2.6%	2,645.8	2.5%
Total loans and advances to customers	87,264.4	100.0%	105,941.3	100.0%

Distribution of Loans by Collateral

The following table sets forth, as of 31 December 2012 and 2013, the distribution of our loans and advances to customers by collateral.

	As of 31 December			
	2012		2013	
	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentage)			
Unsecured loan	4,547.3	5.2%	4,902.8	4.6%
Guaranteed Loan	35,397.0	40.6%	41,061.8	38.8%
Collateralised loans	31,953.4	36.6%	45,948.2	43.4%
Pledged loans	15,366.7	17.6%	14,028.5	13.2%
Total loans and advances to customers	87,264.4	100.0%	105,941.3	100.0%

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THE BANK FOR THE YEAR ENDED 31 DECEMBER 2013**

Movements of Allowance for Impairment Losses of Loans

The allowance for impairment losses of loans increased by 23.4% to RMB2,426.3 million as of 31 December 2013. This increase was mainly due to the growth of our lending scale.

Movements of allowance for impairment losses during the year are as follows:

	Individually assessed	Collectively assessed	Total
	(in millions of RMB)		
As of 31 December 2011 and 1 January 2012	167.3	1,298.3	1,465.6
Exchange difference	—	—	—
Impairment loss:	(58.2)	895.5	837.3
Impairment allowances charged	9.6	895.5	905.1
Reversal of impairment allowances	(67.8)	—	(67.8)
Accreted interest on impaired loans	(17.1)	—	(17.1)
Write-offs	(0.2)	(342.5)	(342.7)
Recoveries of loans and advances previously written off	0.5	22.7	23.2
As of 31 December 2012 and 1 January 2013	92.3	1,874.0	1,966.3
Exchange difference	(0.5)	(0)	(0.5)
Impairment loss:	27.3	490.4	517.7
Impairment allowances charged	30.5	490.4	520.9
Reversal of impairment allowances	(3.2)	—	(3.2)
Accreted interest on impaired loans	(7.8)	(28.4)	(36.2)
Write-offs	(38.1)	(24.8)	(62.9)
Recoveries of loans and advances previously written off	6.0	35.9	41.9
As of 31 December 2013	<u>79.2</u>	<u>2,347.1</u>	<u>2,426.3</u>

Investment Securities and Other Financial Assets

As of 31 December 2013, the balance of our investment securities and other financial assets amounted to RMB71,035.9 million, representing an increase of 38.8% compared to RMB51,180.1 million as of 31 December 2012. This increase was mainly due to our investments in receivables, which increased from RMB22,733.3 million as of 31 December 2012 to RMB43,528.7 million as of 31 December 2013. The significant increase in our investments in receivables in 2013 was largely due to our efforts to increase various types of investments, continued expansion of our capital operating channels and an increased proportion of credit products, which we believe improved the efficiency of our use of funds.

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The following table sets forth, as of 31 December 2012 and 2013, the components of our investment securities and other financial assets.

	As of 31 December			
	2012		2013	
	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentage)			
Investments in receivables	22,733.3	44.4%	43,528.7	61.3%
Held-to-maturity investments	12,323.5	24.1%	17,080.8	24.0%
Available-for-sale financial assets	8,244.3	16.1%	7,914.1	11.2%
Financial assets held for trading	7,879.0	15.4%	2,512.3	3.5%
Total investment securities and other financial assets	51,180.1	100.0%	71,035.9	100.0%

In recent years, we have made substantial investments in receivables, which include fund trust plans issued by trust companies, directional client asset management plans managed by securities companies and wealth management products issued by other commercial banks in the PRC. Investments in these financial instruments involve risks. See “Risk Factors — Risks Relating to Our Business — We have made substantial investments in receivables, and any adverse development relating to these types of investments could materially and adversely affect our profitability”.

The following table sets forth, as of the dates indicated, the distribution of our investment securities and other financial assets by bond investments and equity investments.

	As of 31 December			
	2012		2013	
	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentage)			
Debt investment				
Bond investments	29,011.5	56.7%	27,666.3	39.0%
Debt instruments issued by financial institutions ⁽¹⁾	22,144.0	43.3%	43,345.0	61.0%
Subtotal	51,155.5	100.0%	71,011.3	100.0%
Equity investment	24.6	0.0%	24.6	0.0%
Total investment securities and other financial assets	51,180.1	100.0%	71,035.9	100.0%

Note:

(1) Included fund trust plans and structured wealth management products.

Our investment in debt instruments issued by financial institutions totaled RMB43,345.0 million as of 31 December 2013, representing an increase of 95.7% compared to RMB22,144.0 million as of 31 December 2012. As a percentage of total investment securities and other financial assets, such investments increased from 43.3% as of 31 December 2012 to 61.0% as of 31 December 2013. These increases were primarily due to an increase in our investments in the debt instruments issued by financial institutions which had relatively higher returns than other investment products.

Other Components of Our Assets

Other components of our assets primarily consist of (i) cash and balances with central bank, (ii) due from banks and other financial institutions and (iii) financial assets held under reverse repurchase agreements.

Our cash and balances with central bank totaled RMB51,552.1 million as of 31 December 2013, representing a slight decrease of 0.6% compared to RMB51,858.5 million as of 31 December 2012.

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Due from banks and other financial institutions totaled RMB33,871.2 million as of 31 December 2013, representing an increase of 69.8% compared to RMB19,946.8 million as of 31 December 2012. This increase was largely because adjusted the proportion of non-credit assets based on capital and changes in liquidity in the market, so as to ensure the efficiency of capital utilisation with sufficient liquidity.

Our financial assets held under reverse repurchase agreements totaled RMB51,111.0 million as of 31 December 2013, representing a decrease of 1.2% compared to RMB51,745.6 million as of 31 December 2012.

Liabilities

As of 31 December 2013, our total liabilities were RMB302,248.2 million, representing an increase of 19.4% compared to RMB253,153.2 million as of 31 December 2012.

	As of 31 December			
	2012		2013	
	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentage)			
Due to customers	186,642.4	73.8%	224,178.1	74.2%
Due to banks and other financial institutions	36,523.5	14.4%	50,610.9	16.7%
Repurchase agreements	22,832.7	9.0%	19,091.2	6.3%
Debt securities issued	3,500.0	1.4%	3,500.0	1.1%
Due to central bank	594.9	0.2%	787.2	0.3%
Other liabilities ⁽¹⁾	3,059.7	1.2%	4,080.8	1.4%
Total liabilities	<u>253,153.2</u>	<u>100.0%</u>	<u>302,248.2</u>	<u>100.0%</u>

Note:

- (1) Other liabilities primarily consist of income tax payable and other tax payable, interest payable, items in the process of clearance and settlement as well as staff salary payable.

Due to Customers

As of 31 December 2013, our due to customers totaled RMB224,178.1 million, representing an increase of 20.1% compared to RMB186,642.4 million as of 31 December 2012. The increase in our due to customers was primarily attributable to the expansion of outlets, improvement of service and strengthening of marketing capabilities.

The following table sets forth, as of 31 December 2012 and 2013, our due to customers by product type and maturity profile of deposits.

	As of 31 December			
	2012		2013	
	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentage)			
Corporate deposits				
Demand deposits	69,981.5	37.5%	79,909.6	35.6%
Time deposits	61,058.3	32.7%	76,894.5	34.3%
Subtotal	131,039.8	70.2%	156,804.1	69.9%
Personal deposits				
Demand deposits	27,107.2	14.5%	33,789.1	15.1%
Time deposits	28,495.4	15.3%	33,584.9	15.0%
Subtotal	<u>55,602.6</u>	<u>29.8%</u>	<u>67,374.0</u>	<u>30.1%</u>
Total due to customers	<u>186,642.4</u>	<u>100.0%</u>	<u>224,178.1</u>	<u>100.0%</u>

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Due to Banks and Other Financial Institutions

As of 31 December 2013, our due to banks and other financial institutions totaled RMB50,610.9 million, representing an increase of 38.6% compared to RMB36,523.5 million as of 31 December 2012. The increase in these liabilities was primarily due to our actively accepting deposits from other banks and broadening our sources of liabilities in order to increase return in response to the changes in market liquidity and the need to match assets and liabilities. We believe that these liabilities assist us in managing the differences between the maturities of loans and deposits.

Repurchase Agreements

Our repurchase agreements amounted to RMB19,091.2 million as of 31 December 2013, representing a decrease of 16.4% compared to RMB22,832.7 million as of 31 December 2012. The changes in our financial assets sold under repurchase agreements reflected adjustments to the proportion of financial assets sold under repurchase agreements to our liabilities based on market liquidity and our capital needs in view of the need to match assets and liabilities. The changes also reflected such liabilities' function in easing the difference between the maturity of loans and deposits, as well as our increased interaction with other banks.

SHAREHOLDERS' EQUITY

As of 31 December 2013, our shareholders' equity amounted to RMB19,927.3 million, representing an increase of 17.7% compared to RMB16,937.0 million as of 31 December 2012. Equity attributable to equity holders of our Bank was RMB19,727.5 million as of 31 December 2013, representing an increase of 17.7% compared to RMB16,764.7 million as of 31 December 2012. The increase in shareholders' equity in 2013 was mainly due to an increase of our net profit.

OFF-BALANCE SHEET COMMITMENTS

The following table sets forth, as of 31 December 2012 and 2013, the contractual amounts of our off-balance sheet commitments.

	As of 31 December	
	2012	2013
	(in millions of RMB)	
Credit commitments		
Bank bills acceptance	46,845.5	42,654.8
Issued letters of guarantee	235.9	1,821.1
Issued sight letters of credit	1,267.7	2,204.1
Credit limit of credit card	1,040.3	1,238.2
Subtotal	49,389.4	47,918.2
Capital expenditure commitments	1,383.7	1,437.4
Operating lease commitments ⁽¹⁾	513.2	670.1
Treasury bond redemption commitments ⁽²⁾	1,852.0	1,620.0
Relief obligation under risk cooperation fund ⁽³⁾	180.0	180.0
Total	<u>53,318.3</u>	<u>51,825.7</u>

Notes:

- (1) Refers to the future minimum rentals payable under non-cancellable operating lease contracts.
- (2) We were commissioned by the MOF as issuance agency for its treasury bonds. Holders of treasury bonds might at any time request early redemption of the treasury bonds held by them, and we were liable for acceptance and repayment of such

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treasury bonds for the amounts of their principals and interests payable up to the redemption date. We expect that the amounts of the treasury bonds to be redeemed by us prior to maturity would be insignificant.

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

In addition, as of 31 December 2013, there was no material litigation in which either our Bank or subsidiaries of our Bank is a defendant (As of 31 December 2012: NIL).

Segment Report

Geographical Segment Report

Our Bank operates in Mainland China.

The distribution of the geographical areas is as follows:

Mainland China (Head Office and branches):

Heilongjiang Region:	Including Head Office, Harbin, Shuangyashan, Jixi, Hegang, Suihua, Daqing, Qitaihe, Mudanjiang, Jiamusi, Qiqihar as well as Village and Township Banks operating within Heilongjiang.
Other Northeast Region:	Including Dalian, Shenyang, as well as Village and Township Banks operating in Northeastern China excluding the ones in Heilongjiang.
Southwest Region:	Chengdu, Chongqing, as well as Village and Township Banks operating in Southwest China and mainly located in Sichuan and Chongqing.
Northern Region:	Tianjin, as well as Village and Township Banks operating in Northern China and mainly located in Beijing and Tianjing.
Other regions:	Village and Township Banks operating in regions other than those listed above.

The table below sets forth, for the periods indicated, certain key financial indicators of each of our geographical regions of our head office and branches.

	Mainland China					Total
	Heilongjiang region	Other Northeast region	Southwest China	Northern region	Other regions	
(in millions of RMB)						
<u>Year ended 31 December 2012</u>						
Operating income	5,020.0	872.2	1,122.7	559.6	136.8	7,711.3
Operating expenses	2,099.4	322.6	347.0	168.0	88.5	3,025.5
Impairment losses	496.2	99.7	158.4	54.4	27.5	836.2
Operating profit	2,424.4	449.9	617.3	337.2	20.7	3,849.5
Segment assets	171,368.0	33,639.0	43,401.2	17,085.7	4,596.2	270,090.1
Segment liabilities	155,685.0	33,552.6	43,038.6	16,939.3	3,937.7	253,153.2
<u>Year ended 31 December 2013</u>						
Operating income	5,481.7	960.6	1,280.7	568.2	252.6	8,543.8
Operating expenses	2,326.9	416.8	538.0	195.3	114.0	3,591.0
Impairment losses	265.1	68.7	73.6	54.0	44.8	506.1
Operating profit	2,889.7	475.1	669.2	318.9	93.8	4,446.7
Segment assets	208,122.2	31,736.4	57,867.1	17,687.4	6,762.4	322,175.5
Segment liabilities	172,892.7	43,844.1	60,595.2	18,887.4	6,028.7	302,248.1

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The table below sets forth our operating income by geographical regions and their proportion to our total operating income for the periods indicated:

	For the year ended 31 December			
	2012		2013	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)				
Heilongjiang region	5,020.0	65.1%	5,481.7	64.1%
Other Northeast region	872.2	11.3%	960.6	11.2%
Southwest region	1,122.7	14.6%	1,280.7	15.0%
Northern China	559.6	7.3%	568.2	6.7%
Other regions	136.8	1.7%	252.6	3.0%
Total operating income	7,711.3	100.0%	8,543.8	100.0%

Business Segment Report

The table below sets forth our operating income by business segments and their proportion to our total operating income for the years ended 31 December 2012 and 2013:

	For the year ended 31 December			
	2012		2013	
	Amount	% of total	Amount	% of total
(in millions of RMB, except percentages)				
Corporate banking business	2,585.6	33.5%	2,906.6	34.0%
Personal banking business	2,228.7	28.9%	2,434.7	28.5%
Treasury operations	2,808.6	36.4%	3,077.3	36.0%
Other businesses ⁽¹⁾	88.4	1.2%	125.2	1.5%
Total operating income	7,711.3	100.0%	8,543.8	100.0%

Note:

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

BUSINESS REVIEW

Corporate Banking Business

In response to the changes of the economic and policy environment of China, our Bank continued to strengthen our marketing capabilities and improve customer services through business innovation, and promoted the development of our corporate banking business. For the year ended 31 December 2013, our operating income from corporate banking business amounted to RMB2,906.6 million, accounting for 34.0% of the total operating income over the same period, representing a year-on-year increase of 12.4%.

As of 31 December 2013, the balance of our corporate loans (excluding discounted bills) amounted to RMB63,538.2 million, representing a year-on-year increase of 24.3%. As of the same date, RMB32,661.2 million of these loans were loans to Small Enterprises, accounting for 51.4% of our total corporate loans and representing a year-on-year increase of 38.2%. As of 31 December 2013, our total corporate deposits amounted to RMB156,804.1 million, representing a year-on-year increase of 19.7%. In 2013, our Bank focused on the development of fee- and commission-based corporate banking business and services, continued to refine our business structure and diversify our product portfolio. Our branches have also strengthened promotion of fee- and commission-based corporate banking products.

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By leveraging the advantages of our cross-regional operating network, our Bank continued to develop corporate customers in other regions in China outside Heilongjiang Province and as a result, the number of corporate customers in these regions has demonstrated a growth trend. As of 31 December 2013, we had more than 61,000 corporate customers. Of these customers, 8,400 corporate customers maintained accounts with our branches in Tianjin, Chengdu and Chongqing, representing a year-on-year increase of 31.8%.

Personal Banking Business

In 2013, our Bank strengthened marketing efforts to personal customers, continued the development of our personal banking business by diversifying the product offering of our personal banking business and enhancing the structure of our personal customers. For the year ended 31 December 2013, the number of our personal customers exceeded 5.6 million and the operating income from our personal banking business (including personal banking international business) amounted to RMB2,434.7 million, accounting for 28.5% of our total operating income over the same period and representing a year-on-year increase of 9.2%. As of 31 December 2013, the balance of our personal loans reached RMB40,498.6 million, accounting for 38.2% of our total loans to customers. As of 31 December 2013, loans to Small Enterprise Owners, personal consumption loans and loans to farmers amounted to RMB15,380.5 million, RMB15,870.2 million and RMB9,247.9 million, respectively, and accounted for 38.0%, 39.2% and 22.8%, respectively, of our total personal loans. As of that date, our total personal deposits amounted to RMB67,374.0 million, representing a year-on-year increase of 21.2%.

In 2013, our Bank continued to enhance our product offering and the product features of credit cards, developed and launched our Rong Hui Gold Card cash instalment business and Lilac Fortune VIP Set Card, and launched a series of co-branded card and themed card products targeting various customer groups. As of 31 December 2013, our Bank had issued more than 121,900 credit cards. In 2013, we established a wealth management system for high-end customers, launched the “Lilac Fortune” high-end wealth management brand and provided VIP customers with various value-added services to improve the service experience of high-end customers. In addition, our Bank developed new marketing applications, namely Bankpad and Smart Marketing Table.

Loans to Small Enterprise Customers

In 2013, we actively supported national policies and provided strong support to Small Enterprise Customers. Our loans to Small Enterprise Customers (including corporate loans to Small Enterprises and personal loans to Small Enterprise Owners) have become the core component in the implementation of our microcredit strategy. As of 31 December 2013, we had over 33,000 Small Enterprise Customers, including 4,000 Small Enterprises. Our Bank has strengthened the marketing of loans to Small Enterprise Customers and developed new customer services. In 2013, our Bank obtained a license to establish specialised institutions providing financial services for Small Enterprise Customers, and established Harbin Bank Centre of Financial Services for Small Enterprise Customers. As of 31 December 2013, our Bank has established 11 direct marketing teams for loans to Small Enterprise Customers. We also focused on building a new model of customer service. In 2013, our Bank created the first coalition of small and micro customers in Heilongjiang Province and established 43 “small and micro families” and six community financial service stations. At the same time, our Bank has focused on enhancing advanced technology such as loan technology, scorecard rating, post-credit management technology and remote system monitoring. We improved the efficiency of credit business for Small Enterprise Customers and risk prevention level and enhanced the management and control level of the authorised business of branch

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institutions through rationalisation of business processes and risk areas, in order to ensure asset quality while achieving rapid development of loans to Small Enterprise Customers.

Loans to Farmers

The nationwide development of modern agriculture and urbanisation has facilitated the expansion of our rural financial services. Taking into account the characteristics of modern agriculture, we have actively explored a new model of rural financial services. As of 31 December 2013, we had more than 190,000 customers for our loans to farmers, and we realised full coverage of loans to farmers in 15 branches in 2013. During 2013, our Bank vigorously carried out the construction of a “Just-for-you” Farmer-assistance e-Station. As of 31 December 2013, our Bank had established 896 “Just-for-you” Farmer-assistance e-Stations. In 2013, our Bank won the “Innovation Award for Ten Best Financial Products” in the selection for “China Financial Innovation Award” launched by “The Banker” magazine.

Treasury Operations

In 2013, our Bank continued to strengthen our research on macroeconomic policies and market analysis in order to reduce the adverse impacts of market volatility minimise the impact of a slowdown in the PRC economic development and ensure steady growth of the operating income of our treasury operations. For the year ended 31 December 2013, the operating income of our treasury operations (including international treasury operations) amounted to RMB3,077.3 million, accounting for 36.0% of our total operating income and representing a year-on-year increase of 9.6%.

Money Market Transactions

In 2013, our Bank closely monitored the development and changes in the cost of capital in the money market, actively took advantage of market opportunities and increased profitability whilst ensuring liquidity. As of 31 December 2013, the balance of our due from and placements with banks and other financial institutions and financial assets held under reverse repurchase agreements reached RMB84,982.1 million, representing a year-on-year increase of 18.5% and accounting for 26.4% of our total assets. As of the same date, the balance of our due to and placements from banks and other financial institutions and financial assets sold under repurchase agreements reached RMB69,702.0 million, representing a year-on-year increase of 17.4% and accounting for 23.1% of our total liabilities. In 2013, our Bank was named by the National Interbank Funding Centre for 11 consecutive years as one of the “Top 100 Traders in National Interbank Bond Market (by Transaction Volume)”, and was recognised for four consecutive years by China Central Depository & Clearing Co., Ltd. as an “Outstanding Settlement Member in the National Interbank Bond Market”.

Investments in Securities and Other Financial Assets

In 2013, our Bank adjusted our investment strategies by further strengthening research and analysis on financial market and changes of policy environment. As of 31 December 2013, the balance of our bond investments was RMB27,666.3 million, representing a year-on-year decrease of 4.6%. As of the same date, the balance of our investments in debt instruments issued by financial institutions was RMB43,345.0 million, representing an increase of RMB21,201.0 million as compared with the previous year and representing a year-on-year increase of 95.7%. According to China Central Depository & Clearing Co., Ltd., the bonds traded by our Bank for the 12 months ended 31 December 2013 amounted to RMB2.16 trillion.

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Treasury Operations Conducted on Behalf of Customers

During 2013, the wealth management business of commercial banks, trust business and business of microcredit companies grew rapidly. Due to the fluctuations to the credit system and the banking system related to such rapid growth, the CBRC implemented a series of measures to regulate such businesses.

As of 31 December 2013, the total outstanding amount of wealth management products issued by us was RMB30,595.0 million. The CBRC issued the Notice on the Regulation of the Investment and Operation of Wealth Management Business by Commercial Banks on 25 March 2013, which requires commercial banks to match funds raised by each wealth management product with the underlying investments, and restricts investments of funds raised from wealth management products in non-standard debt-based assets. As of 31 December 2013, funds raised from each wealth management product issued by our Bank matched the underlying investments. The balance of our investments in non-standard debt-based assets decreased from RMB16,298.0 million as of 30 September 2013 to RMB6,532.0 million as of 31 December 2013, representing approximately 21.4% of the balance of our Bank's wealth management products as of 31 December 2013, and approximately 2.4% of our Bank's total assets as of 31 December 2012. These balances complied with the regulatory requirements of the CBRC.¹

In the future, our Bank intends to remain prudent in using proceeds from our wealth management products to make investments in non-standard debt-based assets and equity assets. In addition, our Bank plans to further strengthen our risk management systems to enhance the identification, assessment, monitoring and prevention of credit risk and compliance risk associated with such investments. See "Risk Factors — Risks Relating to Our Business — We have been increasingly focused on the development of wealth management products in recent years, and any adverse developments or changes in regulatory policies relating to these products could materially and adversely affect our business, financial condition, results of operations and prospects".

Microcredit Business

Through persistent development of our microcredit business, the scale of our microcredit business continued to grow over the periods. As of 31 December 2013, the total balance of our microcredit loans reached RMB73,159.8 million, representing a year-on-year increase of 25.2% and accounting for 69.1% of our total loans to customers. For the year ended 31 December 2013, the interest income from our microcredit business was RMB5,172.0 million, accounting for 67.9% of the total interest income from loans to customers.

Microcredit Know-how and Technology Exportation

While continuing to develop microcredit business, our Bank has continued to refine our core technology relating to microcredit, implement technological innovation and achieve new breakthroughs in microcredit know-how and technology exportation. As of 31 December 2013, our Bank had entered into 23 microcredit know-how and technology exportation contracts (including 16 contracts that have been completed). As of the same date, aggregate fee income generated from microcredit technology exportation amounted to RMB15.6 million.

¹ According to the Notice on the Regulation of the Investment and Operation of Wealth Management Business by Commercial Banks, the balance of wealth management funds invested by a commercial bank in non-standard debt-based assets cannot exceed the lower of (i) 35% of the commercial bank's wealth management products, and (ii) 4% of the commercial bank's total assets as disclosed in its annual audited report for the prior fiscal year.

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International Business

As of 31 December 2013, our Bank's international settlement volume exceeded US\$2,300 million for the first time. As of 31 December 2013, the balance of our foreign currency loan to corporate customers amounted to U.S.\$202.5 million and the balance of our foreign currency deposit from corporate customers amounted to U.S.\$83.8 million. In 2013, our Bank successfully obtained a self and valet forward foreign exchange license and operated an online forward foreign exchange system.

For the year ended 31 December 2013, our aggregate Ruble exchange volume was RUB7,145.6 million, Ruble cash exchange volume was RUB 17,760.3 million and onshore market making transactions for Renminbi-Ruble tradings amounted to RUB 5,586.7 million. We had conducted cross-border transportation of Ruble cash amounting to RUB985.0 million during the period from our commencement of such business until 31 December 2013. The volume of our purchase and sales of RMB from and to Russian banks amounted to RMB81.8 million during the period from our commencement of such business until 31 December 2013. Our Bank has further improved our Russian-related financial service institutions and product systems, and established "Sino-Russian Cross-border Financial Service Centre", a one-stop service platform for Russian-related financial services. Taking advantage of the support from platforms such as the NDRC and Harbin Municipal Government, our Bank has set up a special team for e-commerce with Russia and realised Ruble-RMB direct settlement. In 2013, our Bank successfully held the "Russian Inter-bank Financial Cooperation Summit" and "Russian Financial Peer Cooperation Forum", signed a "Comprehensive Cross-border Financial Cooperation Agreement" with six Russian commercial banks, and accordingly the number of Russian banks with which we have correspondent relationships increased to 107 as of 31 December 2013, covering all regions in Russia.

NETWORK DEVELOPMENT

In 2013, our Bank steadily promoted development of our network, created outlet channels and established two branches and 28 sub-branches. To further explore business development opportunities, based on the management model of business classification specialisation and centralisation, we established a grain business department.

Online Banking

In 2013, our Bank upgraded the functions of our online banking for corporate banking business and personal banking business. As of 31 December 2013, we had more than 317,000 online banking customers. The total amount of transactions conducted by corporate customers and personal customers through online banking was RMB2,023,061.7 million and RMB266,781.7 million, respectively, during the period from our commencement of such business until 31 December 2013.

OUTLOOK

In 2014, we expect the banking industry to continue to develop rapidly in response to the most recent round of reforms and adjustments in China. We expect competitive pressures in the industry to increase in response to, among other things, the economic slowdown in the PRC, the accelerated development of Internet finance and the opening of the banking sector to private capital. Further, we expect that the banking industry will undergo certain restructurings and adjustments in response to a series of current policy measures launched by PRC regulatory authorities to strengthen supervision including implementing a system of deposits and strengthening liquidity management.

In 2014, the Bank intends to continue to adhere to our strategy of developing a featured microcredit business, and to continue to strengthen our core competitive advantages. We plan to further diversify our

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operations by establishing, among other things, financial leasing companies, fund companies and consumer finance companies, through investment and market-oriented acquisitions depending on market conditions. Furthermore, we intend to increase our focus on the overall management of our Bank, including a focus on the efficiency of operations and risk management, in addition to our assets and liabilities, in order to improve the quality of our assets and sustainability of our business growth. We intend to promote transitional development by means of reform and innovation, improving our capital management and pricing system, accelerating innovation of new business, new technologies, new products and new thinking, and actively addressing the challenges posed by interest rate liberalisation and capital regulation reform.

PURCHASE, SALE OR REPURCHASE OF SHARES OF THE BANK

Since our Bank was not listed on the Hong Kong Stock Exchange in 2013, the Hong Kong Listing Rules were not applicable to us in that year.

CODE ON CORPORATE GOVERNANCE PRACTICES

Since the Bank was not listed on the Hong Kong Stock Exchange in 2013, the “Corporate Governance Code” in Appendix 14 of the Hong Kong Listing Rules was not applicable to the Bank in the year ended 31 December 2013. After listing on the Hong Kong Stock Exchange, the Bank will comply with the corporate governance rules and Corporate Governance Code under the Hong Kong Listing Rules.

Audit Committee

The Bank has established an audit committee in accordance with the Hong Kong Listing Rules and has drawn up written terms of reference. The Audit Committee has reviewed the Bank’s preliminary unaudited financial information for the year ended 31 December 2013 in this Appendix.

This Appendix sets out summaries of certain aspects of PRC laws and regulations, which are relevant to our operations and business. Laws and regulations relating to taxation in the PRC are discussed separately in “Appendix VII – Taxation and Foreign Exchange” to this prospectus. This Appendix also contains a summary of certain Hong Kong legal and regulatory provisions, including summaries of certain material differences between the PRC Company Law and the Companies (Winding Up and Miscellaneous Provisions) Ordinance, certain requirements of the Hong Kong Listing Rules and additional provisions required by the Hong Kong Stock Exchange for inclusion in the articles of association of PRC issuers.

1. PRC LAWS AND REGULATIONS

A. The PRC Legal System

The PRC legal system is based on the PRC Constitution (the “Constitution”) and is made up of written laws, administrative regulations, local regulations, autonomy regulations, special rules, rules and regulations of State Council departments, rules and regulations of local governments, laws of special administrative regions and international treaties of which the Chinese government is a signatory. Court judgements do not constitute legally binding precedents, although they are used for the purposes of judicial reference and guidance.

The NPC and its Standing Committee are empowered to exercise the legislative power of the State. The NPC has the power to formulate and amend basic laws governing State organs, civil, criminal and other matters. During the adjournment of the NPC, the Standing Committee of the NPC is empowered to formulate and amend laws other than those required to be enacted by the NPC and to supplement and amend any parts of the laws enacted by the NPC, provided that such supplements and amendments are not in conflict with the basic principles of such laws. The Standing Committee of the NPC is empowered to interpret, enact and amend other laws not required to be enacted by the NPC.

The State Council is the highest organ of state administration and has the power to formulate administrative regulations based on the Constitution and laws.

The people’s congresses of the provinces, autonomous regions and municipalities directly under the central government and their respective standing committees may, subject to the Constitution, laws and administrative regulations, formulate local regulations based on the specific circumstances and actual needs of their respective administrative areas. The people’s congresses of larger cities and their respective standing committees may formulate local regulations based on the specific circumstances and actual needs of such cities and promulgate the same upon approval from the standing committees of the people’s congresses of provinces or autonomous regions. The standing committees of the people’s congresses of the provinces or autonomous regions shall examine the legality of local regulations submitted for approval, and such approval should be granted within four months if they are not in conflict with the Constitution, laws, administrative regulations and local regulations of the provinces or autonomous regions concerned. Where, during the examination for approval of local regulations of larger cities by the standing committees of the people’s congresses of the provinces or autonomous regions, conflicts are identified with the rules and regulations of the people’s governments of the provinces or autonomous regions concerned, a decision should be made by the standing committees of the people’s congresses of provinces or autonomous regions to resolve the issue. “Larger cities” refers to cities where the people’s governments of provinces or autonomous regions are located, cities where special economic zones are located and larger cities as approved by the State Council.

The ministries and commissions of the State Council, the PBOC, the NAO and the subordinate institutions with administrative functions directly under the State Council may formulate rules and regulations within the jurisdiction of their respective departments based on the laws and administrative regulations, and the decisions and orders of the State Council. Provisions of departmental rules should be related to the enforcement of the laws and administrative regulations, and the decisions and orders of the State Council. The people's governments of the provinces, autonomous regions, municipalities directly under the central government and larger cities may formulate rules and regulations based on the laws, administrative regulations and local regulations of such provinces, autonomous regions and municipalities directly under the central government.

According to the Constitution, the power to interpret laws is vested in the Standing Committee of the NPC. Pursuant to the Resolution of the Standing Committee of the NPC Providing an Improved Interpretation of the Law (全國人民代表大會常務委員會關於加強法律解釋工作的決議) passed on 10 June 1981, the Supreme People's Court has the power to provide general interpretations of the applicable laws in judicial proceedings in addition to its power to issue specific interpretations of specific cases. The State Council and its ministries and commissions are also vested with the power to give interpretations of the statutes and administrative regulations which they have promulgated. At the regional level, the power to interpret regional laws is vested in the regional legislative and administrative authorities which promulgate such laws.

B. The PRC Judicial System

Under the PRC Constitution and the Law of Organisation of the People's Courts of the PRC (中華人民共和國人民法院組織法), the PRC judicial system is made up of the Supreme People's Court, the local people's courts, the military courts and other special people's courts. The local people's courts are divided into three levels, namely, the basic people's courts, the intermediate people's courts and the higher people's courts. The basic people's courts are further divided into civil, criminal and administrative divisions. The intermediate people's courts have divisions similar to those of the basic people's courts and other special divisions (such as the intellectual property division). These two levels of people's courts are subject to supervision by people's courts at higher levels. The people's procuratorates also have the power 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 authority in the PRC. It supervises the administration of justice by the people's courts at all levels.

The judgements or rulings of the second instance at a people's court are final. The parties may appeal against the judgement or ruling of the first instance of a local people's court. The people's procuratorate may appeal to the people's court at the next higher level in accordance with the procedures stipulated by the laws. In the absence of any appeal by the parties and any protest by the people's procuratorate within the stipulated period, the judgements or rulings of the people's court are final. Judgements or rulings of the second instance of the intermediate people's courts, the higher people's courts and the Supreme People's Court are final. Judgements or rulings of the first instance of the Supreme People's Court are also final. If, however, the Supreme People's Court or a people's court at the next higher level finds an error in a final and binding judgement which has taken effect in any people's court at a lower level, or the presiding judge of a people's court finds an error in a final and binding judgement which has taken effect in the court over which he presides, a retrial of the case may be conducted according to the judicial supervision procedures.

The Civil Procedure Law of the PRC (中華人民共和國民事訴訟法) (the "PRC Civil Procedure Law") adopted on 9 April 1991 and amended on 28 October 2007 and 31 August 2012 prescribes the provisions

for instituting a civil action, the jurisdiction of the people's courts, the procedures to be followed for conducting a civil action, the judicial procedures, and the procedures for enforcement of a civil judgement or ruling. All parties to a civil action conducted within the PRC must abide by the PRC Civil Procedure Law. A civil case is generally heard by the court located in the defendant's place of domicile. The court of jurisdiction in respect of a civil action may also be chosen by explicit agreement among the parties to a contract, provided that the people's court having jurisdiction is located at the plaintiff's or the defendant's place of domicile, the place of performing the contract, the place of executing the contract or the place where the object of the action is located. However, such choice may not in any circumstances contravene the regulations of differential jurisdiction and exclusive jurisdiction.

A foreign individual or foreign enterprise is generally given the same litigation rights and obligations as a citizen or legal person of the PRC. Should a foreign court limit the litigation rights of PRC citizens and enterprises, the PRC court may apply the same limitations to the citizens and enterprises of such foreign country. If any party to a civil action refuses to abide by a judgement or ruling made by a people's court or an award made by an arbitration tribunal in the PRC, the other party may apply to the people's court for the enforcement of the same within two years subject to suspension and discontinuance. If a party fails to satisfy within the stipulated period a judgement which the court has granted an enforcement approval, the court may, upon the application of the other party, mandatorily enforce the judgement.

A party seeking to enforce a judgement or ruling of a people's court against another party who is not or whose property is not within the PRC may apply to a foreign court with jurisdiction over the case for recognition and enforcement of such judgement or ruling. Likewise, if the PRC has entered into either a treaty relating to judicial enforcement with the relevant foreign country or a relevant international treaty, a foreign judgement or ruling may also be recognised and enforced in accordance with the PRC enforcement procedures by a PRC court based on equitable principles unless the people's court considers that the recognition or enforcement of such judgement or ruling would violate the basic legal principles of the PRC, its sovereignty or national security, or would not be in the public interest.

C. The PRC Company Law, the Special Regulations and the Mandatory Provisions

The PRC Company Law was adopted by the Standing Committee of the Eighth NPC at its Fifth Session on 29 December 1993 and came into effect on 1 July 1994. It was amended on 25 December 1999, 28 August 2004, 27 October 2005 and 28 December 2013. The revised PRC Company Law came into effect on 1 March 2014.

The Special Regulations were passed at the 22nd Standing Committee Meeting of the State Council on 4 July 1994 and promulgated and implemented on 4 August 1994. The Special Regulations are formulated in respect of the overseas share offering and listing of joint stock limited companies. The Mandatory Provisions jointly promulgated by the former Securities Commission of the State Council and the former State Restructuring Commission on 27 August 1994 prescribe the provisions which must be incorporated in the articles of association of joint stock limited companies to be listed on overseas stock exchanges. Accordingly, the Mandatory Provisions have been incorporated in the Articles of Association, a summary of which is set out in "Appendix VI – Summary of Articles of Association" of this prospectus. References to a "company" made in this Appendix are to a joint stock limited company established under the PRC Company Law with H shares.

Set out below is a summary of the major provisions of the PRC Company Law, the Special Regulations and the Mandatory Provisions.

General

A “joint stock limited company (“company”)” refers to a corporate legal person established under the PRC Company Law with independent legal person properties and entitlements to such legal person properties. The liability of the company is limited to the total amount of all assets it owns and the liability of its shareholders is limited to the extent of the shares they subscribe for.

Incorporation

A company may be incorporated by promotion or subscription. A company may be incorporated by a minimum of two but no more than 200 promoters, and at least half of the promoters must be resident within the PRC. Companies incorporated by promotion are companies of which the entire registered capital is subscribed for by the promoters. Shares in the company shall not be offered to others unless the registered capital has been fully paid up. For companies incorporated by public subscription, the registered capital is the total paid-up capital as registered with the relevant registration authorities. If laws and regulations and State Council decisions have separate provisions on paid-in registered capital and the minimum registered capital, the company should follow such provisions.

For companies incorporated by way of promotion, the promoters shall subscribe in writing for the shares required to be subscribed for by them and pay up their capital contributions under the articles of association. Procedures relating to the transfer of titles to non-monetary assets shall be duly completed if such assets are to be contributed as capital. Promoters who fail to pay up their capital contributions in accordance with the foregoing provisions shall assume default liabilities in accordance with the covenants set out in the promoters’ agreement. After the promoters have confirmed the capital contribution under the articles of association, a board and a supervisory board shall be elected and the board shall apply for registration of incorporation by filing the articles of association with the company registration authorities, and other documents as required by the law or administrative regulations.

Where companies are incorporated by subscription, not less than 35% of their total number of shares must be subscribed for by the promoters, unless otherwise provided for by the laws or administrative regulations. A promoter who offers shares to the public must publish a share offering prospectus and prepare a share subscription form to be completed, signed and sealed by subscribers, specifying the number and amount of shares to be subscribed for and the subscribers’ addresses. The subscribers shall pay up monies for the shares they subscribe for. Where a promoter is offering shares to the public, such offer shall be underwritten by securities firms established under PRC law, and in accordance with signed underwriting agreements. A promoter offering shares to the public shall also enter into agreements with banks in relation to the receipt of subscription monies. The receiving banks shall receive and keep in custody the subscription monies, issue receipts to subscribers who have paid the subscription monies and furnish evidence of receipt of those subscription monies to relevant authorities. After the subscription monies for the share issue have been paid in full, a capital verification institution established under PRC law must be engaged to conduct a capital verification and furnish a report thereon. The promoters shall convene an inauguration meeting within 30 days. The inauguration meeting shall be formed by the subscribers. Where the shares issued remain undersubscribed by the cut-off date stipulated in the share offering prospectus, or where the promoter fails to convene an inauguration meeting within 30 days of the subscription monies for the shares issued being fully paid up, the subscribers may demand that the promoters refund the subscription monies so paid together with the interest at bank rates of a deposit for the same period. Within 30 days of the conclusion of the inauguration meeting, the board shall apply to the registration authorities for registration of the establishment of the company. A company is formally established and has the status of a legal person after approval of registration has been given by the relevant administration bureau for industry and commerce and a business licence has been issued.

A company's promoter shall be jointly and severally liable for:

- (i) the debts and expenses incurred in the incorporation process if the company cannot be incorporated;
- (ii) the refund of subscription monies paid by the subscribers together with interest at bank rates of a deposit for the same period if the company cannot be incorporated; and
- (iii) the compensation of any damages suffered by the company as a result of the promoters' default in the course of its incorporation.

According to the Provisional Regulations Concerning the Issue and Trading of Shares (股票發行與交易管理暫行條例) promulgated by the State Council on 22 April 1993 (which is only applicable to the issue and trading of shares in the PRC and related activities), if a company is established by subscription, the promoters of such company are required to take joint responsibility for the accuracy of the contents of the share offering prospectus and to ensure that the share offering prospectus does not contain any misleading statement or omit any material information.

Share Capital

The promoters may make a capital contribution in currencies, or non-monetary assets such as in kind or intellectual property rights or land use rights which can be appraised with monetary value and transferred lawfully, except for assets which are prohibited from being contributed as capital by the laws or administrative regulations. If a capital contribution is made in non-monetary assets, a valuation of the assets contributed must be carried out pursuant to the relevant provisions of the laws or administrative regulations on valuation without any over-valuation or under-valuation.

A company may issue registered or bearer share certificates. The Special Regulations and the Mandatory Provisions provide that shares issued to foreign investors and listed overseas shall be in registered form, denominated in Renminbi and subscribed for in foreign currency. Shares issued to foreign investors and investors from the territories of Hong Kong, Macau and Taiwan and listed in Hong Kong are classified as H shares, and those shares issued to investors within the PRC are known as domestic shares. Under the Special Regulations, upon approval of the CSRC, a company may agree, in the underwriting agreement in respect of an issue of H 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. The share offering price may be equal to or greater than, but may not be less than, the par value.

Increase in Share Capital

Under the PRC Company Law, an issue of shares shall be conducted in a fair and equitable manner. Shares of the same class shall rank *pari passu* with one another. Shares of the same class in the same offer shall be issued on the same terms and at the same price. The same price per share shall be paid by any organisation or individual who subscribes for the shares in the same offer.

Where a company is issuing new shares, resolutions shall be passed at general meeting in accordance with the articles of association in respect of the class and amount of the new shares, the issue price of the new shares, the commencement and end dates for the issue of the new shares and the class and amount of the new shares proposed to be issued to existing shareholders.

When a company launches a public issue of new shares upon the approval by the CSRC, a new share offering prospectus and financial accounting report must be published and a subscription form must

be prepared. After the new share issue of the company has been paid up, the change must be registered with the relevant administration bureau for industry and commerce for registration and a public announcement must be made accordingly. Where an increase in registered capital of a company is made by means of an issue of new shares, the subscription of new shares by shareholders shall be made in accordance with the relevant provisions on the payment of subscription monies for the incorporation of a company.

Reduction of Share Capital

Subject to the minimum registered capital requirements, a company may reduce its registered capital in accordance with the following procedures prescribed by the PRC Company Law:

- (i) the company shall prepare a balance sheet and an inventory of assets;
- (ii) the reduction of registered capital must be approved by shareholders at general meeting;
- (iii) the company shall notify its creditors of the reduction in share capital within 10 days and publish an announcement of the reduction in newspapers within 30 days of the resolution approving the reduction being passed;
- (iv) the creditors of the company may within the statutory time limit require the company to repay its debts or provide guarantees for covering the debts; and
- (v) the company must apply to the relevant administration bureau for industry and commerce for registration of the change and reduction in registered capital.

Repurchase of Shares

A company may not purchase its own shares other than for one of the following purposes:

- (i) reducing its registered capital;
- (ii) merging with another company which holds its shares;
- (iii) granting shares to its employees as incentives; and
- (iv) acquiring its own shares at the request of its shareholders who vote in a shareholders' general meeting against a resolution regarding a merger or separation.

The acquisition by a company of its own shares on the grounds set out in (i) to (iii) above must be approved by way of a resolution of a shareholders' general meeting. Following the acquisition by a company of its own shares in accordance with these requirements, such shares must be cancelled within 10 days of the date of the acquisition in the case of (i) and transferred or cancelled within six months in the case of (ii) or (iv).

The acquisition by a company of its own shares in accordance with (iii) under the first paragraph of this subsection shall not exceed 5% of the total number of issued shares of the company. Such acquisition shall be financed by funds allocated from the company's profits after taxation, and the shares so acquired shall be transferred to the employees within one year.

Transfer of Shares

Shares held by shareholders may be transferred in accordance with the relevant laws and regulations. A shareholder may only effect a transfer of his shares on a stock exchange established in

accordance with laws or by any other means as required by the State Council. Registered shares may be transferred after the shareholders endorse the back of the share certificates or in any other manner specified by the laws or administrative regulations. Following the transfer, the company shall enter the names and addresses of the transferees into its share register. No changes of registration in the share register described above shall be effected during a period of 20 days prior to convening a shareholders' general meeting or five days prior to the record date for the purpose of determining entitlements to dividend distributions, subject to any legal provisions on the registration of changes in the share register of listed companies. The transfer of bearer share certificates shall become effective upon the delivery of the certificates to the transferee by the shareholder. The Mandatory Provision provides no registration of share transfer should be made to shareholder registry within thirty days before a shareholders' general meeting or within five days before the benchmark date set by the Bank to distribute dividends.

Shares held by promoters may not be transferred within one year of the establishment of the company. Shares of the company issued prior to the public issue of shares may not be transferred within one year of the date of the company's listing on a stock exchange. Directors, supervisors and the senior management of a company shall declare to the company their shareholdings in it and any changes in such shareholdings. During their terms of office, they may transfer no more than 25% of the total number of shares they hold in the company. They shall not transfer the shares they hold within one year of the date of the company's listing on a stock exchange, nor within six months of them having left their positions in the company. The articles of association may set out other restrictive provisions in respect of the transfer of shares in the company held by its directors, supervisors and the senior management.

Shareholders

Under the PRC Company Law, the rights of shareholders include the rights:

- (i) to receive a return on assets, participate in significant decision-making and select management personnel;
- (ii) to petition the people's court to revoke any resolution passed at a shareholders' general meeting or a meeting of board that has not been convened validly or whose voting has been conducted in an invalid manner, or any resolution that is in violation of the articles of association, provided that such petition shall be submitted within 60 days of the passing of such resolution;
- (iii) to transfer the shares of the shareholders according to the applicable laws and regulations and the articles of association;
- (iv) to appoint a proxy to attend shareholders' general meetings;
- (v) to inspect the articles of association, share register, counterfoil of company debentures, minutes of shareholders' general meetings, board resolutions, resolutions of the supervisory board and financial and accounting reports and to make suggestions or enquiries in respect of the company's operations;
- (vi) to receive dividends in respect of the number of shares held;
- (vii) to receive residual properties of the company in proportion to their shareholdings upon the liquidation of the company; and
- (viii) any other shareholders' rights provided for in the articles of association.

The obligations of shareholders include the obligation to abide by the company's articles of association, to pay the subscription monies in respect of the shares subscribed for, to be liable for the

company's debts and liabilities to the extent of the amount of subscription monies agreed to be paid in respect of the shares taken up by them and any other shareholder obligation specified in the company's articles of association.

Shareholders' General Meetings

The general meeting is the organ of authority of the company, which exercises its powers in accordance with the PRC Company Law. The general meeting may exercise its powers:

- (i) to decide on the company's operational objectives and investment proposals;
- (ii) to elect and remove the directors and supervisors (not being representative(s) of employees) and to decide on the matters relating to the remuneration of directors and supervisors;
- (iii) to review and approve the reports of the board;
- (iv) to review and approve the reports of the supervisory board or supervisors;
- (v) to review and approve the company's annual financial budgets and final accounts;
- (vi) to review and approve the company's profit distribution proposals and loss recovery proposals;
- (vii) to decide on any increase or reduction of the company's registered capital;
- (viii) to decide on the issue of corporate bonds;
- (ix) to decide on the issues such as merger, separation, dissolution and liquidation of the company;
- (x) to amend the company's articles of association; and
- (xi) to exercise any other authority stipulated in the articles of association.

A shareholders' general meeting is required to be held once every year. An extraordinary general meeting is required to be held within two months of the occurrence of any of the following:

- (i) the number of directors is less than the number stipulated by the laws or less than two-thirds of the number specified in the articles of association;
- (ii) the aggregate outstanding losses of the company amounted to one-third of the company's total share capital;
- (iii) shareholders individually or in aggregate holding 10% or more of the company's shares request that an extraordinary general meeting is convened;
- (iv) the board deems necessary;
- (v) the supervisory board so requests; or
- (vi) any other circumstances as provided for in the articles of association.

A shareholders' general meeting shall be convened by the board, and presided over by the chairman of the board. In the event that the chairman is incapable of performing or is not performing his duties, the meeting shall be presided over by the vice chairman. In the event that the vice chairman is incapable of performing or is not performing his duties, a director nominated by more than half of the directors shall preside over the meeting. Where the board is incapable of performing or is not performing its duties to convene the general meeting, the supervisory board shall convene and preside over such meeting in a timely manner. If the supervisory board fails to convene and preside over such meeting, shareholders

individually or in aggregate holding more than 10% of the company's shares for 90 days consecutively may unilaterally convene and preside over such meeting.

In accordance with the PRC Company Law, a notice of the general meeting stating the date and venue of the meeting and the matters to be considered at the meeting shall be given to all shareholders 20 days before the meeting. In accordance with the Mandatory Provisions, a notice of the general meeting stating, among other things, matters to be considered at the meeting shall be given to all shareholders 45 days before the meeting. A shareholder who intends to attend the meeting shall deliver his written reply regarding his attendance of the meeting to the company 20 days before the date of the meeting. A notice of extraordinary general meeting shall be given to all shareholders 15 days prior to the meeting. For the issuance of bearer share certificates, the time and venue of and matters to be considered at the meeting shall be announced 30 days before the meeting. Shareholders individually or in aggregate holding more than 3% of the company's shares may submit new proposals to the board in writing 10 days before the general meeting.

The board shall notify other shareholders within two days of receiving such proposal and table it for review by the general meeting. New proposals shall relate to specific subjects and matters for resolution within the authority of the general meeting. A shareholders' general meeting shall not make any resolution in respect of any matters not set out in the above two types of notices. Holders of bearer share certificates who wish to attend a shareholders' general meeting shall deposit their share certificates with the company five days before the meeting.

Shareholders present at a shareholders' general meeting have one vote for each share they hold, save that shares held by the company are not entitled to any voting rights. Resolutions of the general meeting must be passed by more than half of the voting rights held by shareholders present at the meeting, with the exception of matters relating to merger, separation or dissolution of the company, increase or reduction of registered share capital, change of corporate form or amendments to the articles of association, which in each case must be passed by more than two-thirds of the voting rights held by the shareholders present at the meeting. Where the PRC Company Law and the articles of association provide that the transfer or acquisition of significant assets or the provision of external guarantees by the company must be approved by way of resolution of the general meeting, the directors shall convene a shareholders' general meeting promptly to vote on such matters. An accumulative voting system may be adopted for the election of directors and supervisors at the general meeting pursuant to the provisions of the articles of association or a resolution of the general meeting. Under the accumulative voting system, each share shall be entitled to the number of votes equivalent to the number of directors or supervisors to be elected at the general meeting, and shareholders may consolidate their votes for one or more directors or supervisors when casting a vote.

Minutes shall be prepared in respect of matters considered at the general meeting and the chairman and directors attending the meeting shall endorse such minutes by signature. The minutes shall be kept together with the shareholders' attendance register and the proxy forms.

According to the Mandatory Provisions, the increase or reduction of share capital, the issuance of shares of any class, warrants or other similar securities and bonds, the liquidation of the company and any other matters, which, as resolved by way of an ordinary resolution of the general meeting, may have a material impact on the company and require adoption by way of a special resolution, must be approved through special resolutions by more than two-thirds of the voting rights held by shareholders present at the meeting.

There is no specific provision in the PRC Company Law regarding the number of shareholders constituting a quorum in a shareholders' general meeting, although the Special Regulations and the Mandatory Provisions provide that a company's general meeting may be convened when written replies to the notice of that meeting from shareholders holding shares representing 50% of the voting rights in the company have been received 20 days before the proposed date. If that 50% level is not achieved, the company shall within five days of the last day for receipt of the replies notify shareholders again by announcement of the matters to be considered at the meeting and the date and venue of the meeting, and the general meeting may be held by the company thereafter.

The Mandatory Provisions require class shareholders' general meetings to be held in the event of a variation or derogation of the class rights of a shareholder class. For this purpose, holders of domestic shares and H Shares are deemed to be shareholders of different classes.

Board

A company shall have a board, which shall consist of five to 19 members. Members of the board may include staff representatives, who shall be democratically elected by the company's staff at a staff representative assembly, general staff meeting or otherwise. The term of a director shall be stipulated in the articles of association, provided that no term of office shall last for more than three years. A director may serve consecutive terms if re-elected. A director shall continue to perform his/her duties as a director in accordance with the laws, administrative regulations and the articles of association until a duly re-elected director takes office, if re-election is not conducted in a timely manner upon the expiry of his/her term of office or if the resignation of directors results in the number of directors being less than the quorum.

Under the PRC Company Law, the board may exercise its powers:

- (i) to convene shareholders' general meetings and report on its work to the shareholders' general meetings;
- (ii) to implement the resolutions passed by the shareholders at the shareholders' general meetings;
- (iii) to decide on the company's operational plans and investment proposals;
- (iv) to formulate the company's annual financial budgets and final accounts;
- (v) to formulate the company's profit distribution proposals and loss recovery proposals;
- (vi) to formulate proposals for the increase or reduction of the company's registered capital and the issue of corporate bonds;
- (vii) to formulate proposals for the merger, separation or dissolution of the company or change of corporate form;
- (viii) to decide on the setup of the company's internal management organs;
- (ix) to appoint or dismiss the company's general manager and decide on his/her remuneration and, based on the general manager's recommendation, to appoint or dismiss any deputy general manager and financial officer of the company and to decide on their remunerations;
- (x) to formulate the company's basic management system; and
- (xi) to exercise any other authority stipulated in the articles of association.

Meetings of the board shall be convened at least twice each year. Notices of meeting shall be given to all directors and supervisors 10 days before the meeting. Interim board meetings may be convened by

shareholders representing more than 10% of the voting rights, more than one-third of the directors or the supervisory board. The chairman shall convene the meeting within 10 days of receiving such proposal, and preside over the meeting. The board may otherwise determine the means and the period of notice for convening an extraordinary meeting of the board. Meetings of the board shall be held only if more than half of the directors are present. According to the Mandatory Provisions, meetings of the board shall not be held unless more than half of the directors are present. Resolutions of the board shall be passed by more than half of all directors. Each director shall have one vote for a resolution to be approved by the board. Directors shall attend the meetings of the board in person. If a director is unable to attend for any reason, he/she may appoint another director to attend the meeting on his/her behalf by a written power of attorney specifying the scope of authorisation that his/her representative has.

If a resolution of the board violates any laws, administrative regulations or the articles of association, and as a result of which the company suffers from serious losses, the directors participating in the resolution are liable to compensate the company. However, if it can be proved that a director expressly objected to the resolution when the resolution was voted on, and that such objection was recorded in the minutes of the meeting, such director shall be relieved from that liability.

Under the PRC Company Law, the following persons may not serve as a director in a company:

- (i) persons with no or restricted civil capacity;
- (ii) persons who have committed the offence of corruption, bribery, taking of property, misappropriation of property or destruction of the socialist economic order, and have been sentenced to criminal punishment, where less than five years have elapsed since the date of completion of the sentence; or persons who have been deprived of their political rights due to criminal offence, where less than five years have elapsed since the date of completion of the implementation of this deprivation;
- (iii) persons who were directors, factory managers or managers of a company or enterprise which has become bankrupt and has been liquidated and who were personally liable for the bankruptcy of such company or enterprise, where less than three years have elapsed since the date of completion of the bankruptcy and liquidation of the company or enterprise;
- (iv) persons who were legal representatives of a company or enterprise which had its business licence revoked or which was ordered to cease operation as a result of violation of laws and who were personally liable for such revocation or cessation, where less than three years have elapsed since the date of the revocation of the business licence; and
- (v) persons who have defaulted on a relatively substantial amount of debt personally owed by them.

Where a company elects or appoints a director to which any of the above circumstances applies, such election or appointment shall be null and void. A director to which any of the above circumstances applies during his/her term of office shall be released of his/her duties by the company.

Other circumstances under which a person is disqualified from acting as a director of a company are set out in the Mandatory Provisions. The board shall appoint a chairman and may appoint a vice chairman.

The chairman and the vice chairman shall be elected with approval of more than half of all the directors. The chairman shall convene and preside over board meetings and review the implementation of board resolutions. The vice chairman shall assist the chairman to perform his/her duties. Where the

chairman is incapable of performing or is not performing his/her duties, the duties shall be performed by the vice chairman. Where the vice chairman is incapable of performing or is not performing his/her duties, a director nominated by more than half of the directors shall perform his/her duties.

Board of Supervisors

A company shall have a supervisory board composed of not less than three members. The supervisory board consists of representatives of the shareholders and an appropriate proportion of representatives of the company's staff. The actual proportion shall be determined in the articles of association, provided that the proportion of representatives of the company's staff shall not be less than one-third. Representatives of the company's staff at the supervisory board shall be democratically elected by the company's staff at the staff representative assembly, general staff meeting or otherwise. The supervisory board shall appoint a chairman and may appoint a vice chairman. The chairman and the vice chairman of the supervisory board shall be elected by more than half of the supervisors. According to the Mandatory Provisions, the chairman of the supervisory board shall be elected by more than two-thirds of the supervisors.

The chairman of the supervisory board shall convene and preside over supervisory board meetings. Where the chairman of the supervisory board is incapable of performing or is not performing his/her duties, the vice chairman of the supervisory board shall convene and preside over supervisory board meetings. Where the vice chairman of the supervisory board is incapable of performing or is not performing his/her duties, a supervisor nominated by more than half of the supervisors shall convene and preside over supervisory board meetings. Directors and senior management shall not act concurrently as supervisors.

Each term of office of a supervisor is three years and he/she may serve consecutive terms if re-elected. A supervisor shall continue to perform his/her duties as a supervisor in accordance with the laws, administrative regulations and the articles of association until a duly re-elected supervisor takes office, if re-election is not conducted in a timely manner upon the expiry of his/her term of office or if the resignation of supervisors results in the number of supervisors being less than the quorum.

The supervisory board may exercise its powers:

- (i) to review the company's financial position;
- (ii) to supervise the directors and senior management in their performance of their duties and to propose the removal of directors and senior management who have violated laws, regulations, the articles of association or shareholders' resolutions;
- (iii) when the acts of a director or management personnel are detrimental to the company's interests, to require the director and senior management to correct these acts;
- (iv) to propose the convening of extraordinary shareholders' general meetings and to convene and preside over shareholders' general meetings when the board fails to perform the duty of convening and presiding over shareholders' general meetings under the PRC Company Law;
- (v) to submit proposals to the shareholders' general meetings;
- (vi) to bring actions against directors and senior management pursuant to the relevant provisions of the PRC Company Law; and
- (vii) to exercise any other authority stipulated in the articles of association.

Supervisors may be present at the meetings of the board and make enquiries or proposals in respect of the resolutions of the board. The supervisory board may investigate any irregularities identified in the operation of the company and, when necessary, may engage an accounting firm to assist its work at the cost of the company.

Managers and Senior Management

A company shall have a general manager who shall be appointed or removed by the board. The general manager, who reports to the board of directors, may exercise his/her powers:

- (i) to manage the production, operation and administration of the company, and arrange for the implementation of the resolutions of the board;
- (ii) to organise and implement the annual plans and investment proposals of the company;
- (iii) to formulate proposals for the establishment of the company's internal management organs;
- (iv) to formulate the fundamental management system of the company;
- (v) to formulate the company's internal rules;
- (vi) to recommend the appointment or dismissal of any deputy manager and any financial officer of the company;
- (vii) to appoint or dismiss management personnel (other than those required to be appointed or dismissed by the board); and
- (viii) to exercise any other authority granted by the board.

Other provisions in the articles of association on the general manager's powers shall also be complied with. The general manager shall be present at meetings of the board. However, the general manager shall have no voting rights at meetings of the board unless he/she concurrently serves as a director.

According to the PRC Company Law, senior management refers to the general manager, deputy manager, financial officer, secretary to the board of a listed company and other personnel as stipulated in the articles of association.

Duties of Directors, Supervisors, General Managers and Other Senior Management

Directors, supervisors, the general manager, the deputy manager and senior management are required under the PRC Company Law to comply with the relevant laws, regulations and the articles of association, and carry out their duties in good faith. Directors, supervisors, managers and management personnel are prohibited from accepting bribes or other unlawful income and from misappropriating the company's property. Directors and senior management are prohibited from:

- (i) misappropriating company funds;
- (ii) depositing company funds into accounts maintained in their own names or the names of other individuals;
- (iii) lending company funds to others or providing guarantees in favour of others against company property in violation of the articles of association or without approval of the general meeting or the board;
- (iv) entering into contracts or transactions with the company in violation of the articles of association or without approval of the general meeting or the board;
- (v) using their position to procure business opportunities for themselves or others that should have otherwise been available to the company or operating for their own benefit or operating on behalf of others' businesses similar to that of the company without approval of the general meeting;

- (vi) accepting for their own benefit commissions from a third party dealing with the company;
- (vii) unauthorised divulgence of confidential information of the company; and
- (viii) any other acts in violation of their fiduciary duty towards the company.

Income generated by directors or senior management in violation of these shall be returned to the company.

A director, supervisor or senior management who contravenes any laws, regulations or the company's articles of association in the performance of his/her duties resulting in any loss to the company shall be personally liable to the company.

Where a director, supervisor or senior management is required to attend a shareholders' general meeting, such director, supervisor or senior management shall attend the meeting and answer the enquiries from shareholders. Directors and senior management shall furnish all truthful facts and information to the supervisory board or the supervisors (for companies with limited liability that do not have a supervisory board) without impeding the discharge of duties by the supervisory board or the supervisors.

Where a director or senior management contravenes any laws, regulations or the company's articles of association in the performance of his/her duties resulting in any loss to the company, shareholder(s) holding individually or in aggregate more than 1% of the company's shares consecutively for 180 days may request in writing that the supervisory board institute litigation at a people's court on its behalf. Where the supervisory board violates the laws or administrative regulations or the articles of association in the discharge of their duties resulting in any loss to the company, such shareholder(s) may request in writing that the board institute litigation at a people's court on its behalf. If the supervisory board or the board refuses to institute litigation after receiving this written request from the shareholder(s), or fails to institute litigation within 30 days of the date of receiving the request, or in case of emergency where failure to institute litigation immediately will result in irrecoverable damage to the company's interests, shareholder(s) shall have the power to institute litigation directly at a people's court in its own name for the company's benefit. For other parties who infringe the lawful interests of the company resulting in loss to the company, such shareholder(s) may institute litigation at a people's court in accordance with the procedure described above. Where a director or senior management contravenes any laws, administrative regulations or the articles of association in infringement of shareholders' interests, a shareholder may also institute litigation at a people's court.

The Special Regulations and the Mandatory Provisions provide that a company's directors, supervisors, general managers and other senior management shall have fiduciary duties towards the company. They are required to faithfully perform their duties, to protect the interests of the company and not to use their positions for their own benefits. The Mandatory Provisions contain detailed stipulations on these duties.

Finance and Accounting

A company shall establish its own financial and accounting systems according to the laws, administrative regulations and the regulations of the competent financial departments of the State Council. At the end of each financial year, a company shall prepare a financial report which shall be audited by an accounting firm in accordance with the laws. The financial and accounting reports shall be prepared in accordance with the laws, administrative regulations and the regulations of the financial departments of the State Council.

The company's financial statements shall be made available for shareholders' inspection at the company's registered office at least 20 days before the convening of an annual general meeting. A joint stock limited company established by way of public subscription shall publish its financial statements.

When distributing each year's profits after taxation, the company shall set aside 10% of its profits after taxation for the company's statutory common reserve fund until the fund has reached 50% of the company's registered capital. When the company's statutory common reserve fund is not sufficient to make up for the company's losses for the previous years, the current year's profits shall first be used to make good the losses before any allocation is set aside for the statutory common reserve fund. After the company has made allocations to the statutory common reserve fund from its profits after taxation, it may, upon passing a resolution at a shareholders' general meeting, make further allocations from its profits after taxation to the discretionary common reserve fund. After the company has made good its losses and made allocations to its discretionary common reserve fund, the remaining profits after taxation shall be distributed in proportion to the number of shares held by the shareholders, except for those which are not distributed in a proportionate manner as provided by the articles of association.

Profits distributed to shareholders by a resolution of a shareholders' general meeting or the board before losses have been made good and allocations have been made to the statutory common reserve fund in violation of the requirements described above must be returned to the company. The company shall not be entitled to any distribution of profits in respect of shares held by it.

The premium over the nominal value of the shares of the company on issue and other income as required by relevant government authorities to be treated as the capital reserve fund shall be accounted for as the capital reserve fund. The common reserve fund of a company shall be applied to make good the company's losses, expand its business operations or increase its capital. The capital reserve fund, however, shall not be used to make good the company's losses. Upon the transfer of the statutory common reserve fund into capital, the balance of the fund shall not be less than 25% of the registered capital of the company before such transfer.

The company shall have no accounting books other than the statutory books. The company's assets shall not be deposited in any account opened under the name of an individual.

Appointment and Retirement of Auditors

Pursuant to the PRC Company Law, the appointment or dismissal of an accounting firm responsible for the company's auditing shall be determined by shareholders at a shareholders' general meeting or the board in accordance with the articles of association. The accounting firm should be allowed to make representations when the shareholders or the board conduct a vote on the dismissal of the accounting firm on their respective meetings. The company should provide true and complete accounting evidence, accounting books, financial and accounting reports and other accounting information to the newly-engaged accounting firm without any refusal or withholding or falsification of information.

The Special Regulations require a company to engage an independent qualified accounting firm to audit the company's annual reports and to review and check other financial reports of the company.

Profit Distribution

The Special Regulations provide that the dividends and other distributions to be paid to holders of H shares shall be declared and calculated in Renminbi and paid in foreign currency. Under the Mandatory Provisions, the payment of foreign currency to shareholders shall be made through a receiving agent.

Amendments to the Articles of Association

Any amendments to the articles of association must be made in accordance with the procedures set out in the applicable laws, regulations and the articles of association. If the amendment to the articles of association is required to be registered and filed and has been adopted, the company must process registration of changes in accordance with the applicable laws and regulations.

Dissolution and Liquidation

A company shall be dissolved for any of the following reasons:

- (i) the term of its operations set out in the articles of association has expired or other events of dissolution specified in the articles of association have occurred;
- (ii) the shareholders have resolved at a shareholders' general meeting to dissolve the company;
- (iii) the company is dissolved by reason of its merger or separation;
- (iv) the business licence is revoked or the company's operation is ordered to cease or is dissolved in accordance with the laws; or
- (v) the company is dissolved by a people's court in response to the request of shareholders holding shares that represent more than 10% of the voting rights of all shareholders of the company, on the grounds that the operation and management of the company has suffered serious difficulties that cannot be resolved through other means, rendering on-going existence of the company a cause for significant losses to the shareholders.

In the event of paragraph (i) above, the company may carry on its existence by amending its articles of association. The amendments to the articles of association in accordance with the provisions described in the preceding paragraphs shall require the approval of shareholders present at the general meeting representing more than two-thirds of the voting rights.

Where the company is dissolved under the circumstances set forth in paragraph (i), (ii), (iv) or (v) above, it should establish a liquidation committee within 15 days of the date on which the dissolution matter arises. Members of the liquidation committee shall be appointed by the board or shareholders at a shareholders' general meeting. If a liquidation committee is not established within the prescribed period, the company's creditors may file an application with a people's court, requesting that the court appoint relevant personnel to form a liquidation committee to administer the liquidation. The people's court should accept such application and form a liquidation committee to conduct liquidation in a timely manner.

The liquidation committee may exercise its powers during the liquidation:

- (i) to handle the company's assets and to prepare a balance sheet and an inventory of assets;
- (ii) to notify the company's creditors or publish announcements;
- (iii) to deal with and settle any outstanding business of the company;
- (iv) to pay any overdue tax together with any tax arising during the liquidation process;
- (v) to settle the company's financial claims and liabilities;
- (vi) to handle the company's remaining assets after its debts have been paid off; and
- (vii) to represent the company in any civil procedures.

The liquidation committee shall notify the company's creditors within 10 days of its establishment, and publish an announcement in newspapers within 60 days.

A creditor shall lodge his claim with the liquidation committee within 30 days of receipt of the notification or within 45 days of the date of the announcement if he has not received any notification. A creditor shall, in making his claim, state all matters relevant to his creditor's rights and furnish relevant evidence. The liquidation committee shall register such creditor's rights. The liquidation committee shall not make any settlement to creditors during the period of the claim.

Upon liquidation of the company's property and preparation of the required balance sheet and inventory of assets, the liquidation committee shall draw up a liquidation plan and submit this plan to a shareholders' general meeting or a people's court for endorsement. The remaining assets of the company, after payment of liquidation expenses, employee wages, social insurance expenses and statutory compensation, outstanding taxes and the company's debts, shall be distributed to shareholders in proportion to their capital contribution in the case of a company with limited liability or in proportion to shares held by them in the case of a joint stock limited company. The company shall continue to exist during the liquidation period, although it cannot engage in operating activities that are not related to the liquidation. The company's property shall not be distributed to shareholders before repayments are made in accordance with the requirements described above.

Upon liquidation of the company's property and preparation of the required balance sheet and inventory of assets, if the liquidation committee becomes aware that the company does not have sufficient assets to meet its liabilities, it must apply to a people's court for a declaration of bankruptcy in accordance with the laws. Following such declaration by the people's court, the liquidation committee shall hand over the administration of the liquidation to the people's court.

Upon completion of the liquidation, the liquidation committee shall submit a liquidation report to the shareholders' general meeting or a people's court for confirmation of its completion. Following such confirmation, the report shall be submitted to the companies' registration authority to cancel the company's registration, and an announcement of its termination shall be published. Members of the liquidation committee are required to discharge their duties in good faith and in compliance with relevant laws. Members of the liquidation committee shall be prohibited from abusing their authority in accepting bribes or other unlawful income and from misappropriating the company's properties. Members of the liquidation committee are liable to indemnify the company and its creditors in respect of any loss arising from their wilful or material default.

Liquidation of a company declared bankrupt according to laws shall be processed in accordance with the laws on corporate bankruptcy.

Overseas Listing

The shares of a company shall only be listed overseas after obtaining approval from the CSRC and the listing must be arranged in accordance with the procedures specified by the State Council.

Loss of Share Certificates

A shareholder may, in accordance with the public notice procedures set out in the PRC Civil Procedure Law, apply to a people's court if his share certificate(s) in registered form is either stolen, lost or destroyed, for a declaration that such certificate(s) will no longer be valid. After such a declaration has been obtained, the shareholder may apply to the company for the issue of a replacement certificate(s).

The Mandatory Provisions have separate provisions governing the loss of share certificates and H share certificates of shareholders of overseas listed foreign shares, which shall be set out in the articles of association of a company.

Merger and Separation

A merger agreement shall be signed by merging companies and the involved companies shall prepare respective balance sheets and inventory of assets. The companies shall within 10 days of the date of passing the resolution approving the merger notify their respective creditors and publicly announce the merger within 30 days. A creditor may, within 30 days of receipt of the notification, or within 45 days of the date of the announcement if he has not received the notification, request the company to settle any outstanding debts or provide relevant guarantees. In case of a merger, the credits and debts of the merging parties shall be assumed by the surviving or the new company.

In case of a separation, the company's assets shall be divided and a balance sheet and an inventory of assets shall be prepared. When a resolution regarding the company's separation is approved, the company should notify all its creditors within 10 days of the date of passing such resolution and publicly announce the separation in newspapers within 30 days. Unless an agreement in writing is reached with creditors in respect of the settlement of debts, the liabilities of the company which have accrued prior to the separation shall be jointly borne by the separated companies.

Changes in the particulars of the companies as a result of the merger or separation shall, if so required, be registered with the relevant administration bureau for industry and commerce for registration.

In accordance with the laws, cancellation of a company shall be registered when a company is dissolved and incorporation of a company shall be registered when a new company is incorporated.

D. The PRC Securities Laws, Regulations and Regulatory Regimes

The PRC has promulgated a number of regulations that relate to the issue and trading of our shares and disclosure of information by us. In October 1992, the State Council established the Securities Committee and the CSRC. The Securities Committee is responsible for co-ordinating the drafting of securities regulations, formulating securities-related policies, planning the development of securities markets, directing, co-ordinating and supervising all securities-related institutions in the PRC and administering the CSRC. The CSRC is the regulatory arm of the Securities Committee and is responsible for among other things the drafting of regulatory provisions governing securities markets, supervising securities companies, regulating public offerings of securities by PRC companies in the PRC or overseas, regulating the trading of securities, compiling securities-related statistics and undertaking relevant research and analysis. In April 1998, the State Council consolidated the Securities Committee and the CSRC and reformed the CSRC.

The Provisional Regulations Concerning the Issue and Trading of Shares (股票發行與交易管理暫行條例) govern the application and approval procedures for public offerings of equity securities, trading in equity securities, the acquisition of listed companies, deposit, clearing and transfer of listed equity securities, the disclosure of information investigation, penalties and dispute resolutions with respect to a listed company.

On 25 December 1995, the State Council promulgated the Regulations of the State Council Concerning Domestic Listed Foreign Shares of Joint Stock Limited Companies (國務院關於股份有限公司境內上市外資股的規定). These regulations principally govern the issue, subscription, trading and declaration of dividends and other distributions of domestic listed and foreign invested shares and disclosure of information of joint stock limited companies having domestic listed and foreign invested shares.

The PRC Securities Law took effect on 1 July 1999 and was revised as of 28 August 2004 and 27 October 2005, respectively. It was the first national securities law in the PRC, and is divided into 12 chapters and 240 articles regulating, among other matters, the issue and trading of securities, takeovers by listed companies, securities exchanges, securities companies and the duties and responsibilities of the State Council's securities regulatory authorities. The PRC Securities Law comprehensively regulates activities in the PRC securities market. Article 238 of the PRC Securities Law provides that domestic enterprises must obtain prior approval from the State Council's regulatory authorities to list shares outside the PRC. Currently, the issue and trading of foreign issued securities (including shares) are principally governed by the rules and regulations promulgated by the State Council and the CSRC.

E. Arbitration and Enforcement of Arbitral Awards

The Arbitration Law of the PRC (中華人民共和國仲裁法) (the "PRC Arbitration Law") was enacted by the Standing Committee of the NPC on 31 August 1994, which became effective on 1 September 1995 and was amended on 27 August 2009. It is applicable to, among other matters, economic disputes involving foreign parties where all parties have entered into a written agreement to resolve disputes by arbitration before an arbitration committee constituted in accordance with the PRC Arbitration Law. The PRC Arbitration Law provides that an arbitration committee may, before the promulgation of arbitration regulations by the PRC Arbitration Association, formulate interim arbitration rules in accordance with the PRC Arbitration Law and the PRC Civil Procedure Law. Where the parties have agreed to use arbitration as a method for settlement of disputes, a people's court will refuse to handle a legal proceeding initiated by one of the parties at such people's court, unless the arbitration agreement has lapsed.

The Hong Kong Listing Rules and the Mandatory Provisions require an arbitration clause to be included in the articles of association of a company listed in Hong Kong and, in the case of the Hong Kong Listing Rules, in a contract between the company and each director or supervisor. Pursuant to such clause, whenever a dispute or claim arises from any right or obligation provided in the articles of association, the PRC Company Law or other relevant laws and administrative regulations concerning the affairs of the company between (i) a holder of overseas listed foreign shares and the company; (ii) a holder of overseas listed foreign shares and a holder of domestic shares; or (iii) a holder of H shares and the company's directors, supervisors or other management personnel, such parties shall be required to refer such dispute or claim to arbitration at either the CIETAC or the HKIAC. If the party seeking arbitration elects to arbitrate the dispute or claim at the HKIAC, then either party may apply to have such arbitration conducted in Shenzhen in accordance with the securities arbitration rules of the HKIAC.

Under the PRC Arbitration Law, an arbitral award shall be final and binding on the parties involved in the arbitration. If any party fails to comply with the award, the other party to the award may apply to a people's court for its enforcement. A people's court may refuse to enforce an arbitral award made by an arbitration commission if there is any procedural irregularity (including irregularity in the composition of the arbitration committee, the jurisdiction of the arbitration commission, or the making of an award on matters beyond the scope of the arbitration agreement).

Any party seeking to enforce an arbitral award of a foreign affairs arbitration organ of the PRC against a party who or whose property is not located within the PRC may apply to a foreign court with jurisdiction over the case for enforcement of the award. Likewise, an arbitral award made by a foreign arbitration body may be recognised and enforced by a PRC court in accordance with the principle 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 10 June 1958 pursuant to a resolution of the Standing Committee of the NPC passed on 2 December 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 recognised and enforced by other parties thereto subject to their rights to refuse enforcement under certain circumstances, including where the enforcement of the arbitral award is against the public policy of that state. At the time of the PRC’s accession to the Convention, the Standing Committee of the NPC declared that (i) the PRC will only recognise and enforce foreign arbitral awards based on the principle of reciprocity; and (ii) the PRC will only apply the New York Convention to disputes deemed under PRC law to be arising from contractual or non-contractual mercantile legal relations. An arrangement for reciprocal enforcement of arbitral awards between Hong Kong and the PRC was signed on 18 June 1999, approved by the Supreme People’s Court of the PRC and the Hong Kong Legislative Council and became effective on 1 February 2000. The arrangement reflects the spirit of the New York Convention, allowing awards made by PRC arbitral authorities to be enforced in Hong Kong and awards by Hong Kong arbitral authorities to be enforced in the PRC.

SUMMARY OF MATERIAL DIFFERENCES BETWEEN HONG KONG AND PRC COMPANY LAW

The Hong Kong law applicable to a company incorporated in Hong Kong is based on the Companies Ordinance and the Companies (Winding up and Miscellaneous Provisions) Ordinance and is supplemented by common law and the rules of equity that are applicable to Hong Kong. As a joint stock limited company established in the PRC that is seeking a listing of shares on the Hong Kong Stock Exchange, we are governed by the PRC Company Law and all other rules and regulations promulgated pursuant to the PRC Company Law.

Set out below is a summary of certain material differences between Hong Kong company law applicable to a company incorporated in Hong Kong and the PRC Company Law applicable to a joint stock limited company incorporated and existing under the PRC Company Law. This summary is, however, not intended to be an exhaustive comparison.

Corporate Existence

Under Hong Kong company law, a company with share capital, is incorporated by the Registrar of Companies in Hong Kong and the company will acquire an independent corporate existence upon its incorporation. A company may be incorporated as a public company or a private company. Pursuant to the Companies Ordinance, the articles of association of a private company incorporated in Hong Kong shall contain provisions that restrict a member’s right to transfer shares. A public company’s articles of association do not contain such provisions.

Under the PRC Company Law, a joint stock limited company may be incorporated by promotion or public subscription. The amended PRC Company Law which came into effect on 1 March 2014 has no provision on the minimum registered capital of joint stock company, except that laws, administrative regulations and State Council decisions have separate provisions on paid-in registered capital and the minimum registered capital, in which case the company should follow such provisions.

Hong Kong law does not prescribe any minimum capital requirement for a Hong Kong company.

Share Capital

Under Hong Kong law, the directors of a Hong Kong company may, with the prior approval of the shareholders if required, issue new shares of the company. The PRC Company Law provides that any increase in our registered capital must be approved by our shareholders' general meeting and the relevant PRC governmental and regulatory authorities.

Under the Securities Law, a company which is authorised by the relevant securities regulatory authority to list its shares on a stock exchange must have a total share capital of not 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 shares may be subscribed for in the form of money or non-monetary assets (other than assets not entitled to be used as capital contributions under relevant laws and administrative regulations). For non-monetary assets to be used as capital contributions, appraisals and verification must be carried out to ensure no overvaluation or under-valuation of the assets. 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 Domestic Shares, which are denominated and subscribed for in Renminbi, may only be subscribed for or traded by the State, PRC legal persons, natural persons, qualified foreign institutional investors, or eligible foreign strategic investors. Overseas listed 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 qualified domestic institutional investors.

Under the PRC Company Law, a promoter of a joint stock limited company is not allowed to transfer the shares it holds for a period of one year after the date of establishment of the company. Shares in issue prior to our public offering cannot be transferred within one year from the listing date of the shares on a stock exchange. Shares in a joint stock limited liability company held by its directors, supervisors and managers and transferred each year during their term of office shall not exceed 25% of the total shares they held in the company, and the shares they held in the company cannot be transferred within one year from the listing date of the shares, and also cannot be transferred within half a year after the said personnel has left office. The articles of association may set other restrictive requirements on the transfer of the company's shares held by its directors, supervisors and officers. There are no such restrictions on shareholdings and transfers of shares under Hong Kong law apart from the six-month lockup on the company's issue of shares and the 12-month lockup on controlling shareholders' disposal of shares.

Financial Assistance for Acquisition of Shares

The PRC Company Law does not prohibit or restrict a joint stock limited company or its subsidiaries from providing financial assistance for the purpose of an acquisition of its own or its holding company's shares. However, the Mandatory Provisions contain certain restrictions on a company and its subsidiaries on providing such financial assistance similar to those under the Hong Kong company law.

Variation of Class Rights

The PRC Company Law has no special 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 elaborate 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 summarised in the appendix entitled “Appendix VI—Summary of Articles of Association” to this prospectus.

Under the 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 representing at least 75% of the total voting rights of holders of shares in the class in question or (iii) if there are provisions in the articles of association relating to the variation of those rights, then in accordance with those provisions.

Directors, Senior Management and Supervisors

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 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 disposals and specify the circumstances under which a director may receive compensation for loss of office.

Board of Supervisors

Under the PRC Company Law, a joint stock limited company’s directors and managers 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 powers, to act in good faith and honestly in what he considers to be in the best interests of the company and to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

Derivative Action by Minority Shareholders

Hong Kong law permits minority shareholders to initiate 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. The PRC Company Law provides shareholders of a joint stock limited company with the right so that in the event where the directors and senior management violate their fiduciary obligations to a company, the shareholders individually or jointly holding over 1% of the shares in the company for more than 180 consecutive days may request in writing the board of supervisors to initiate proceedings in the people’s court. In the event that the board of supervisors violates their fiduciary obligations to a company, the above said shareholders may send written request to the board of directors to initiate proceedings in the people’s court. Upon receipt of such written request from the shareholders, if the board of supervisors or the board of directors refuses to initiate such proceedings, or has not initiated proceedings within 30 days upon receipt of the request, or if under urgent situations, failure of initiating immediate proceeding may cause irremediable damages to the company, the above said shareholders shall, for the benefit of the company’s interests, have the right to initiate proceedings directly to the court in their own name.

The Mandatory Provisions provide further remedies against the directors, supervisors and senior management who breach their duties to the company. In addition, as a condition to the listing of shares

on the Hong Kong Stock Exchange, each director and supervisor of a joint stock limited company is required to give an undertaking in favour of the company acting as agent for the shareholders. This allows minority shareholders to take action against directors and supervisors in default.

Protection of Minorities

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 interests may petition to the court to either appoint a receiver or manager over the property or business of 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 may appoint inspectors who are given extensive statutory powers to investigate the affairs of a company incorporated in Hong Kong. The PRC law does not contain similar safeguards. The Mandatory Provisions, however, contain provisions that a controlling shareholder may not exercise its voting rights in a manner prejudicial to the interests of the shareholders generally or of a proportion of the shareholders of a company to relieve a director or supervisor of his duty to act honestly in the best interests of the company or to approve the expropriation by a director or supervisor of the company's assets or the individual rights of other shareholders.

Notice of Shareholders' General Meetings

Under the PRC Company Law, notice of a shareholder's annual general meeting must be given not less than 20 days before the meeting. Under the Special Regulations and the Mandatory Provisions, at least 45 days' written notice must be given to all shareholders, and shareholders who wish to attend the meeting must reply in writing at least 20 days before the date of the meeting. For a company incorporated in Hong Kong, the minimum period of notice is 21 days in the case of an annual general meeting and 14 days in other cases.

Quorum for Shareholders' General Meetings

Under Hong Kong law, the quorum for a general meeting must be at least two members unless the articles of association of the company otherwise provide. For companies with only one member, the quorum must be one member. 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 general meetings may only be convened when replies to the notice of that meeting have been received from shareholders whose shares represent at least 50% of the voting rights at least 20 days before the proposed date of the meeting, or if that 50% level is not achieved, the company shall within five days notify its shareholders again by way of a public announcement and the shareholders' general meeting may be held thereafter.

Voting

Under Hong Kong law, an ordinary resolution is passed by a simple majority and a special resolution is passed by a majority of at least 75%. Under the PRC Company Law, the passing of any resolution requires affirmative votes of shareholders representing more than half of the voting rights represented by the shareholders who attend the general meeting except in cases of proposed amendments to a company's articles of association, increase or decrease of registered capital, merger, division or dissolution, or change of corporation form, which require affirmative votes of shareholders representing more than two-thirds of the voting rights represented by the shareholders who attend the general meeting.

Financial Disclosure

Under the PRC Company Law, a joint stock limited company is required to make available at the company for inspection by shareholders its financial report 20 days before its shareholders' annual general meeting. In addition, a joint stock limited company of which the shares are publicly offered must publish its financial report. The Companies Ordinance requires a company incorporated in Hong Kong to send to every shareholder a copy of its financial statements, auditors' report and directors' report, which are to be presented before the company in its annual general meeting, not less than 21 days before such meeting. A joint stock limited liability company is required under the PRC law to prepare its financial statements in accordance with the PRC GAAP. The Mandatory Provisions require that a company must, in addition to preparing financial statements according to the PRC GAAP, have its financial statements prepared and audited in accordance with international or Hong Kong accounting standards and its financial statements must also contain a statement of the financial effect of the material differences (if any) from the financial statements prepared in accordance with the PRC GAAP.

The Special Regulations require that there should not be any inconsistency between the information disclosed within and outside the PRC and that, to the extent that there are differences in the information disclosed in accordance with the relevant PRC and overseas laws, regulations and requirements of the relevant stock exchanges, such differences should also be disclosed simultaneously.

Information on Directors and Shareholders

The PRC Company Law gives shareholders the right to inspect the company's articles of association, minutes of the shareholders' general meetings and financial and accounting reports. Under the articles of association, shareholders have the right to inspect and copy (at reasonable charges) certain information on shareholders and on directors which is similar to the shareholders' rights of Hong Kong companies under Hong Kong law.

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 the relevant company 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 shares dividends declared and all other monies owed by the company in respect of its shares.

Corporate Reorganisation

Corporate reorganisation 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 voluntary winding up to another company pursuant to Section 237 of the Companies (Winding up and Miscellaneous Provisions) Ordinance or a compromise or arrangement between the company and its creditors or between the company and its members under Division 2 of Part 13 of the Companies Ordinance, which requires the sanction of the court. Under PRC law, merger, division, dissolution or change to the status of a joint stock limited liability company has to be approved by shareholders in general meeting.

Dispute Arbitration

In Hong Kong, disputes between shareholders on the one hand, and a company incorporated in Hong Kong or its directors on the other, may be resolved through legal proceedings in the courts. The Mandatory Provisions provide that such disputes should be submitted to arbitration at either the HKIAC or the CIETAC, at the claimant's choice.

Mandatory Deductions

Under the PRC Company Law, a joint stock limited liability company is required to make transfers equivalent to certain prescribed percentages of its after tax profit to the statutory common reserve fund. There are no corresponding provisions under Hong Kong law.

Remedies of the Company

Under the PRC Company Law, if a director, supervisor or manager in carrying out his 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 manager should be responsible to the company for such damages. In addition, the Listing Rules require listed companies' articles to provide for remedies of the company similar to those available under Hong Kong law (including rescission of the relevant contract and recovery of profits from a director, supervisor or senior management).

Dividends

The company has the power in certain circumstances 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 company must not exercise its powers to forfeit any unclaimed dividend in respect of 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 Company Law, directors, supervisors and senior management should be loyal and diligent. Under the Special Regulations, directors, supervisors and senior management are not permitted to engage in any activities which compete with or damage the interests of their company.

Closure of Register of Shareholders

The 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 PRC Company Law and the Mandatory Provisions, share transfers shall not be registered within 30 days before the date of a shareholders' general meeting or within five days before the base date set for the purpose of distribution of dividends.

HONG KONG LISTING RULES

The Listing Rules provide additional requirements which apply to us as an issuer incorporated in the PRC as a joint stock limited company and seeking a primary listing or whose primary listing is on the Hong Kong Stock Exchange. Set out below is a summary of the principal provisions containing the additional requirements which apply to us.

Compliance Advisor

A company seeking listing on the Hong Kong Stock Exchange is required to appoint a compliance advisor acceptable to the Hong Kong Stock Exchange for the period from its listing date up to the date of the publication of its financial results for the first full financial year commencing after the listing date.

The compliance advisor should provide professional advice on continuous compliance with the Listing Rules and all other applicable laws and regulations, and to act at all times, in addition to its two authorised representatives, as the principal channel of communication with the Hong Kong Stock Exchange. The appointment of the compliance advisor may not be terminated until a replacement acceptable to the Hong Kong Stock Exchange has been appointed.

If the Hong Kong Stock Exchange is not satisfied that the compliance adviser is fulfilling its responsibilities adequately, it may require the company to terminate the compliance advisor's appointment and appoint a replacement.

The compliance advisor must keep the company informed on a timely basis of changes in the Listing Rules and any new or amended law, regulation or code in Hong Kong applicable to the company. It must act as the company's principal channel of communication with the Hong Kong Stock Exchange if the authorised representatives of the company are expected to be frequently outside Hong Kong.

Accountants' Report

The accountants' report must normally be drawn up in conformity with: (a) HKFRS; or (b) IFRS; or (c) China Accounting Standards for Business Enterprises ("CASBE") in the case of a PRC issuer that has adopted CASBE for the preparation of its annual financial statements.

Process Agent

A listed company is required to appoint and maintain a person authorised to accept service of process and notices on its behalf in Hong Kong throughout the period during which its securities are listed on the Hong Kong Stock Exchange and must notify the Hong Kong Stock Exchange of his, her or its appointment, the termination of his, her or its appointment and his, her or its contact particulars.

Public Shareholding

If at any time there are existing issued securities of a PRC issuer other than foreign shares which are listed on the Hong Kong Stock Exchange, the Listing Rules require that the aggregate amount of H shares and other securities held by the public must constitute not less than 25% of the PRC issuer's issued share capital and that 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 capitalisation at the time of listing of not less than HK\$50 million. The Hong Kong Stock Exchange may, at its discretion, accept a lower percentage of between 15% and 25% if the issuer is expected to have a market capitalisation at the time of listing of more than HK\$10,000 million.

Independent Non-Executive Directors and Supervisors

Independent non-executive directors of a PRC issuer are required to demonstrate an acceptable standard of competence and adequate commercial or professional expertise to ensure that the interests of the listed company's general body of shareholders will be adequately represented. Supervisors must have the character, expertise and integrity and be able to demonstrate the standard of competence commensurate with their position as supervisors.

Restrictions on Repurchase of Securities

Subject to governmental approvals and the articles of association of the company, a listed company may repurchase its own shares on the Hong Kong Stock Exchange in accordance with the provisions of

the Listing Rules. Approval by way of a special resolution of the holders of class shares at separate class meetings conducted in accordance with the articles of association is required for share repurchases. In seeking approvals, a listed company is required to provide information on any proposed or actual purchases of all or any of its equity securities, whether or not listed or traded on the Hong Kong Stock Exchange. The director must also state the consequences (if any) of any purchases which will arise under either or both of the Hong Kong Takeovers Code and/or any similar PRC law of which directors are aware. Any general mandate given to directors to repurchase shares must not exceed 10% of the total number of its issued shares.

Redeemable Shares

A listed company must not issue any redeemable shares unless the Hong Kong Stock Exchange is satisfied that the relative rights of its shareholders are adequately protected.

Pre-emptive Rights

Except in the circumstances mentioned below, directors are required to obtain approval by way of a special resolution of shareholders at general meeting, and the approvals by way of special resolutions of the holders of class shares (each being otherwise entitled to vote at general meetings) at separate class meetings conducted in accordance with and as required by the articles of association, prior to authorising, allotting, issuing or granting shares or securities convertible into shares, options, warrants or similar rights to subscribe for any shares or such convertible securities.

No such approval will be required under the Listing Rules to the extent that (i) the existing shareholders have by special resolution in general meeting given a mandate to the board of directors, either unconditionally or subject to such terms and conditions as may be specified in the resolution, to authorise, allot or issue, either separately or concurrently once every 12 months, not more than 20% of each of the existing issued domestic shares and H shares as at the date of the passing of the relevant special resolution, or (ii) such shares are issued as part of the Company's plan at the time of its establishment to issue domestic shares and H shares and which plan is implemented within 15 months from the date of approval by the securities regulatory authority of the State Council.

Supervisors

A company listed or seeking a listing on the Hong Kong Stock Exchange is required to adopt rules governing dealings by the Supervisors in securities of our Company in terms no less exacting than those of the model code (set out in Appendix 10 to the Listing Rules) issued by the Hong Kong Stock Exchange.

A PRC issuer is required to obtain the approval of its shareholders at a general meeting (at which the relevant supervisor and his associates must abstain from voting on the matter) prior to the company or any of its subsidiaries entering into a service contract of the following nature with a supervisor or proposed supervisor of the listed company or any of its subsidiaries: (1) the term of the contract exceeds three years; or (2) the contract expressly requires the company (or its subsidiaries) to give more than one year's notice or to pay compensation or make other payments equivalent to the remuneration more than one year in order for it to terminate the contract.

The nomination and remuneration committee of the listed company or an independent board committee must form a view in respect of service contracts that require shareholders' approval and advise

shareholders (other than shareholders with a material interest in the service contracts and their associates) as to whether the terms are fair and reasonable, advise whether such contracts are in the interests of the listed company and its shareholders as a whole and advise shareholders on how to vote.

Amendment to Articles of Association

A PRC issuer may not permit or cause any amendment to be made to its articles of association which would contravene the PRC Company Law, the Mandatory Provisions or the Listing Rules.

Documents for Inspection

A PRC issuer is required to make available at a place in Hong Kong for inspection by the public and shareholders free of charge, and for copying by its shareholders at reasonable charges of the following:

- a complete duplicate register of shareholders;
- a report showing the state of its issued share capital;
- its latest audited financial statements and the reports of the directors, auditors and supervisors, if any, thereon;
- special resolutions;
- reports showing the number and nominal value of securities repurchased by it since the end of the last financial year, the aggregate amount paid for such securities and the maximum and minimum prices paid in respect of each class of securities repurchased (with a breakdown between class shares);
- copy of the latest annual return filed with the SAIC or other competent PRC authority; and
- for shareholders only, copies of minutes of shareholders' general meetings.

Receiving Agents

Under Hong Kong law, a PRC issuer is required to appoint one or more receiving agents in Hong Kong and pay to such agent(s) dividends declared and other monies owed in respect of the H shares to be held, pending payment, in trust for the holders of such H shares.

Statements in Share Certificates

A PRC issuer is required to ensure that all of its listing documents and share certificates include the statements stipulated below and to instruct and cause each of its share registrars not to register the subscription, purchase or transfer of any of its shares in the name of any particular holder unless and until such holder delivers to the share registrar a signed form in respect of such shares bearing statements to the following effect, that the acquirer of shares:

- agrees with the company and each shareholder, and it agrees with each shareholder, to observe and comply with the PRC Company Law, the Special Regulations and its articles of association;
- agrees with the company, each shareholder, director, supervisor, manager and other senior management and it (acting both for the company and for each director, supervisor, manager and other senior management), agree with each shareholder to refer all differences and claims arising from the articles of association or any rights or obligations conferred or imposed by

the PRC Company Law or other relevant laws and administrative regulations concerning its affairs to arbitration in accordance with the articles of association. Any reference to arbitration shall be deemed to authorise the arbitration tribunal to conduct hearings in open session and to publish its award. Such arbitration shall be final and conclusive;

- agrees with the company and each shareholder that shares are freely transferable by the holder thereof; and
- authorises the company to enter into a contract on his behalf with each director and senior management whereby such directors and senior management undertake to observe and comply with their obligations to shareholders as stipulated in the articles of association.

Legal Compliance

A PRC issuer is required to observe and comply with the PRC Company Law, the Special Regulations and its articles of association.

Contract between the PRC Issuer and Directors, Senior Management and Supervisors

A PRC issuer is required to enter into a contract in writing with every director and senior management containing at least the following provisions:

- an undertaking by the director or senior management to itself to observe and comply with the PRC Company Law, the Special Regulations, its articles of association, the Hong Kong Takeovers Code and an agreement that it must have the remedies provided in its articles of association and that neither the contract nor his office is capable of assignment;
- an undertaking by the director or senior management to it acting as agent for each shareholder to observe and comply with his obligations to our shareholders as stipulated in the articles of association; and
- an arbitration clause which provides that whenever any differences or claims arise from the contract, its articles of association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant law and administrative regulations concerning affairs between us and its directors or senior management and between a holder of H shares and a director or senior management, such differences or claims will be referred to arbitration at either the CIETAC in accordance with its rules or the HKIAC in accordance with its Securities Arbitration Rules, at the election of the claimant and that once a claimant refers a dispute or claim to arbitration, the other party shall submit to the arbitral body elected by the claimant. Such arbitration will be final and conclusive. If the party seeking arbitration elects to arbitrate the dispute or claim at HKIAC, then either party may apply to have such arbitration conducted in Shenzhen, according to the Securities Arbitration Rules of the HKIAC. PRC laws shall govern the arbitration of disputes or claims referred to above, unless otherwise provided by law or administrative regulations. The award of the arbitral body is final and shall be binding on the parties thereto. Disputes over who is a shareholder and over the share register do not have to be resolved through arbitration.

A PRC issuer is also required to enter into a contract in writing with every supervisor containing statements in substantially the same terms.

Subsequent Listing

A PRC issuer must not apply for the listing of its H shares on a PRC stock exchange unless the Hong Kong Stock Exchange is satisfied that the relative rights of the holders of its H shares are adequately protected.

English Translation

All notices or other documents required under the Listing Rules to be sent by a PRC issuer to the Hong Kong Stock Exchange or to holders of the H Shares are required to be in English, or accompanied by a certified English translation.

General

If any change in the PRC law or market practices materially alters the validity or accuracy of any basis upon which the additional requirements have been prepared, the Hong Kong Stock Exchange may impose additional requirements or make listing of H shares by a PRC issuer subject to special conditions as the Hong Kong Stock Exchange may consider appropriate. Whether or not any such changes in the PRC law or market practices occur, the Hong Kong Stock Exchange retains its general power under the Hong Kong Listing Rules to impose additional requirements and make special conditions in respect of any company's listing.

OTHER LEGAL AND REGULATORY PROVISIONS

Upon the listing on the Hong Kong Stock Exchange, the provisions of the SFO, the Hong Kong Takeovers Code and such other relevant ordinances and regulations will apply to a PRC issuer.

SECURITIES ARBITRATION RULES

The Securities Arbitration Rules of the HKIAC contain provisions allowing, upon application by any party, an arbitral tribunal to conduct a hearing in Shenzhen for cases involving the affairs of companies incorporated in the PRC and listed on the Hong Kong Stock Exchange so that PRC parties and witnesses may attend. Where any party applies for a hearing to take place in Shenzhen, the tribunal shall, where satisfied that such application is based on bona fide grounds, order the hearing to take place in Shenzhen conditional upon all parties, including witnesses and the arbitrators, being permitted to enter Shenzhen for the purpose of the hearing. Where a party, other than a PRC party, or any of its witnesses or any arbitrator is not permitted to enter Shenzhen, then the tribunal shall order that the hearing be conducted in any practicable manner, including the use of electronic media. For the purpose of the Securities Arbitration Rules, a PRC party means a party domiciled in the PRC other than the territories of Hong Kong, Macau and Taiwan.

Any person wishing to have detailed advice on PRC law or the laws of any jurisdiction is recommended to seek independent legal advice.

Set out below is a summary of the principal provisions of our Articles of Association, the principal objective of which is to provide investors with an overview 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. Copies of the full English and Chinese texts of our Articles of Association are available for inspection as mentioned in “Appendix IX – Documents Delivered to the Registrar of Companies and Available for Inspection”.

Our Articles of Association were adopted by our shareholders in the shareholders’ general meeting held on 10 May 2013 and were approved by the CBRC Heilongjiang Bureau on 22 January 2014. Our Articles of Association will become effective on the date that our H Shares are listed on the Hong Kong Stock Exchange.

Directors and Other Officers

Power to Allot and Issue Shares

There is no provision in our Articles of Association empowering the directors to allot and issue shares.

To increase the capital of our Bank, the proposal must be submitted by the Board, the Board of Supervisors or the shareholder(s) who individually or in aggregate hold 3% or more of the total issued and outstanding shares of our Bank with voting rights for approval by a special resolution at a shareholders’ general meeting.

Power to Dispose of the Assets of Our Bank or Any Subsidiary

The Board shall not, without the prior approval of shareholders in a shareholders’ general meeting, dispose of, or agree to dispose of, any fixed assets of our Bank where the sum of the estimated value of the consideration for the proposed disposition and the aggregate amount of the consideration for all dispositions of fixed assets of our Bank completed within four months immediately preceding the proposed disposition exceeds 33% of the value of our Bank’s fixed assets as shown on the last balance sheet reviewed at a shareholders’ general meeting.

The validity of a disposition by our Bank of fixed assets shall not be affected by the breach of the above paragraph.

For the purposes of our Articles of Association, a disposition of fixed assets includes an act involving the transfer of an interest in such assets but does not include the provision of such assets as a form of security.

Emoluments and Compensation for Loss of Office

Our Bank shall, with the prior approval at a shareholders’ general meeting, enter into a contract in writing with each of the directors or supervisors wherein his emoluments are stipulated. The aforesaid emoluments include:

- emoluments in respect of his service as a director, a supervisor or senior management of our Bank;
- emoluments in respect of his service as a director, a supervisor or senior management of any subsidiary of our Bank;
- emoluments in respect of the provision of other services in connection with the management of the affairs of our Bank or of any subsidiary of our Bank; and

- compensation for loss of office, or as consideration for or in connection with his retirement from office.

Except under a contract entered into in accordance with the foregoing, no proceedings may be brought by a director or supervisor against our Bank for any benefit due to him in respect of the above matters.

Contracts concerning emoluments between our Bank and our directors or supervisors should provide that, in the event of a takeover of our Bank, the directors or supervisors shall, subject to the prior approval of the shareholders in a shareholders' general meeting, have the right to receive compensation or other payment in respect of a loss of office or retirement. A "takeover of our Bank" referred to in this paragraph means either:

- an offer made by any person to all shareholders; or
- an offer made by any person with a goal of becoming "controlling shareholder" within the meaning set out in our Articles of Association. See the meaning of "controlling shareholder" in "– Rights of Minority Shareholders".

If the relevant director or supervisor does not comply with the preceding provision, any sum so received by him shall belong to those persons who have sold their shares as a result of the said offer. The expenses incurred in distributing such sum *pro rata* amongst those persons shall be borne by the relevant director or supervisor and shall not be paid out of the sum to be received by him.

Loans to Directors, Supervisors and Other Officers

Our Bank may not provide loans or loan guarantees directly or indirectly to a director, supervisor, president or other senior management of our Bank unless the terms and conditions are not more favourable than the normal commercial terms and conditions, and our Bank may not provide loans or loan guarantees to a related person of such individual either. Related person means:

- (a) a spouse or minor children of a director, supervisor, president or other senior management of our Bank;
- (b) an entruster of a director, supervisor, president or other senior management of our Bank or an individual described in subparagraph (a);
- (c) a partner of a director, supervisor, president or other senior management of our Bank or an individual described in subparagraphs (a) and (b);
- (d) a company under sole control of a director, supervisor, president or other senior management of our Bank or under common control with an individual described in subparagraphs (a), (b) and (c) or other director, supervisor, president or other senior management of our Bank; and
- (e) a director, supervisor, president or other senior management of a company described in subparagraph (d).

The preceding provision will not apply to the following circumstances:

- our Bank provides loans or loan guarantees to its subsidiary; and
- our Bank provides loans, loan guarantees or other payment to a director, supervisor, president or other senior management to meet expenditure incurred by him/her for the purposes of our Bank or enabling him/her to fulfil his/her fulfilment of the responsibilities, in accordance with the contract of service approved by a shareholders' general meeting.

A loan made by our Bank in breach of the above provisions shall be repayable forthwith by the recipient of the loan regardless of the terms of the loan.

Financial Assistance for the Acquisition of Shares in Our Bank

Subject to the exceptions in our Articles of Association, our Bank and any subsidiary shall not, by any means at any time, provide any kind of financial assistance (as defined below) to a person who is acquiring or is proposing to acquire shares of our Bank. Such acquirer of shares of our Bank includes a person who directly or indirectly incurs any obligations (as defined below) due to the acquisition of shares. Our Bank and any subsidiary shall not, by any means at any time, provide financial assistance to such acquirer for the purpose of reducing or discharging the obligations assumed by that person.

The following activities shall not be deemed to be prohibited activities:

- the provision of financial assistance by our Bank where the financial assistance is given in good faith in the interest of our Bank, and the principal purpose in giving financial assistance is not for the acquisition of shares, or the giving of financial assistance is an incidental part of a major plan of our Bank;
- the distribution of our Bank's assets through dividends;
- the allotment of bonus shares as dividends;
- a reduction of registered capital, a repurchase of shares or a reorganisation of the share capital structure of our Bank effected in accordance with our Articles of Association;
- the lending of money by our Bank within its scope of business and in the ordinary course of business (provided that the net assets of our Bank are not thereby reduced or that, to the extent that the net assets are thereby reduced, the financial assistance is provided out of distributable profits); and
- the provision of money by our Bank for contributions to an employees' shareholding plan (provided that the net assets of our Bank are not thereby reduced or, to the extent that the net assets are thereby reduced, the financial assistance is provided out of distributable profits).

For these purposes:

- "financial assistance" includes, but without limitation, the following:
 - a gift;
 - a guarantee (including any liability by the guarantor or the provision of assets by the guarantor to secure the performance of obligations by the obligor), compensation (other than compensation due to our Bank's own default) or release or waiver of any rights;
 - provision of a loan or any other contract under which the obligations of our Bank are to be fulfilled before the obligations of another party, or a change in the parties to, or the assignment of rights arising under, such a loan or contract; or
 - any other form of financial assistance given by our Bank when our Bank is insolvent or has no net assets, or when its net assets would thereby be reduced by a material extent; and
- "incurring an obligation" includes the incurring of obligations by entering into a contract, the making of an arrangement (whether enforceable or not, and whether made on its own account or with any other persons) or any other means that result in the change of the obligor's financial position.

Disclosure of Interests in Contracts with Our Bank

Where a director, supervisor, president or other senior management of our Bank is in any way, directly or indirectly, materially interested in a contract, transaction or arrangement, or proposed contract, transaction or arrangement, with our Bank (other than his contract of service with our Bank), he shall declare the nature and extent of his interests to the Board at the earliest opportunity, regardless of whether such contract, transaction or arrangement is otherwise subject to the approval of the Board.

Unless the interested director, supervisor, president or other senior management discloses his interests in accordance with our Articles of Association and the contract, transaction or arrangement is approved by the Board at a meeting in which the interested director, supervisor, president or other senior management is not counted in the quorum and refrains from voting, the contract, transaction or arrangement in which a director, supervisor, president or other senior management is materially interested is voidable at the request of our Bank except as against a bona fide party acting without notice of the breach of duty by the interested director, supervisor, president or other senior management.

For the purposes of this provision, a director, supervisor, president or other senior management of our Bank is deemed to be interested in a contract, transaction or arrangement in which one of his related person is interested.

If a director, supervisor, president or other senior management of our Bank, before the date on which the question of entering into the relevant contract, transaction or arrangement is first taken into consideration by our Bank, gives to the Board a general notice in writing stating that, by reason of the facts specified in the notice, he is interested in the contracts, transactions or arrangements and such contracts, transactions or arrangements are subsequently made by our Bank, such notice shall be deemed to be a sufficient declaration of his interests for the purpose of the above paragraphs to the extent of such disclosure in such notice.

Remuneration

The remuneration of directors must be approved by shareholders in a shareholders' general meeting. See "– Emoluments and Compensation for Loss of Office".

Appointment, Removal and Retirement

The qualification of a director shall be examined and approved by the relevant banking regulatory authorities. The term of office of directors shall be three years, renewable upon re-election. Directors shall be elected and removed by the shareholders' general meeting.

Our Board, Board of Supervisors and shareholder(s) individually or in aggregate holding 1% or more of the issued shares of our Bank are entitled to nominate candidates for independent directors to be elected by shareholders' general meetings. The term of office of an independent director is the same with other directors, renewable upon re-election but limited to a maximum term of six years.

The Board shall consist of 11 to 15 directors, of which at least one-third shall be independent directors. The Board shall have one chairman and one vice chairman. The chairman and vice chairman shall be elected by a majority of all directors.

A director, supervisor, president or other senior management of our Bank may not be:

- a person without legal capacity or with restricted legal capacity;
- a person who has committed an offence of corruption, bribery, infringement of property, misappropriation of property or sabotaging of the social economic order, and has been

punished for the commission of such an offence, where less than five years have elapsed since the date of completion of the sentence; or who has been deprived of his political rights, where less than five years have elapsed since the date of completion of this deprivation;

- a person who has been a director, factory manager or manager of a company or enterprise which has entered into an insolvency liquidation and is personally liable for the insolvency of such company or enterprise, where less than three years have elapsed since the date of the completion of the bankruptcy and liquidation of the company or enterprise;
- a person who is a former legal representative of a company or enterprise which had its business licence revoked, or been ordered to close down, due to a violation of the law and who incurred personal liability, where less than three years have elapsed since the date of revocation of the business licence;
- a person who has a relatively large amount of debts and who is in default of such debts;
- a person who is under criminal investigation by a judicial organisation for violation of the criminal law for which investigation is not yet concluded;
- a person who is not eligible for enterprise leadership according to laws and administrative regulations;
- a non-natural person;
- a person convicted of contravening provisions of relevant securities regulations by a relevant supervising authority involving a finding that he has acted fraudulently or dishonestly, where less than five years have elapsed since the date of conviction;
- a person who is currently prohibited from the securities market by relevant regulatory authority of the State Council;
- a person who is currently prohibited from the market by banking regulatory authority in the PRC; and
- other circumstances prescribed in laws, administrative regulations and departmental rules.

The validity of an act of a director, president or other senior management acting on behalf of our Bank is not, *vis-à-vis*, a bona fide third party, affected by any irregularity in his office, election or any defect in his qualification.

Borrowing Powers

Our 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:

- provisions which authorise the Board to formulate proposals for the issuance of debentures and other securities by our Bank; and
- provisions which provide that the issuance of debentures and other securities shall be approved by the shareholders' general meeting by a special resolution.

Amendments to the Articles of Association of Our Bank

Our Articles of Association may be amended by special resolution of the shareholders in a shareholders' general meeting. If the amendments are subject to approval by the relevant PRC government authorities, such approval shall be obtained for such amendments. If a registration is necessary for the amendments, such registration shall be carried out in compliance with the relevant laws.

Change of Rights of Existing Shares or Classes of Shares

Rights conferred on any class of shareholders in the capacity of shareholders, or class rights, may not be changed or abrogated unless approved by a special resolution of shareholders in a shareholders' general meeting and by holders of shares of that class at a separate meeting conducted in accordance with our Articles of Association.

The following circumstances shall be deemed a change or abrogation of the class rights of a shareholder class:

- an increase or decrease in the number of shares of such class, or an increase or decrease in the number of shares of such class having voting or distribution rights or privileges equal or superior to those of the shares of such class;
- an exchange of all or part of the shares of such class into shares of another class, or an exchange or the creation of a right to exchange all or part of the shares of another class into the shares of such class;
- the removal or reduction of rights to accrued dividends or rights to cumulative dividends attached to shares of such class;
- the reduction or removal of a dividend preference or a liquidation preference attached to shares of such class;
- the addition, removal or reduction of conversion privileges, options, voting rights or transfer or pre-emptive rights attached to shares of such class, or rights to obtain securities of our Bank;
- the removal or reduction of rights to receive payment payable by our Bank in particular currencies attached to shares of such class;
- the creation of a new class of shares having voting or distribution rights or privileges equal or superior to those of the shares of such class;
- the restriction of the transfer or ownership of the shares of such class or any addition to such restriction;
- the issuance of rights to subscribe for, or convert into, shares in our Bank of such class or another class;
- the increase of the rights or privileges of shares of another class;
- the restructuring of our Bank where the proposed restructuring will result in different classes of shareholders bearing different degrees of responsibility in respect of liability; and
- the variance or abrogation of provisions of "special procedures for voting in class shareholders' general meetings" as contained in our Articles of Association.

Interested shareholders (as defined below) shall not be entitled to vote at "class shareholders' general meetings".

Resolutions of a class of shareholders shall be passed by votes representing two-thirds or more of the voting rights of shareholders of that class present at "class shareholders' general meetings".

Written notice of a "class shareholders' general meeting" shall be given 45 days before the date of the meeting to notify all of the shareholders in the share register of the class of the matters to be considered, the date and the place of such meeting.

Notice of "class shareholders' general meetings" need only be served on shareholders entitled to vote thereat.

Meetings of any class of shareholders shall be conducted in a manner as similar as possible to that of shareholders' general meetings of all shareholders. The provisions of our Articles of Association relating to the manner of conducting a shareholders' general meeting shall apply to any meeting of a class of shareholders.

Holders of domestic shares and H Shares are deemed to be shareholders of different classes.

The special procedures for approval by a class of shares shall not apply in the following circumstances:

- where our Bank issues, upon the approval by a special resolution of its shareholders in a shareholders' general meeting, either separately or concurrently once every 12 months, not more than 20% of each of its existing issued domestic shares and overseas-listed shares;
- where our Bank's plan to issue domestic shares and overseas-listed shares at the time of its establishment is carried out within 15 months of the date of approval of the securities authority of the State Council; or
- where holders of domestic shares transfer their shares, upon the approval by the securities regulatory authority of the State Council, to overseas investors and the shares are listed or traded on the overseas stock exchange.

For the purposes of the class rights provisions of our Articles of Association, the meaning of "interested shareholder(s)" is:

- in the case of a repurchase of shares by offers to all shareholders on a *pro rata* basis or through public trading on a stock exchange, a "controlling shareholder" within the meaning of our Articles of Association;
- in the case of a repurchase of shares by a privately negotiated contract, a shareholder to which the proposed contract relates; and
- in the case of a restructuring of our Bank, a shareholder within a class who bears a less than proportionate burden imposed on that class under the proposed restructuring or who has an interest in the proposed restructuring different from the interest of shareholders of that class.

Resolutions – Majority Required

Resolutions of shareholders' general meetings shall be divided into ordinary resolutions and special resolutions.

To adopt an ordinary resolution, votes representing more than one-half of the voting rights represented by the shareholders (including shareholders' proxies) present at the meeting must be exercised in favour of the resolution.

To adopt a special resolution, votes representing two-thirds or more of the voting rights represented by the shareholders (including shareholders' proxies) present at the meeting must be exercised in favour of the resolution.

Voting Rights

The ordinary shareholders of our Bank have the right to attend or appoint a proxy to attend shareholders' general meetings and vote thereat. A shareholder (including shareholders' proxy) when voting at a shareholders' general meeting may exercise voting rights in accordance with the number of voting shares and each voting share shall have one vote.

At any shareholders' general meeting, a resolution shall be decided on a show of hands unless otherwise required by the relevant securities regulatory authorities of place(s) where our shares are listed or a poll is (before or after any vote by a show of hands) demanded:

- by the chairman of the meeting;
- by at least two shareholders entitled to vote present in person or by proxy; or
- by one or more shareholders present in person or by proxy representing in aggregate 10% or more of all voting shares at the meeting.

Unless required by the relevant securities regulatory authorities of place(s) where our shares are listed or a poll is demanded, the chairman, in accordance with the voting result by a show of hands, may declare the voting result and make an entry to that effect in the minutes of the meeting, which shall be conclusive evidence of the fact.

The demand for a poll may be withdrawn by the person who makes such demand.

A poll demanded on the election of the chairman of the meeting, or on a question of adjournment of the meeting, shall be taken forthwith. A poll demanded on any other question shall be taken at such time as the chairman of the meeting directs, and any other items on the agenda may proceed, pending the taking of the poll. The result of the poll shall be deemed to be a resolution of the meeting on the matter for which the poll was demanded.

On a poll taken at a meeting, a shareholder (including shareholders' proxy) entitled to two or more votes need not cast all his votes in the same way.

Requirement for Annual Meetings

An annual shareholders' general meeting shall be convened within six months of the close of a fiscal year.

Accounts and Audit

Our Bank shall establish its financial and accounting system in accordance with the laws, administrative regulations and rules stipulated by relevant regulatory authorities.

The Board of our Bank shall have a board audit committee which reports and is responsible to the Board. The audit committee shall consist of not less than three members, and shall have such responsibilities and powers as prescribed by our Articles of Association.

The Board shall place before the shareholders at every annual shareholders' general meeting such annual financial reports prepared by our Bank that are required by any laws, administrative regulations or any other regulatory documents promulgated by the relevant regional governments and regulatory authorities.

Our Bank's annual financial reports shall be made available at our Bank for shareholders' inspection 20 days before the date of such annual shareholders' general meeting. Each shareholder shall be entitled to obtain a copy of the financial reports. Our Bank shall deliver to each H Share holder our annual financial reports at least 21 days before the date of such annual shareholders' general meeting by courier, through publication on our website or other methods as stipulated by our Articles of Association.

Unless otherwise required by applicable laws, regulations or relevant listing rules, the financial statements of our Bank shall, in addition to being prepared in accordance with PRC accounting standards and regulations, be prepared in accordance with either IFRS or the applicable accounting standards of the overseas stock exchange on which our Bank's shares are listed. If there is any material difference between the annual financial statements prepared in accordance with the two accounting standards, such difference shall be stated in an appendix to the annual financial statements. When our Bank is to distribute its after-tax profits, it may only distribute from the lower of the after-tax profits as shown in the two financial statements.

Our Bank shall publish its financial reports four times every fiscal year. The annual financial report shall be published within 120 days of the expiration of each fiscal year, the interim financial report shall be published within 60 days of the expiration of the first six months of each fiscal year and the quarterly financial report shall be published within one month of the expiration of the first three months and first nine months of each fiscal year.

Notice of Meetings and Business to be Conducted Thereat

Shareholders' general meetings are divided into annual shareholders' general meetings and extraordinary shareholders' general meetings.

Under any of the following circumstances, our Bank shall convene an extraordinary shareholders' general meeting within two months of the occurrence of any of the following:

- when the number of directors is less than the number of directors required by the PRC Company Law or two-thirds of the number of directors specified in our Articles of Association;
- when the unrecovered losses of our Bank amount to one-third of the total amount of its paid-up share capital;
- when such meeting is requested in writing by shareholder(s) holding individually or in aggregate 10% or more of our Bank's voting shares;
- when the Board deems it necessary;
- when such meeting is proposed by the Board of Supervisors; or
- in other situations as prescribed by laws, administrative regulations, rules or our Articles of Association.

When our Bank convenes a shareholders' general meeting, written notice of the meeting shall be given 45 days before the date of the meeting to notify all the shareholders in the share register of the matters to be considered and the date and the place of the meeting. A shareholder who intends to attend the meeting shall deliver his written reply concerning the attendance of the meeting to our Bank 20 days before the date of the meeting.

When our Bank convenes an annual shareholders' general meeting, the Board, the Board of Supervisors and the shareholder(s) individually or in aggregate holding 3% or more of the total issued and outstanding voting shares of our Bank shall have the right to propose new motions in writing.

Our Bank shall, based on written replies from the shareholders received 20 days before the date of the shareholders' general meeting, calculate the number of voting shares represented by shareholders who intend to attend the meeting. If the number of voting shares represented by the shareholders who intend to attend the meeting is one-half or more of our Bank's total voting shares, our Bank may hold the

meeting. Otherwise, our Bank shall within five days notify the shareholders again by public notice of the matters to be considered and the place and the date for the meeting. Our Bank then may hold the meeting after the publication of such notice.

A notice of a meeting of shareholders must:

- be in writing;
- state the venue, date, time, duration and form of the meeting;
- state the matters to be considered at the meeting and the proposals;
- provide such information and explanations as are necessary for the shareholders to exercise an informed judgement on the proposals before them. Without limiting the generality of the foregoing, where a proposal is made to merge our Bank with another, to repurchase shares, to reorganise the share capital or to restructure our Bank in any other way, the terms of the proposed transaction must be provided in detail together with the proposed contract, if any, and the cause and effect of such proposal must be properly explained;
- contain a disclosure of the nature and extent of any material interest of a director, supervisor, president or other senior management in the matters for discussion and the effect of such interest on his capacity as a shareholder insofar as it is different from the interest of the shareholders of the same class;
- contain the full text of any proposed special resolution to be voted at the meeting;
- contain a prominent statement that a shareholder entitled to attend and vote is entitled to appoint one or more proxies to attend and vote on his behalf and that a proxy need not be a shareholder;
- specify the time and place for lodging proxy forms for the relevant meeting;
- specify the record date on which the shareholders are eligible to attend the meeting; and
- list the name and the phone number of the permanent contact person of the meeting.

Unless otherwise required by relevant laws, regulations, listing rules of place(s) where our shares are listed or our Articles of Association, notice of a shareholders' general meeting shall be served on the shareholders (whether or not entitled to vote at the meeting) by delivery or prepaid mail to their addresses as shown in the share register, or publication on our website or other methods as stipulated in our Articles of Association. For the holders of domestic shares, notice of the meetings may be issued by public notice.

The public notice shall be published in one or more newspapers designated by the securities regulatory authority of the State Council between 45 days and 50 days before the date of the meeting. After the publication of such notice, the holders of domestic shares shall be deemed to have received the notice of the relevant shareholders' general meeting. The accidental omission to give notice of a meeting to, or the non-receipt of notice of a meeting by, any person entitled to receive notice shall not invalidate the proceedings at that meeting.

The following matters shall be decided by an ordinary resolution at a shareholders' general meeting:

- work reports of the Board and the Board of Supervisors;
- plans formulated by the Board for the distribution of profits and for the making up of losses;
- appointment and removal of the members of the Board and members of the Board of Supervisors, their emoluments and method of payment;

- annual preliminary and final budgets, balance sheets and profit and loss accounts and other financial statements of our Bank;
- the annual report of our Bank;
- alteration to the use of raised funds; and
- other matters unless required to be approved by special resolutions in accordance with the applicable laws and regulations or otherwise as stipulated by our Articles of Association.

The following matters shall be decided by a special resolution at a shareholders' general meeting:

- the increase or decrease of share capital and the issuance of shares of any class, warrants for share subscription and other similar securities;
- the issue of debentures of our Bank or listing;
- the separation, merger, dissolution and liquidation, or change of corporate form of our Bank;
- amendments to our Articles of Association;
- investment on fixed assets, provision of external guarantee or external investment that should be submitted to a shareholders' general meeting for approval prescribed by relevant laws, administrative regulations and rules, rules of place(s) where our shares are listed, our Articles of Association or other internal regulations;
- share incentive plans; and
- any other matters prescribed by the relevant laws, administrative regulations and rules, rules of place(s) where our shares are listed or our Articles of Association, or resolved by the shareholders at a shareholders' general meeting by an ordinary resolution that are significant to our Bank and should be adopted by a special resolution.

Transfer of Shares

Subject to the relevant laws, administrative regulations and rules and approval of the securities regulatory authority of the State Council, shares of our Bank registered on our domestic share register may be converted into H shares, and such converted shares may be listed or traded on an overseas stock exchange. The listing or trading of the converted shares on an overseas stock exchange shall also comply with the regulatory procedures, rules and requirements of such overseas stock exchange. Such listing and trading of the converted shares on an overseas stock exchange does not require the convening of a class shareholders' general meeting to be voted on.

All the fully paid-up H Shares can be freely transferred in accordance with our Articles of Association. For H Shares listed on the Hong Kong Stock Exchange, if the requirements stipulated in our Articles of Association are not met, the Board may refuse to accept any transfer documents without giving explanation for such refusal.

The alteration to, or rectification of, any part of the share register shall be carried out in accordance with the laws of the place where the share register is maintained.

No changes resulting from share transfers may be made to the register of H Share holders within 30 days before the date of a shareholders' general meeting or within five days before a record date for our Bank's distribution of dividends.

Power of Our Bank to Repurchase Our Own Shares

We may, in accordance with the stipulations of laws, administrative regulations and rules, and our Articles of Association, repurchase our issued shares under the following circumstances:

- for the reduction of our registered capital;
- when merging with another company that holds shares in our Bank;
- when offering the shares to our employees as a bonus;
- when the shareholder disagrees with the resolution of the shareholders' general meeting on the merger or separation of our Bank and requires our Bank to repurchase his shares; and
- under other circumstances permitted by the applicable laws or administrative regulations.

We may, with the approval of the relevant regulatory authority, conduct the repurchase in any one of the following ways:

- making a *pro rata* offer of repurchase to all of our shareholders;
- repurchasing shares through public trading on a stock exchange;
- repurchasing by a privately negotiated agreement; or
- by other means as stipulated by the applicable laws and regulations or as approved by the relevant regulatory authority.

Where we repurchase our shares by a privately negotiated agreement, the prior approval of shareholders shall be obtained in accordance with our Articles of Association. We may release, vary or waive any rights under such a contract with the prior approval of shareholders obtained in the same manner.

Shares repurchased by our Bank shall be cancelled within the period prescribed by the applicable laws or administrative regulations.

Unless our Bank is being liquidated, it must comply with the following provisions in relation to the repurchase of our issued shares:

- where our Bank repurchases our shares at par value, payment shall be made out of our distributable profits or out of proceeds of a fresh issue of shares made for that purpose;
- where our Bank repurchases our shares at a premium to par value, payment equivalent to the par value shall be made out of our distributable profits or out of the proceeds of a fresh issue of shares made for that purpose. Payment of the portion in excess of the par value shall be effected as follows: (i) if the shares being repurchased were issued at par value, payment shall be made out of our distributable profits; or (ii) if the shares being repurchased were issued at a premium to par value, payment shall be made out of our distributable profits or out of the proceeds of a fresh issue of shares made for that purpose, provided that the amount paid out of the proceeds of the fresh issue shall exceed neither the aggregate of the premiums received by our Bank on the issue of the shares repurchased nor the current amount (including the premiums on the fresh issue) of our capital reserve account;
- payment by our Bank in consideration of the following shall be made out of our distributable profits: (i) acquisition of rights to repurchase our shares; (ii) amendment of any contract to repurchase our shares; and (iii) release of any of our obligations under any contract to repurchase our shares; and
- after our registered share capital has been reduced by the total par value of the cancelled shares in accordance with the relevant provisions, the amount deducted from the distributable profits for payment of the par value portion of the shares repurchased shall be transferred to our capital reserve account.

Right of Our Subsidiaries to Own Shares in Our Bank

There are no provisions in our Articles of Association preventing a subsidiary of our Bank from owning any of our shares.

Dividends and Other Methods of Profit Distribution

Our Bank may distribute dividends in the form of cash or shares.

Cash dividends or other payments declared by our Bank to be payable to holders of domestic shares shall be calculated and declared in Renminbi and paid in Renminbi. Those payable to holders of H Shares shall be calculated and declared in Renminbi and paid in Hong Kong dollars.

Our Bank shall appoint receiving agents to receive on behalf of holders of the H Shares dividends declared and all other monies payable by our Bank in respect of their H Shares. The receiving agents appointed on behalf of holders of the H Shares shall be a company registered as a trust company under the Trustee Ordinance of Hong Kong.

Our Bank shall have the right to terminate sending dividend warrants to holders of overseas listed shares by mail, but our Bank shall exercise the right only after a dividend warrant fails to be redeemed for two consecutive occasions, however our Bank can exercise the right after the first occasion on which such a dividend warrant is returned as undelivered.

Our Bank shall have the power to sell, in such manner as the Board thinks fit, any overseas listed shares of a shareholder of who is untraceable, but is subject to the following conditions: (i) our Bank has distributed dividends for at least three times in respect of such shares within 12 years, but none of such dividends was claimed; and (ii) our Bank, after the expiration of a period of 12 years, made an advertisement on one or more newspapers of the place which our Bank is listed, stating its intention to sell such shares, and notified the stock exchange of the place which our Bank is listed of such intention.

Proxies

Any shareholder entitled to attend and vote at a meeting of our Bank shall be entitled to appoint one or more other persons (whether a shareholder or not) as his proxy to attend and vote on his behalf, and a proxy so appointed shall:

- have the same right as the shareholder to speak at the shareholders' general meeting;
- have authority to demand a poll or join in such a demand; and
- have the right to vote by hand or on a poll, except that, where a shareholder has appointed more than one proxy, his/her proxies may only exercise the voting rights when a poll is taken.

Shareholders shall entrust the proxy in writing, and the proxy shall be signed by the shareholders or agents authorised by the shareholders in writing. If the shareholder is a legal entity, the instrument shall be sealed with the legal entity's stamp or signed by its directors or agents authorised in writing. The instrument appointing a voting proxy and, if such instrument is signed by a person under a power of attorney on behalf of the appointer, a notary certified copy of that power of attorney or other authority shall be deposited at the residence of our Bank or at such other place as is specified for that purpose in the notice convening the meeting, not less than 24 hours before the time for holding the meeting at which the proxy proposes to vote or 24 hours before the time specified for voting.

If the appointer is a legal entity, its legal representative or such person as is authorised by its Board or other decision-making authorities may attend our shareholders' general meeting as a representative of the appointer.

Any proxy form used by a shareholder for appointing a proxy to attend and vote at a shareholders' general meeting shall enable the shareholder to instruct the proxy to vote in favour of or against each resolution put to vote at the meeting individually. Such a proxy form shall contain a statement, that in the absence of instructions by the shareholder, the proxy may vote as he thinks appropriate.

A vote given in accordance with the terms of an instrument appointing the proxy shall be valid notwithstanding the death or incapacity of the appointer or revocation of the proxy or of the authorisation granted by the executed appointing instrument, or the relevant shares in respect of which the proxy is given have been transferred, provided that no notice in writing of such death, incapacity, revocation or transfer has been received by our Bank before the commencement of the meeting at which the proxy is used.

Calls on Shares and Forfeiture of Shares

There are no provisions in our Articles of Association relating to the making of calls on shares or for the forfeiture of shares.

Rights of Shareholders (Including Inspection of Register of Shareholders)

The ordinary shareholders of our Bank shall enjoy the following rights:

- entitlements to dividends and other distributions in proportion to the number of shares held;
- the right to attend or appoint a proxy to attend shareholders' general meetings and vote at the meetings in proportion to the number of shares held;
- the right to supervise the management and business operations of our Bank, and the right to present proposals or to raise inquiries in relation thereto;
- the right to transfer shares in accordance with laws, regulations, the relevant requirements of the regulatory authorities of the place(s) where our shares are listed and the provisions of our Articles of Association;
- the right to obtain relevant information in accordance with the provisions of our Articles of Association, including:
 - the right to obtain a copy of our Articles of Association, subject to payment of the cost of obtaining such a copy;
 - the right to inspect and copy, subject to payment of a reasonable charge:
 - all parts of the register of shareholders;
 - the information regarding directors, supervisors, a president or other senior management of our Bank;
 - our share capital;
 - reports showing the aggregate par value, quantity, maximum and minimum price paid in respect of each class of shares repurchased by our Bank since the end of the last accounting year, and the aggregate expenses incurred by our Bank for this purpose; and
 - minutes of the shareholders' general meetings;
- in the event of termination or liquidation of our Bank, the right to participate in the distribution of the remaining assets of our Bank in accordance with the number of shares held;
- in the event that the shareholder disagrees with the resolution of the shareholders' general meeting on the merger or separation of our Bank, the right to require that our Bank repurchase its shares; and
- other rights conferred by the applicable laws, administrative regulations or our Articles of Association.

Quorum for Meetings and Separate Class Meetings

Our Bank may convene a shareholders' general meeting or "class shareholders' general meeting" where our Bank has received 20 days before such meeting written replies from shareholders who are entitled and intend to attend the meeting and the number of voting shares held by those shareholders is one-half or more of our voting shares or the voting shares of that class. Otherwise, our Bank shall, within five days, notify the shareholders again by public notice of the matters to be considered and the place and the date for the meeting. Our Bank then may hold the shareholders' general meeting or "class shareholders' general meeting."

Rights of Minority Shareholders

In addition to obligations on controlling shareholders imposed by the applicable laws, administrative regulations requirements imposed by the stock exchange(s) on which our shares are listed, our Articles of Association provide that a controlling shareholder shall not exercise his voting rights, in a manner prejudicial to the interest of the shareholders in general or a part of the shareholder group of our Bank in respect of the following matters:

- to relieve a director or supervisor of his duty to act honestly and in the best interest of our Bank;
- to approve the expropriation by a director or supervisor (for his own benefit or for the benefit of another person), under any disguise, of our Bank's assets, including (without limitation) opportunities beneficial to our Bank; or
- to approve the expropriation by a director or supervisor (for his own benefit or for the benefit of another person) of the rights of other shareholders, including (without limitation) rights to distributions and voting rights, except pursuant to a restructuring submitted to the shareholders' general meeting for approval in accordance with our Articles of Association.

For these purposes, a "controlling shareholder" means a person who satisfies any one of the following conditions:

- alone, or acting in concert with others, has the power to elect half or more of the Board;
- alone, or acting in concert with others, has the power to exercise or to control the exercise of 30% or more of the voting rights in our Bank;
- alone, or acting in concert with others, holds 30% or more of the shares of our Bank; or
- alone, or acting in concert with others, having de-facto controls our Bank in any other manner.

Procedures on Liquidation

Our Bank shall be dissolved and liquidated upon the occurrence of any of the following events:

- the term of operation expires;
- a resolution for dissolution is passed by shareholders at a shareholders' general meeting;
- dissolution is necessary due to a merger or separation of our Bank;
- our Bank is ordered to have its business licence revoked or be closed down or dissolved pursuant to the law;
- our Bank meets any serious difficulty in its operations or management so that the interests of the shareholders will face significant loss if it continues to exist and the problem cannot be solved by any other means; the shareholders who hold 10% or more of the voting rights of the issued shares of the company may ask the people's court to dissolve the company; or

- our Bank is legally declared bankrupt due to its failure to repay debts due.

Where the Board decides to liquidate our Bank due to reasons other than insolvency, the Board shall include a statement in its notice convening a shareholders' general meeting to the effect that, after making full inquiry into the affairs of our Bank, the Board is of the opinion that our Bank will be able to repay its debts in full within 12 months of the commencement of the liquidation.

Upon the adoption of the resolution to liquidate our Bank in a shareholders' general meeting, all functions and powers of the Board shall cease immediately.

The liquidation committee shall act in accordance with the instructions of the shareholders' general meeting to make a report at least once every year to the shareholders' general meeting on the liquidation committee's receipts and payments, the business of our Bank and the progress of the liquidation and to present a final report to the shareholders' general meeting upon completion of the liquidation.

Other Provisions Material to Our Bank and Our Shareholders

General Provisions

Our Articles of Association become effective on the date our H Shares are listed on the Hong Kong Stock Exchange. Thereafter, our Articles of Association constitute a legally binding document regulating our organisation and activities, and the rights and obligations between our Bank and each shareholder and among the shareholders *inter se*.

Our Bank may, based on its needs for operation and development and in accordance with applicable laws and regulations, increase its capital upon resolution at the shareholders' general meeting and subject to approval by the banking regulatory authority of the State Council approving the increase of its capital.

Our Bank may increase its capital in the following ways:

- offering new shares to unspecified investors for subscription;
- placing new shares to its existing shareholders;
- distributing new shares to its existing shareholders;
- covering capital reserve into capital; and
- using any other ways permitted by the applicable laws, administrative regulations and relevant regulatory authority.

Any increase of capital by issuing new shares shall, after being approved in accordance with the provisions of our Articles of Association, be conducted in accordance with the procedures stipulated by the applicable laws and administrative regulations.

Each shareholder of our Bank shall assume the following obligations:

- to abide by laws, administrative regulations and our Articles of Association;
- to pay subscription monies according to the number of shares subscribed and the method of subscription;
- not to withdraw the shares unless in circumstances as permitted by the applicable laws and regulations;

- not to abuse his shareholder's rights to the detriment of any of the interests of our Bank or of other shareholders, or to abuse the limited liability status of a corporation to defraud any creditor of our Bank. Where any of the shareholders of our Bank causes any loss to our Bank or to other shareholders by abusing the shareholder's rights, it shall be liable for compensating the company or the other shareholders. Where any of the shareholders of our Bank evades the payment of its debts by abusing the limited liability status of our Bank, resulting in serious prejudice to the interests of any creditor of our Bank, it shall bear several and joint liability for such debts of our Bank;
- we shall define and determine our liquidity squeeze and conduct a stress test by strictly following the relevant the CBRC rules. If the possibility that we will encounter liquidity squeeze arises, all shareholders that have taken out loans from our Bank shall repay the loans that are due immediately and undue loans shall be prepaid;
- shareholders shall protect the interests and benefits of our Bank. The shareholders who borrow from our Bank are not entitled to more favourable terms than other borrowers if the loans concerned are in the same category; if a shareholder manipulates its status as our shareholder to maliciously interfere with the lawful operation of our Bank or cause damage to the interests of our Bank, our Bank is entitled to bring a lawsuit to the court to stop the illegal action;
- the credit balance to a single shareholder may not exceed 10% of the net capital of our Bank. The loans extended by our Bank to the affiliate(s) of a single shareholder are counted in aggregation with the loans extended to the shareholder, the total amount of which shall not exceed 15% of the net capital of our Bank;
- if the capital adequacy ratio of our Bank falls below the statutory standard and relevant requirements by the CBRC, the shareholders shall support the measures put forward by the Board to raise the capital adequacy ratio;
- shareholders shall, in a timely, accurate and complete manner, report to the Board information about their affiliate(s), connected relationship with other shareholders, equity participation in other commercial banks and connected transactions with our Bank. Corporate shareholders shall report to the Board their material changes such as change of legal representatives, corporate name, registered address and connected parties in a timely manner; and
- to assume other obligations imposed by the applicable laws and administrative regulations or our Articles of Association.

Shareholders are not liable to make any further contribution to the share capital other than as agreed by the subscriber of the relevant shares on subscription.

Directors' Qualification Shares

A director is a natural person, who does not necessarily hold the shares of our Bank.

Board of Supervisors

Our Bank shall establish a Board of Supervisors. The directors, president and other senior management shall not act concurrently as supervisors. The Board of Supervisors shall be composed of five to nine supervisors. The Board shall have one chairman and one vice chairman. The term of office of supervisors shall be three years, renewable upon re-election. The election or removal of the chairman shall be determined by two-thirds or more of the members of the Board of Supervisors, and the election or removal of the vice chairman shall be determined by a majority of the Board of Supervisors. A resolution of the Board of Supervisors shall be passed by two-thirds or more of the members of the Board of Supervisors.

The Board of Supervisors shall consist of external supervisor(s) elected and removed by a shareholders' general meeting. Supervisors representing shareholders shall be elected and removed by a shareholders' general meeting; the employee supervisors shall be elected by the employees of our Bank at a staff representative assembly, general staff meeting or otherwise.

The Board of Supervisors shall be accountable to the shareholders and exercise the following powers in accordance with law:

- to review the regular reports by our Board and opine on the reports in writing;
- to examine and supervise our financial activities;
- to oversee and evaluate the conduct of our directors and senior management in carrying out their duties;
- to demand that director and senior management rectify their conduct when such conduct is prejudicial to the interests of our Bank, and report such conduct to shareholders' general meetings or relevant regulatory authorities;
- to conduct self-appraisal for the work carried out by the Board of Supervisors, and assess the performance of duties by our Supervisors;
- to propose the convening of extraordinary shareholders' general meetings, and to convene the shareholders' general meetings if our Board fails to call such a meeting as required;
- to present proposals to the shareholders' general meetings;
- to attend meetings of the Board and Board Committees, and, if necessary, to attend meetings of senior management and raise inquiries or suggestions on the proposals;
- to carry out an audit of any resigning senior management;
- to inquire into directors, the Board and senior management;
- to review and provide written opinions on our Bank's profit distribution proposals;
- to oversee the engagement and performance of the accounting firm of our Bank;
- to conduct auditing over the issues in connection with our financial activities, operation and decision-making, risk management and internal control;
- to bring actions against directors and senior management according to the PRC Company Law;
- to investigate any irregularities in the operations of our Bank, and may engage accounting firms, law firms or other professional firms to assist its work if necessary; and
- to exercise other powers prescribed by our Articles of Association, and powers conferred by the shareholders' general meeting.

President

Our president shall be responsible to the Board and exercise the following powers:

- to be in charge of the daily operation of our administration, and report on his work to the Board;
- to organise the implementation of the resolutions of the Board, our annual plan and our investment proposal;

- to draft plans for the establishment, dissolution and merger of our internal management departments and our outlets;
- to draft our basic management system and to formulate specific rules for our Bank;
- to propose to the Board to appoint or dismiss senior management (other than those required to be proposed by the chairman of the Board);
- to appoint or dismiss management (other than those required to be appointed or dismissed by the Board);
- to authorise senior management, chief officers of our internal departments and the branches to engage in business operation;
- to decide emoluments, welfares and the imposition of any disciplinary measures of employees;
- to decide the engagement and dismissal of employees; and
- to exercise other powers conferred by our Articles of Association or granted by the Board or chairman of the Board.

Our president shall be present at meetings of the Board. However, the president shall have no voting rights at the meetings unless he is also a director.

Board

The Board is accountable to the shareholders and exercises the following powers:

- to convene shareholders' general meetings and to report on its performance to shareholders at the shareholders' general meetings;
- to implement the resolutions of the shareholders' general meetings;
- to decide on our development plans, operational plans, investment plans and material asset disposal plans;
- to formulate our proposed annual preliminary and final financial budgets;
- to formulate our profit distribution plans and plans for recovery of losses;
- to formulate proposals for increases in or reductions of our registered share capital, issuance of bonds or other securities and listing plans;
- to formulate proposals for material acquisitions, the repurchase of our shares, merger, separation, change of the form of our Bank or dissolution or liquidation of our Bank;
- to conduct regular evaluations and improve our Bank's corporate governance;
- within the scope authorised by our shareholders' general meetings, to decide on external investments, purchases and sales of assets, pledges of assets, provision of guarantees, and connected transaction matters;
- to decide on the establishment of our internal management departments, outlets, number of staff and size of management team;
- to appoint or remove our president and secretary to our Board based on the nominations by the chairman; to appoint or remove the vice presidents, assistants to the president, head of finance department and other senior management based on the nominations by the president and to decide on matters relating to their emoluments and on the imposition of any disciplinary measures;

- to establish our basic management system;
- to formulate proposals for any amendment to our Articles of Association;
- to manage our disclosure of information;
- to propose the appointment or change of the accounting firms auditing our Bank;
- to review working reports of the president and to examine the president's performance;
- to review information disclosed in accordance with Hong Kong Listing Rules; and
- to exercise any other power prescribed by the applicable laws, administrative regulations and rules, as well as any other power conferred by our Articles of Association.

Meetings of the Board shall be held by the Board at least four times every year and be convened by the chairman of the Board. Notice of the meeting shall be served on all of the directors and supervisors 14 days before the date of a regular meeting.

Meetings of the Board shall be held only if more than half of the directors are present. Each director shall have one vote.

Resolution of Disputes

Whenever any disputes or claims arise from any rights or obligations provided in our Articles of Association, the PRC Company Law or any other relevant laws, administrative regulations and such claims concern the affairs of our Bank and are between holders of the H Shares and our Bank, holders of the H Shares and our directors, supervisors, president or other senior management, or holders of the H Shares and holders of our domestic shares, the relevant parties shall forthwith refer such disputes or claims to arbitration for resolution.

A claimant may elect for arbitration at either the CIETAC in accordance with its rules or the HKIAC 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 a claimant elects for arbitration at the HKIAC, 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 HKIAC.

If any disputes or claims of rights are referred to arbitration, the laws of the PRC shall apply, save as otherwise provided by relevant laws and administrative regulations.

Where a dispute or claim 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, shall abide by the arbitration, provided that such person is our shareholder, director, supervisor, president or other senior management.

The decision of an arbitration body shall be final, conclusive and binding on all parties.

1. TAXATION OF SECURITY HOLDERS

The taxation of income and capital gains of holders of H Shares is subject to the laws and practices of the PRC and of jurisdictions in which holders of H Shares are resident or otherwise subject to tax. The following summary of certain relevant taxation provisions is based on current law and practice, is subject to change and does not constitute legal or tax advice. The discussion does not deal with all possible tax consequences relating to an investment in the H Shares. Accordingly, you should consult your own tax adviser regarding the tax consequences of an investment in the H Shares. The discussion is based upon laws and relevant interpretations in effect as of the Latest Practicable Date, all of which are subject to change.

A. The PRC

Certain PRC tax provisions related to the ownership and disposal of H Shares purchased under the Global Offering and held by the investors as capital assets are summarised below. This summary does not purport to address all material tax consequences of the ownership of H Shares and does not take into account the specific circumstances of any particular investors. This summary is based on various PRC tax laws as in effect on the Latest Practicable Date, as well as on the Agreement between the U.S. and the PRC for the Avoidance of Double Taxation (the “Treaty”), all of which are subject to change (or changes in interpretation), possibly with retroactive effect.

This discussion does not address any aspects of PRC taxation other than income tax, capital tax, stamp duty and estate duty. Prospective investors are urged to consult their financial advisers regarding the PRC, Hong Kong and other tax consequences of owning and disposing of H Shares.

Taxation of Dividends

Individual Investors. According to the Provisional Regulations of the PRC Concerning Questions of Taxation on Enterprises Experimenting with the Share System, the Individual Income Tax Law of the PRC (中華人民共和國個人所得稅法) (the “IIT Law”), as amended on 31 October 1993, 30 August 1999, 27 October 2005, 29 June 2007, 29 December 2007 and further amended and came into effect on 30 June 2011 and the Regulations on Implementation of the Individual Income Tax Law of the PRC (中華人民共和國個人所得稅法實施條例), dividends paid by PRC companies are subject to a PRC withholding tax levied at a flat rate of 20%. For a foreign individual who is not a resident of the PRC, the receipt of dividends from a company in the PRC is normally subject to a withholding tax of 20% unless specifically exempted by the tax authority of the State Council or reduced by an applicable tax treaty.

Pursuant to the Notice of the State Administration of Taxation on Issues Concerning Taxation and Administration of Individual Income Tax After the Repeal of the Document Guo Shui Fa 1993 No.45 (國家稅務總局關於國稅發[1993]045號文件廢止後有關個人所得稅徵管問題的通知) issued by the SAT on 28 June 2011, domestic non-foreign-invested enterprises issuing shares in Hong Kong may, when distributing dividends, withhold individual income tax at the rate of 10%. For the individual holders of H Shares receiving dividends who are citizens from countries that have entered into an income tax treaty with tax rates lower than 10%, we will apply on behalf of such holders to seek entitlement of the lower preferential tax treatments, and, upon examination and approval by the tax authorities, the amount which is over the withheld tax will be refunded. For the individual holders of H shares receiving dividends who are citizens from countries that entered into an income tax treaty with tax rates higher than 10% but lower than 20%, we are required to withhold the tax at the agreed rate under the treaty, and no application procedures will be necessary. For the individual holders of H Shares receiving dividends who are citizens from countries without taxation agreements with the PRC or are under other situations, we are required to withhold the tax at a rate of 20%.

Enterprise Investors. In accordance with the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法) (the “EIT Law”), and the Implementation Regulations for the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法實施條例), both effective as of 1 January 2008, a non-resident enterprise is generally subject to a 10% enterprise income tax on PRC-sourced income, if such non-resident enterprise does not have an establishment or place in the PRC or has an establishment or place in the PRC but the PRC-sourced income is not connected with such establishment or place in the PRC. The Circular on Issues Relating to the Withholding of Enterprise Income Tax by PRC Resident Enterprises on Dividends Paid to Overseas Non-PRC 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 6 November 2008, further clarified that a PRC-resident enterprise must withhold enterprise income tax at a rate of 10% on dividends paid to non-PRC resident enterprise shareholders of H Shares with respect to the dividends distributed out of profit generated after 1 January 2008. The Response to Questions on Levying Enterprise Income Tax on Dividends Derived by Non-resident Enterprise from Holding B-shares (國家稅務總局關於非居民企業取得B股等股票股息徵收企業所得稅問題的批復) issued by the SAT on 24 July 2009 further provides that any PRC-resident enterprise that is listed on overseas stock exchanges must withhold enterprise income tax at a rate of 10% on dividends that it distributes to non-resident enterprises. Such tax rate may be reduced pursuant to the tax treaty or agreement that China has concluded with a relevant jurisdiction, where applicable.

Taxation of Capital Gains

Individual Investors. According to the IIT Law and the implementation regulations, gains realised on the sale of equity interests are subject to the income tax at a rate of 20%, unless such tax is reduced or exempted under relevant double taxation treaties. The MOF is authorised by the implementation regulations to formulate specific implementing measures for levying the individual income tax on any gains realised on the sale of shares in PRC companies. However, as of the Latest Practicable Date, no such implementing measures have expressly provided individual income tax shall be collected from non-Chinese resident individuals on the sale of shares in PRC resident enterprises listed on overseas stock exchanges, and in practice such tax has not been collected by the PRC tax authorities.

Enterprise Investors. In accordance with the EIT Law and its implementation regulations, a non-resident enterprise is generally subject to enterprise income tax at a rate of 10% with respect to PRC-sourced income, including gains derived from the disposal of equity interests in a PRC resident enterprise, if it does not have an establishment or place in the PRC or has an establishment or premises in the PRC but the PRC-sourced income is not connected with such establishment or premise in the PRC. As of the Latest Practicable Date, no legislation has expressly provided that enterprise income tax shall be collected from non-Chinese resident enterprises on their income derived by them from sale of the shares in PRC companies listed on overseas stock exchanges. However, the possibility cannot be entirely excluded that taxation authorities will seek to collect enterprise income tax on such income in the future. In addition, such tax may be exempted in China if the tax treaty or agreement that China concluded with the relevant jurisdictions, where applicable, states that China may not tax capital gains.

Stamp Duty

Pursuant to the Provisional Regulations of the PRC Concerning Stamp Duty (中華人民共和國印花稅暫行條例), effective as of 1 October 1988 and amended on 8 January 2011, stamp duty imposed on the transfer of shares of PRC listed companies shall not apply to the acquisition and disposal of H Shares by non-PRC investors outside the PRC. The regulation provides that PRC stamp duty is only applicable to such documents as executed or received within the PRC and having legally binding force in the PRC and protected under the PRC laws.

Estate Duty

Non-PRC holders of H Shares are not subject to any estate duty according to the PRC laws.

B. Hong Kong*Tax on Dividends*

Under current practice, no tax is payable in Hong Kong in respect of dividends paid by us.

Capital Gains and Profit Tax

No tax is imposed in Hong Kong in respect of capital gains from the sale of H shares. However, trading gains from the sale of the H shares by persons carrying on a trade, profession or business in Hong Kong, where such gains are derived from or arise in Hong Kong from such trade, profession or business will be subject to Hong Kong profits tax, which is currently imposed at the maximum rate of 16.5% on corporations and at the maximum rate of 15% on unincorporated businesses. Certain categories of taxpayers are likely to be regarded as deriving trading gains rather than capital gains (for example, financial institutions, insurance companies and securities dealers) unless these taxpayers could prove that the investment securities are held for long-term investment purposes.

Trading gains from sales of H Shares effected on the Hong Kong Stock Exchange will be considered to be derived from or arise in Hong Kong. Liability for Hong Kong profits tax would thus arise in respect of trading gains from sales of H Shares effected on the Hong Kong Stock Exchange realised by persons carrying on a business of trading or dealing in securities in Hong Kong.

Stamp Duty

Hong Kong stamp duty, currently charged at the ad valorem rate of 0.1% on the higher of the consideration for or the market value of the H Shares, will be payable by the purchaser on every purchase and by the seller on every sale of any Hong Kong securities, including H Shares (in other words, a total of 0.2% is currently payable on a typical sale and purchase transaction involving H Shares). In addition, a fixed duty of HK\$5.00 is currently payable on any instrument of transfer of H Shares. Where one of the parties is a resident outside Hong Kong and does not pay the ad valorem duty due by it, the duty not paid will be assessed on the instrument of transfer (if any) and will be payable by the transferee. If no stamp duty is paid on or before the due date, a penalty of up to 10 times the duty payable may be imposed.

Estate Duty

The Revenue (Abolition of Estate Duty) Ordinance 2005 abolished estate duty in respect of deaths occurring on or after 11 February 2006.

2. TAXATION OF OUR BANK BY THE PRC**Enterprise Income Tax**

As stipulated under the EIT Law, enterprises and other organisations which generate income within the PRC are enterprise income taxpayers and shall pay enterprise income tax according to stipulations of the EIT Law. The EIT Law and its implementation regulations came into effect on 1 January 2008, while the former Income Tax Law of the PRC Concerning Foreign Investment Enterprises and Foreign Enterprises (中華人民共和國外商投資企業和外國企業所得稅法) and Provisional Regulations of the PRC on Enterprise Income Tax (中華人民共和國企業所得稅暫行條例) were abrogated on the same date.

Pursuant to the EIT Law, the income tax rate for PRC enterprises is reduced from the original 33% to 25%, same as the rate applied to foreign investment enterprises and foreign enterprises. Non-PRC resident enterprises (i.e. enterprises established under foreign laws with their actual management entities outside the PRC and without offices or premises established in the PRC or, if established, or if established, the income generated in the PRC is not actually associated with such offices and premises, are subject to enterprise income tax at a rate of 20% on their income generated within the PRC.

Business Tax

Pursuant to the Provisional Regulations of the PRC on Business Tax (中華人民共和國營業稅暫行條例), which became effective on 1 January 1994, subsequently amended on 5 November 2008 and implemented on 1 January 2009, enterprises (including foreign investment enterprises) and individuals that provide various labour services and 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 taxable services or other transactions, except for the entertainment sector, the turnover of which is subject to business tax at a rate of 5% to 20%.

3. TAXATION OF OUR BANK IN HONG KONG

Our Directors do not consider that any of our Bank's income is derived from or arises in Hong Kong for the purpose of Hong Kong taxation. Our Bank will therefore not be subject to Hong Kong taxation.

4. FOREIGN EXCHANGE

The lawful currency of the PRC is the Renminbi, which is currently subject to foreign exchange control and is not freely convertible into foreign exchange. The SAFE, under the PBOC, is responsible for administration of all matters relating to foreign exchange, including the enforcement of foreign exchange control regulations.

In 1994, the PBOC announced that the foreign exchange quota system was abolished, the implementation of conditional convertibility of Renminbi under current accounts, the establishment of a system of settlement and payment of foreign exchange by banks, and the unification of the official exchange rate for Renminbi with the market rate for the same fixed by swap centres.

On 29 January 1996, the State Council promulgated new Regulations of the PRC for Foreign Exchange Control (中華人民共和國外匯管理條例) (the "Foreign Exchange Control Regulations") which became effective on 1 April 1996. The Foreign Exchange Control Regulations classifies all international payments and transfers into current account items and capital account items. Most of the current account items are no longer subject to SAFE's approval, while capital account items still are. The Foreign Exchange Control Regulations were subsequently amended on 14 January 1997 and 1 August 2008. The latest amendment to the Foreign Exchange Control Regulations clearly states that the State will not impose any restriction on international current account payments and transfers.

On 20 June 1996, the PBOC promulgated the Regulations for the Administration of Settlement, Sale and Payment of Foreign Exchange (結匯、售匯及付匯管理規定) (the "Settlement Regulations") which became effective on 1 July 1996. The Settlement Regulations supersede the Provisional Regulations and abolish the remaining restrictions on convertibility of foreign exchange under current account items, while retaining the existing restrictions on foreign exchange transactions under capital account items. On the basis of the Settlement Regulations, the PBOC also published the Announcement on the Implementation of

Foreign Exchange Settlement and Sale at Banks by Foreign Investment Enterprises (關於對外商投資企業實行銀行結售匯的公告). The Announcement permits foreign investment enterprises to open, if necessary, foreign exchange settlement accounts for the receipt and payment of foreign exchange under the current accounts and designated accounts for the receipt and payment under the capital accounts at designated foreign exchange banks.

The PBOC announced that, beginning from 21 July 2005, the PRC would implement a regulated and managed floating exchange rate system in which the exchange rate would be determined based on supply and demand and with reference to a basket of currencies. The Renminbi exchange rate is no longer pegged to the U.S. dollar. The PBOC will publish the closing price of the 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 will fix the central parity for Renminbi transactions on the following business day.

Starting from 4 January 2006, the PBOC introduced over-the-counter transactions into the interbank spot foreign exchange market for the purpose of improving the formation mechanism of the central parity of Renminbi exchange rates, and the way of matching shall be kept at the same time. In addition to the above, the PBOC introduced the market-maker rule to provide liquidity to the foreign exchange market. After the introduction of over-the-counter transactions, the formation mechanism of the central parity of Renminbi exchange rates is improved to be a mechanism where the China Foreign Exchange Trade System would determine the central parity of Renminbi exchange rates based on the over-the-counter transactions and announce the central parity of the Renminbi against the U.S. dollar at 9:15 a.m. on each business day under the authorisation of the PBOC.

On 5 August 2008, the State Council promulgated the revised Regulations of the PRC for the Control of Foreign Exchange (the “Revised Foreign Exchange Control Regulations”), which have made substantial changes to the foreign exchange supervision system of the PRC. First, the Revised Foreign Exchange Control Regulations have adopted an approach of balancing the inflow and outflow of foreign exchange. Foreign exchange income received overseas can be repatriated or deposited overseas, and foreign exchange and foreign exchange settlement funds under the capital account are required to be used only for purposes as approved by the competent authorities and foreign exchange administrative authorities. Second, the Revised Foreign Exchange Control Regulations have improved the mechanism for determining the RMB exchange rate based on market supply and demand. Third, the Revised Foreign Exchange Control Regulations have enhanced the monitoring of cross-border foreign currency fund flows. In the event that revenues and costs in connection with international transactions suffer or may suffer a material misbalance, or the national economy encounters or may encounter a severe crisis, the State may adopt necessary safeguard or control measures. Fourth, the Revised Foreign Exchange Control Regulations have enhanced the supervision and administration of foreign exchange transactions and grant extensive authorities to the SAFE to enforce its supervisory and administrative powers.

Save for the foreign investment enterprises or other exempted enterprises under the relevant regulations, all entities in the PRC (except for certain foreign trading companies and manufacturers with rights to import and export, which are allowed to retain part of their foreign exchange income earned from their existing current account transactions and make payments with such retained foreign exchange in their current account transactions or approved capital account transactions) 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 bonds and shares (such as foreign exchange income our Bank obtained from the sale of shares overseas) is not required to be sold to, but may be deposited in foreign exchange accounts at, designated foreign exchange banks.

PRC enterprises (including foreign investment enterprises) which need foreign exchange for transactions relating to current account items may, without the approval of the SAFE, effect payment from their foreign exchange accounts or at the designated foreign exchange banks, on the strength of valid receipts and proof. Foreign investment enterprises which need foreign exchange for the distribution of profits to their shareholders and PRC enterprises which, in accordance with any regulations, are required to pay dividends to their shareholders in foreign exchange (such as our Bank) may, on the strength of board resolutions approving the distribution of profits, effect payment from their foreign exchange accounts or convert and pay dividends at the designated foreign exchange banks.

In addition, on 28 January 2013, the SAFE issued the Notice of the State Administration of Foreign Exchange on Issues Concerning the Foreign Exchange Administration of Overseas Listing (國家外匯管理局關於境外上市外匯管理有關問題的通知). Pursuant to this Notice, a domestic issuer shall, within 15 working days of the end of its initial public offering overseas, register with the SAFE's local branch at the place of its incorporation. The SAFE branch shall issue a certificate of overseas listing upon verification, based on which the domestic issue can open a special account with a local bank to deposit proceeds from its overseas initial public offering. The proceeds from an overseas listing may be remitted to the domestic account or deposited in an overseas account, but the use of the proceeds shall be consistent with the content of the prospectus and other disclosure documents. The conversion of proceeds remitted to domestic accounts into RMB shall be approved by the local SAFE branch.

Dividends to holders of H Shares are declared in Renminbi but must be paid in Hong Kong dollars.

1. FURTHER INFORMATION ABOUT OUR BANK**A Incorporation**

Our Bank was established in the PRC under the PRC Company Law as a joint stock limited liability company on 25 July 1997 under the name of “Harbin Urban Cooperative Bank”. On 30 April 1998, our name was changed to “Harbin Commercial Bank Co., Ltd.”. On 18 December 2007, our name was further changed to “Harbin Bank Co., Ltd.”, being our current name. Our Bank is a registered non-Hong Kong company as defined in the Companies Ordinance with a place of business at our principal place of business at 18/F, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong. Dr. NGAI Wai Fung (魏偉峰博士), the authorised representative of our Bank for the purposes of the Companies Ordinance, has been appointed as our agent for the acceptance of service of process and notices on behalf of our Bank in Hong Kong. Our address for acceptance of process in Hong Kong is the same as the address of our principal place of business. Our banking business is conducted in the PRC under the supervision and regulation of the CBRC and the PBOC. We are not an authorised institution within the meaning of the Banking Ordinance (Chapter 155 of Laws of Hong Kong), not subject to the supervision of the Hong Kong Monetary Authority and not authorised to carry on banking/deposit-taking business in Hong Kong.

As we are incorporated in the PRC, our corporate structure and Articles of Association are subject to the relevant laws and regulations of the PRC. A summary of the relevant provisions of our Articles of Association is set out in “Appendix VI – Summary of Articles of Associations”. A summary of certain relevant aspects of the laws and regulations of the PRC is set out in “Appendix V – Summary of Principal Legal and Regulatory Provisions”.

B Changes in Share Capital

At our establishment, our initial registered capital was RMB221,932,900, divided into 221,932,900 Domestic Shares of nominal value of RMB1.00 each.

On 19 June 2012, following the capital injection by 10 new corporate shareholders, our registered capital was increased by RMB980,000,000 to RMB7,167,822,991, divided into 7,167,822,991 Domestic Shares of nominal value of RMB1.00 each, which was credited as fully paid up.

On 10 August 2012, following the capitalisation of undistributed profits, our registered capital was increased by RMB392,375,252 to RMB7,560,198,243, divided into 7,560,198,243 Domestic Shares of nominal value of RMB1.00 each, which was credited as fully paid up.

On 13 September 2013, following the capitalisation of undistributed profits, our registered capital was increased by RMB686,701,310 to RMB8,246,899,553.

Save as disclosed above, within the two years preceding the date of this prospectus, there has been no alterations in our share capital.

Upon completion of the Global Offering, but without taking into account any exercise of the Over-allotment Option, our registered capital will increase to RMB10,995,599,553, being made up of 7,972,029,553 Domestic Shares and 3,023,570,000 H Shares fully paid up or credited as fully paid up, representing RMB7,972,029,553 and RMB3,023,570,000 of the registered capital, respectively. Assuming the Over-allotment Option is exercised in full, our registered capital will increase to RMB11,407,899,553, being made up of 7,930,799,553 Domestic Shares and 3,477,100,000 H Shares, representing RMB7,930,799,553 and RMB3,477,100,000 of the registered capital, respectively.

C Restrictions on Share Repurchase

For details of the restrictions on share repurchase by our Bank, see the paragraph entitled “Power of Our Bank to Repurchase Our Own Shares” in “Appendix VI – Summary of Articles of Association”.

D Resolution of Our Shareholders

Resolutions were passed by our shareholders on 10 May 2013, pursuant to which, among other matters, our shareholders:

- approved certain amendments to our Articles of Association and internal governance rules;
- approved the issue and offering of H Shares and the listing of H Shares on the Hong Kong Stock Exchange;
- approved the conversion of our Bank into an overseas subscription company; and
- authorised our Board and persons authorised by our Board to handle all matters relating to the listing of our H Shares.

2. OUR SUBSIDIARIES AND CHANGES IN THE SHARE CAPITAL OF OUR SUBSIDIARIES

Our subsidiaries are referred to in the Accountants’ Report, the text of which is set out in “Appendix I – Accountants’ Report”.

- (a) On 31 March 2012, Huachuan Rongxing Village and Township Bank Company Limited (樺川融興村鎮銀行有限責任公司) increased its total registered share capital to RMB50 million, 98% of which is directly held by us.
- (b) On 25 April 2012, Baiquan Rongxing Village and Township Bank Company Limited (拜泉融興村鎮銀行有限責任公司) increased its total registered share capital to RMB30 million, 100% of which is directly held by us.
- (c) On 24 May 2012, Chongqing Youyang Rongxing Village and Township Bank Company Limited (重慶市酉陽融興村鎮銀行有限責任公司), a company incorporated in the PRC, commenced business with a total registered capital of RMB60 million, 100% of which is directly held by us.
- (d) On 28 May 2012, Chongqing Shapingba Rongxing Village and Township Bank Company Limited (重慶市沙坪壩融興村鎮銀行有限責任公司), a company incorporated in the PRC, commenced business with a total registered capital of RMB100 million, 80% of which is directly held by us.
- (e) On 20 June 2012, Yanshou Rongxing Village and Township Bank Company Limited (延壽融興村鎮銀行有限責任公司) increased its total registered share capital to RMB30 million, 100% of which is directly held by us.
- (f) On 25 June 2012, Hejian Ronghui Village and Township Bank Company Limited (河間融惠村鎮銀行有限責任公司), a company incorporated in the PRC, commenced business with a total registered capital of RMB30 million, 100% of which is directly held by us.
- (g) On 7 November 2012, Hainan Baoting Village and Township Bank Company Limited (海南保亭融興村鎮銀行有限責任公司) increased its total registered share capital to RMB30 million, 96.67% of which is directly held by us.
- (h) On 1 November 2013, Bayan Rongxing Village and Township Bank Company Limited (巴彥融興村鎮銀行有限責任公司) increased its total registered share capital to RMB50 million, 90% of which is directly held by us.

Save as disclosed above, there has been no alterations in the registered capital of our subsidiaries which took place within the two years preceding the date of this prospectus.

3. FURTHER INFORMATION ABOUT OUR BUSINESS**A Summary of Material Contracts**

We have entered into the following contracts (not being contracts entered into in our ordinary course of business) within the two years preceding the date of this prospectus, which are or may be material:

- (a) the share purchase agreement dated 21 March 2012, entered into between us and Dongning Lizhi Architecture and Decoration Engineering Company Limited (東寧麗致建築裝飾工程有限公司), pursuant to which we agreed to issue, and Dongning Lizhi Architecture and Decoration Engineering Company Limited agreed to subscribe for 143,000,000 Domestic Shares of our Bank for a consideration of RMB429,000,000;
- (b) the share purchase agreement dated 21 March 2012, entered into between us and Beijing Yuntong Boshi Automobile Sales & Service Company Limited (北京運通博世汽車銷售服務有限公司), pursuant to which we agreed to issue, and Beijing Yuntong Boshi Automobile Sales & Service Company Limited agreed to subscribe for 143,000,000 Domestic Shares of our Bank for a consideration of RMB429,000,000;
- (c) the share purchase agreement dated 21 March 2012, entered into between us and Hangzhou Tengran Industrial Company Limited (杭州騰然實業有限公司), pursuant to which we agreed to issue, and Hangzhou Tengran Industrial Company Limited agreed to subscribe for 143,000,000 Domestic Shares of our Bank for a consideration of RMB429,000,000;
- (d) the share purchase agreement dated 21 March 2012, entered into between us and Harbin Huayuantong Economic Technology Development Company Limited (哈爾濱市華源通經濟技術開發有限公司), pursuant to which we agreed to issue, and Harbin Huayuantong Economic Technology Development Company Limited agreed to subscribe for 143,000,000 Domestic Shares of our Bank for a consideration of RMB429,000,000;
- (e) the share purchase agreement dated 21 March 2012, entered into between us and Shenzhen Yunfan Information Technology Company Limited (深圳雲帆信息技術有限公司), pursuant to which we agreed to issue, and Shenzhen Yunfan Information Technology Company Limited agreed to subscribe for 143,000,000 Domestic Shares of our Bank for a consideration of RMB429,000,000;
- (f) the share purchase agreement dated 21 March 2012, entered into between us and Dalian Shengzhi Network Technology Company Limited (大連勝智網絡科技有限公司), pursuant to which we agreed to issue, and Dalian Shengzhi Network Technology Company Limited agreed to subscribe for 143,000,000 Domestic Shares of our Bank for a consideration of RMB429,000,000;
- (g) the share purchase agreement dated 21 March 2012, entered into between us and Beijing Tianchen Ruiyin Investment Company Limited (北京天辰睿銀投資有限公司), pursuant to which we agreed to issue, and Beijing Tianchen Ruiyin Investment Company Limited agreed to subscribe for 60,000,000 Domestic Shares of our Bank for a consideration of RMB180,000,000;
- (h) the share purchase agreement dated 21 March 2012, entered into between us and Shenzhen Zhongsheng Hongyu Investment Company Limited (深圳市中盛鴻宇投資有限公司), pursuant to which we agreed to issue, and Shenzhen Zhongsheng Hongyu Investment Company Limited agreed to subscribe for 21,000,000 Domestic Shares of our Bank for a consideration of RMB63,000,000;

- (i) the share purchase agreement dated 21 March 2012, entered into between us and Tianjin Yingang Investment Company Limited (天津銀港投資有限公司), pursuant to which we agreed to issue, and Tianjin Yingang Investment Company Limited agreed to subscribe for 21,000,000 Domestic Shares of our Bank for a consideration of RMB63,000,000;
- (j) the share purchase agreement dated 21 March 2012, entered into between us and Zhonglianxin Investment Guarantee Company Limited (中聯信投資擔保有限公司), pursuant to which we agreed to issue, and Zhonglianxin Investment Guarantee Company Limited agreed to subscribe for 20,000,000 Domestic Shares of our Bank for a consideration of RMB60,000,000;
- (k) the share custody agreement dated 9 July 2013, entered into between us and Harbin Equity Trusteeship Centre (哈爾濱股權登記託管中心), pursuant to which Harbin Equity Trusteeship Centre agreed to be the share registration custodian for all the shares issued by us;
- (l) the capital contribution agreement dated 25 October 2013, entered into between us, Dongning Lizhi Architecture and Decoration Engineering Co., Ltd. (東寧麗致建築裝飾工程有限公司) and Harbin Yuntong Automobile Sales & Service Co., Ltd. (哈爾濱運通汽車銷售服務有限公司) for the proposed establishment of Harbin Bank Financial Leasing Co., Ltd. (哈銀金融租賃有限責任公司). Pursuant to the capital contribution agreement, the registered capital of Harbin Bank Financial Leasing Co., Ltd. will be RMB2,000 million and we will contribute 80% of the amount;
- (m) a cornerstone investment agreement dated 14 March 2014, entered into among Fubon Life Insurance Co., Ltd., Joint Global Coordinators and us, pursuant to which Fubon Life Insurance Co., Ltd. agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot) as may be purchased for HK dollar equivalent of US\$289 million at the Offer Price;
- (n) a cornerstone investment agreement dated 14 March 2014, entered into among CITIC Capital HB Investment L.P., Joint Global Coordinators and us, pursuant to which CITIC Capital HB Investment L.P. agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot) as may be purchased for HK dollar equivalent of US\$150 million at the Offer Price;
- (o) a cornerstone investment agreement dated 13 March 2014, entered into among China Fortune Finance Holdings Limited, Tianjin SuLi Xianlan Group Co., Ltd. (天津塑力纜集團有限公司), Joint Global Coordinators and us, pursuant to which China Fortune Finance Holdings Limited agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot) as may be purchased for HK dollar equivalent of US\$20 million at the Offer Price;
- (p) a cornerstone investment agreement dated 13 March 2014, entered into among Wah Tao International Fund Limited, Joint Global Coordinators and us, pursuant to which Wah Tao International Fund Limited agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot) as may be purchased for HK dollar equivalent of US\$20 million at the Offer Price;
- (q) a cornerstone investment agreement dated 11 March 2014, entered into among Chongqing Tian Tai Real Estate Development Co., Ltd., (重慶天泰房地產開發有限責任公司), Joint Global Coordinators and us, pursuant to which Chongqing Tian Tai Real Estate Development Co., Ltd. agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot) as may be purchased for HK dollar equivalent of US\$13.8 million at the Offer Price;

- (r) a cornerstone investment agreement dated 14 March 2014, entered into among Boom Win Holdings Limited, Joint Global Coordinators and us, pursuant to which Boom Win Holdings Limited agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot) as may be purchased for HK dollar equivalent of US\$10 million at the Offer Price;
- (s) a cornerstone investment agreement dated 14 March 2014, entered into among Introwell Limited, Mr. Chunyu Yongxiang, Joint Global Coordinators and us, pursuant to which Introwell Limited agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot) as may be purchased for HK dollar equivalent of US\$10 million at the Offer Price; and
- (t) the Hong Kong Underwriting Agreement.

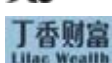
B Our Intellectual Property Rights

As of the Latest Practicable Date, we had registered the following trademarks which are material in relation to our business:

No.	Trademark	Place of Registration	Class	Registration	Effective Period
1		PRC	36	1955049	2013.01.14 – 2023.01.13
2		PRC	9	7498507	2011.02.07 – 2021.02.06
3		PRC	36	7498591	2010.11.07 – 2020.11.06
4		PRC	36	7730170	2011.01.28 – 2021.01.27
5		PRC	36	7730454	2011.01.28 – 2021.01.27
6	助农富	PRC	36	8150130	2011.04.21 – 2021.04.20
7	助民乐	PRC	36	8150220	2011.04.21 – 2021.04.20
8		PRC	36	8219938	2011.07.28 – 2021.07.27
9		PRC	36	8219962	2011.07.28 – 2021.07.27
10	金稻谷	PRC	36	8150275	2011.04.21 – 2021.04.20
11	金到府	PRC	36	8150364	2011.04.21 – 2021.04.20
12	融兴普惠	PRC	36	9378785	2012.05.07 – 2022.05.06
13	哈德曼 HARDMAN	PRC	36	9749297	2012.09.14 – 2022.09.13
14	瀚金	PRC	36	9874949	2012.10.28 – 2022.10.27
15	哈大泽	PRC	36	9945973	2012.11.14 – 2022.11.13
16	哈邦德	PRC	36	9955737	2012.11.14 – 2022.11.13
17	丁香花理财	PRC	36	11010783	2013.09.28 – 2023.09.27
18		Hong Kong	9, 36	302640591	2013.06.17 – 2023.06.16
19	 哈尔滨银行	Hong Kong	9, 36	302640618	2013.06.17 – 2023.06.16

No.	Trademark	Place of Registration	Class	Registration	Effective Period
20		Hong Kong	9, 36	302640627	2013.06.17 – 2023.06.16
21	HRBank	Hong Kong	9, 36	302640609	2013.06.17 – 2023.06.16

As of the Latest Practicable Date, we had applied for the registration of the following trademarks which are material in relation to our business:

No.	Trademark	Place of Registration	Class	Application	Application Date
1	HARBIN BANK	PRC	36	12042539	2013.01.14
2	HRBank	PRC	36	12042474	2013.01.14
3	哈爾濱銀行	PRC	36	12042413	2013.01.14
4	哈爾濱銀行	PRC	36	12042634	2013.01.14
5		PRC	36	12042583	2013.01.14
6		PRC	16	12048790	2013.01.15
7		PRC	36	12042353	2013.01.14
8		PRC	36	12042203	2013.01.14
9		PRC	36	12833072	2013.06.28
10		PRC	36	12454472	2013.04.19
11		PRC	36	12471159	2013.04.23

For details of lawsuits relating to “” (individually and collectively with our Chinese and/or English name) and the effects of such lawsuits on our registration applications in the future, see “Business – Intellectual Property Rights” and “Business – Compliance and Legal Proceedings – Claims and Legal Proceedings”.

As of the Latest Practicable Date, we had registered the following copyrights which are material to our business:

No.	Title	Figure	Type	Date of Creation	First publication Date	Registration No.
1	Logo of Harbin Bank Purple Lilac Union of Small Enterprise Customers (哈爾濱銀行紫丁香小微企業客戶聯盟標識)		Work of Art	2013.04.02	2013.05.17	Guozuodengzi – 2013-F-00103884
2	Logo of Harbin Bank (哈爾濱銀行標誌)		Work of Art	2006.10.02	2006.10.08	Guozuodengzi – 2013-F-00103885
3	Logo of Rongxing Village and Township Bank		Work of Art	2008.12.08	2008.12.28	Guozuodengzi – 2013-F-00103886

As of the Latest Practicable Date, we had registered the following computer software copyrights which are material to our business:

No.	Title	Place of Registration	Type	Registration Date	Registration No.
1	Harbin Commercial Bank Digitalised Housing Loans Evaluation System V1.0 (哈商行數位化房貸評估系統V1.0)	PRC	Computer software	2008.04.17	2008SR07382
2	Peasant Households Loans Management System V1.0 (農戶貸款管理系統V1.0)	PRC	Computer software	2008.04.17	2008SR07381
3	Harbin Bank Small Enterprises and Micro Enterprises Fast Loans Management System Micro Loans 1.0 (哈爾濱銀行微小企業速貸管理系統 簡稱“微貸”1.0)	PRC	Computer software	2009.08.12	2009SR032276
4	New Generation Internet-based Full-featured Banking System (新一代網絡化全功能銀行系統 1.0)	PRC	Computer software	2012.11.10	2012SR107609

As of the Latest Practicable Date, we had registered the following key internet domain names and website:

No.	Domain Name	Place of Registration	Effective period
1	hrbcb.com.cn	PRC	2002.09.06 – 2016.09.06
2	哈尔滨银行.中国	PRC	2008.01.02 – 2015.01.02
3	哈尔滨银行股份有限公司.中国	PRC	2007.11.15 – 2016.11.15
4	hrbb.中国	PRC	2012.10.13 – 2017.10.29
5	hrbb.com.cn	PRC	Effective until 2016.04.16
6	哈行.中国	PRC	2012.09.18 – 2022.09.18
7	哈行.网络	PRC	2012.09.18 – 2022.09.18
8	哈尔滨银行.网络	PRC	2012.09.18 – 2022.09.18
9	哈尔滨银行股份有限公司.网络	PRC	2012.09.18 – 2022.09.18
10	哈行.公司	PRC	2012.09.18 – 2022.09.18
11	哈尔滨银行.公司	PRC	2012.09.18 – 2022.09.18
12	惠融網.com	PRC	2010.02.02 – 2015.02.02
13	哈尔滨银行.net	PRC	2012.09.18 – 2022.09.18
14	哈行.com	PRC	2012.09.18 – 2022.09.18
15	哈行.net	PRC	2012.09.18 – 2022.09.18
16	哈尔滨银行股份有限公司.公司	PRC	Effective until 2014.03.25
17	哈尔滨银行股份有限公司.net	PRC	Effective until 2014.03.19
18	哈尔滨银行股份有限公司.com	PRC	Effective until 2014.03.19
19	哈尔滨银行.com	PRC	2011.11.25 – 2021.11.25
20	hrbb	PRC	2012.03.23 – 2022.03.23
21	哈尔滨银行	PRC	2008.01.23 – 2025.01.23

No.	Domain Name	Place of Registration	Effective period
22	哈行	PRC	2012.06.04 – 2022.06.04
23	普惠金融和諧共富	PRC	2012.06.04 – 2022.06.04
24	乾道嘉	PRC	2012.06.04 – 2022.06.04
25	95537	PRC	2012.06.04 – 2022.06.04
26	哈爾濱銀行股份有限公司	PRC	2008.01.23 – 2025.01.23
27	丁香花理財	PRC	2012.06.04 – 2022.06.04
28	丁香卡	PRC	2012.06.04 – 2022.06.04

Save as disclosed herein, there are no trademarks, patents or other intellectual or industrial property rights which are material to our business.

4. DISCLOSURE OF INTERESTS

A Substantial Shareholders

So far as the Directors are aware, immediately following the completion of the Global Offering, the following persons will have interests or short positions in our shares or relevant shares which would be 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, directly or indirectly, be interested in 10% or more of the nominal value of any class of our share capital which carries voting power at shareholders' general meetings:

Name	Capacity	Class of Securities	Immediately after completion of the Global Offering (assuming the Over-allotment Option is not exercised)		Immediately after completion of the Global Offering (assuming the Over-allotment Option is exercised in full)	
			Number of Shares	Approximate percentage of total issued share capital (%)	Number of Shares	Approximate percentage of total issued share capital (%)
Harbin Economic Development	Beneficial Owner	Domestic Shares	2,160,507,748 Domestic Shares	19.65	2,119,917,272 Domestic Shares	18.58
Harbin Kechuang Xingye Investment Company Limited (哈爾濱科創興業投資有限公司)	Beneficial Owner	Domestic Shares	720,262,554 Domestic Shares	6.55	720,262,554 Domestic Shares	6.31
Tianjin Wenhua Tianhai Industrial Company Limited (天津文華天海實業有限公司)	Interest of Controlled Corporation	Domestic Shares	720,262,554 Domestic Shares	6.55	720,262,554 Domestic Shares	6.31
Baotou Ronghui Trading Company Limited (包頭市榮慧貿易有限責任公司)	Interest of Controlled Corporation	Domestic Shares	720,262,554 Domestic Shares	6.55	720,262,554 Domestic Shares	6.31
Hangzhou Jiela Trading Company Limited (杭州杰拉貿易有限公司)	Interest of Controlled Corporation	Domestic Shares	720,262,554 Domestic Shares	6.55	720,262,554 Domestic Shares	6.31
Jinan Kangze Commercial and Trading Company Limited (濟南康澤商貿有限公司)	Interest of Controlled Corporation	Domestic Shares	720,262,554 Domestic Shares	6.55	720,262,554 Domestic Shares	6.31
Tan Ran (譚然)	Interest of Controlled Corporation	Domestic Shares	720,262,554 Domestic Shares	6.55	720,262,554 Domestic Shares	6.31
Zhang Yanyong (張衍勇)	Interest of Controlled Corporation	Domestic Shares	720,262,554 Domestic Shares	6.55	720,262,554 Domestic Shares	6.31

Name	Capacity	Class of Securities	Immediately after completion of the Global Offering (assuming the Over-allotment Option is not exercised)		Immediately after completion of the Global Offering (assuming the Over-allotment Option is exercised in full)	
			Number of Shares	Approximate percentage of total issued share capital (%)	Number of Shares	Approximate percentage of total issued share capital (%)
Heilongjiang Keruan Software Technologies Company Limited (黑龍江科軟軟件科技有限公司)	Beneficial Owner	Domestic Shares	719,816,019 Domestic Shares	6.55	719,816,019 Domestic Shares	6.31
Dalian Yujiixin Technology Company Limited (大連宇嘉信科技有限公司)	Interest of Controlled Corporation	Domestic Shares	719,816,019 Domestic Shares	6.55	719,816,019 Domestic Shares	6.31
Liao Yifeng (梁乙峰)	Interest of Controlled Corporation	Domestic Shares	719,816,019 Domestic Shares	6.55	719,816,019 Domestic Shares	6.31
Diao Xiaoxi (刁小熙)	Interest of Controlled Corporation	Domestic Shares	719,816,019 Domestic Shares	6.55	719,816,019 Domestic Shares	6.31
Heilongjiang Xinyongsheng Trading Company Limited (黑龍江鑫永勝商貿有限公司)	Beneficial Owner	Domestic Shares	639,804,806 Domestic Shares	5.82	639,804,806 Domestic Shares	5.61
Beijing Chengxinfenghui Technology and Trading Company Limited (北京誠信豐滙科貿有限公司)	Interest of Controlled Corporation	Domestic Shares	639,804,806 Domestic Shares	5.82	639,804,806 Domestic Shares	5.61
Liu Kun (劉坤)	Interest of Controlled Corporation	Domestic Shares	639,804,806 Domestic Shares	5.82	639,804,806 Domestic Shares	5.61
Zhao Yonghe (趙永和)	Interest of Controlled Corporation	Domestic Shares	639,804,806 Domestic Shares	5.82	639,804,806 Domestic Shares	5.61
Heilongjiang Tiandi Yuanyuan Network Technology Company Limited (黑龍江天地源遠網絡科技有限公司)	Beneficial Owner	Domestic Shares	572,253,048 Domestic Shares	5.20	572,253,048 Domestic Shares	5.02
Beijing Huifutong International Investment Company Limited (北京滙富通國際投資有限公司)	Interest of Controlled Corporation	Domestic Shares	572,253,048 Domestic Shares	5.20	572,253,048 Domestic Shares	5.02
Dong Yan (董雁)	Interest of Controlled Corporation	Domestic Shares	572,253,048 Domestic Shares	5.20	572,253,048 Domestic Shares	5.02
Heilongjiang Tuokai Economic and Trading Company Limited (黑龍江拓凱經貿有限公司)	Beneficial Owner	Domestic Shares	522,447,109 Domestic Shares	4.75	522,447,109 Domestic Shares	4.58
Beijing Tailonghuasheng Technology Company Limited (北京泰隆華勝科技有限公司)	Interest of Controlled Corporation	Domestic Shares	522,447,109 Domestic Shares	4.75	522,447,109 Domestic Shares	4.58
Beijing Jieshengtiancheng Trading Company Limited (北京傑勝天成貿易有限公司)	Interest of Controlled Corporation	Domestic Shares	522,447,109 Domestic Shares	4.75	522,447,109 Domestic Shares	4.58
Guan Wu (管武)	Interest of Controlled Corporation	Domestic Shares	522,447,109 Domestic Shares	4.75	522,447,109 Domestic Shares	4.58
Han Yong (韓永)	Interest of Controlled Corporation	Domestic Shares	522,447,109 Domestic Shares	4.75	522,447,109 Domestic Shares	4.58

B Disclosure of the Directors', Supervisors' and chief executive's interests in the issued share capital of our Bank or our associated corporations

Immediately following completion of the Global Offering, none of our Directors, Supervisors or chief executive will have any interests and short positions in the shares, underlying shares or debentures of our Bank or any associated corporations (within the meaning of Part XV of the SFO) which will have 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) once the shares are listed, 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, and 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.

C Particulars of Service Contracts

Pursuant to Rules 19A.54 and 19A.55 of the Hong Kong 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 and regulations, observation of 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/Supervisors (other than contracts expiring or terminable by the employer within one year without the payment of compensation (other than statutory compensation)).

D Directors' and Supervisors' Remuneration

We have paid to our Directors and Supervisors pre-tax compensation (including remuneration, bonus, social insurance programme, housing fund programme and benefits in other forms) for the year ended 31 December 2013 in the aggregate amount of approximately RMB15,951,500.

Under the current arrangements, the estimated compensation (including remuneration and benefits in kind) that our Directors and Supervisors would receive from our Bank for the year ending 31 December 2014 in the aggregate amount of approximately RMB18,831,600.

E Personal Guarantees

The Directors and Supervisors have not provided personal guarantees in favour of lenders in connection with banking facilities granted to us.

F Agency Fees or Commissions Paid or Payable

Save as disclosed in this prospectus, no commissions, discounts, agency fees, brokerages or other special terms have been granted to any Director or any person listed in the paragraph of this Appendix in connection with the issue or sale of any share of our Bank within the two years preceding the date of this prospectus.

G Related Party Transactions

During the two years preceding the date of the prospectus, we have engaged in material related party transactions as described in note 42(b) to the financial statements in the Accountants' Report set out in "Appendix I – Accountants' Report".

H Disclaimers

Save as disclosed in the section headed “Directors, Supervisors and Senior Management” and paragraph 4 of this Appendix in this prospectus:

- (a) none of the Directors, Supervisors and any of the parties listed in paragraph 5E of this Appendix is:
 - (i) interested in our promotion, or in any assets which, within the two years immediately preceding the date of this prospectus, have been acquired or disposed of by or leased to us, or are proposed to be acquired or disposed of by or leased to our Bank;
 - (ii) materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to our business;
- (b) save in connection with the Hong Kong Underwriting Agreement and the International Underwriting Agreement, none of the parties listed in paragraph 5E of this Appendix:
 - (i) has legal or beneficial interest in our Shares or our securities; or
 - (ii) has any right (whether legally enforceable or not) to subscribe for, or to nominate persons to subscribe for, our Shares or any of our securities;
- (c) none of our Directors or Supervisors or their associates or any shareholders of our Bank who, to the knowledge of the Directors, owns 5% or more of our issued share capital has any interest in our top 5 depositors and borrowers during the Track Record Period; and
- (d) none of our Directors or Supervisors is a director or employee of a company which has an interest in the share capital of the Bank which, once the H Shares are listed on the Hong Kong Stock Exchange, would have to be disclosed pursuant to Divisions 2 and 3 of Part XV of the SFO.

5. OTHER INFORMATION**A Estate Duty**

We have been advised by Jun He Law Offices Beijing that, currently, there is no PRC law imposing liability on estate duty, thus no material liability for estate duty under PRC law is likely to be imposed on us.

B Litigation

Save as disclosed in the section headed “Business” our Bank is not involved in any litigation, arbitration or administrative proceedings of material importance and, so far as we are aware, no litigation, arbitration or administrative proceedings of material importance are pending or threatened against us.

C Joint Sponsors

The Joint Sponsors have made an application on our behalf to the Listing Committee of the Hong Kong Stock Exchange for the listing of, and permission to deal in, our H Shares. All necessary arrangements have been made to enable the securities to be admitted into CCASS.

The Joint Sponsors satisfy the independence criteria set out in Rule 3A.07 of the Hong Kong Listing Rules.

We have entered into an engagement agreement with the Joint Sponsors, pursuant to which we agreed to pay US\$3 million to the Joint Sponsors to act as the sponsors to our Bank in the Global Offering.

D Preliminary Expenses

Our estimated preliminary expenses are approximately RMB1.6 million and all such preliminary expenses are payable by us.

E Qualification of Experts

The qualifications of the experts who have given opinions in this prospectus are as follows:

Name	Qualifications
China International Capital Corporation Hong Kong Securities Limited	a corporation licensed under the SFO to conduct type 1 (dealing in securities), type 2 (dealing in futures contracts), type 3 (leveraged foreign exchange trading), type 4 (advising on securities), type 5 (advising on futures contracts) and type 6 (advising on corporate finance) regulated activities under the SFO
BOCI Asia Limited	a corporation licensed under the SFO to conduct type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
ABCI Capital Limited	a corporation licensed under the SFO to conduct type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
Ernst & Young	Certified public accountants, Hong Kong
Jun He Law Offices Beijing	Licensed legal adviser on PRC law

F Consents of Experts

Each of the Joint Sponsors, Ernst & Young, as our reporting accountant and auditor and Jun He Law Offices Beijing, as our legal adviser on PRC law, have given and have not withdrawn their respective written consents to the issue of this prospectus with the inclusion of their reports, letters, valuation certificates and/or opinions and summaries of opinion (as the case may be) 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 our Bank or any of our subsidiaries or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in our Bank or any of our subsidiaries.

G No Material Adverse Change

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

H 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 Companies (Winding up and Miscellaneous Provisions) Ordinance so far as applicable.

I Miscellaneous

Save as disclosed in this prospectus:

- (a) Within the two years preceding the date of this prospectus: (i) we have not issued nor agreed to issue any share capital or loan capital fully or partly paid either for cash or for a consideration other than cash; and (ii) no commissions, discounts, brokerage fees or other special terms have been granted in connection with the issue or sale of any shares or loan capital of our Bank.
- (b) No share or loan capital of our Bank is under option or is agreed conditionally or unconditionally to be put under option.
- (c) We have not issued nor agreed to issue any founder shares, management shares or deferred shares.
- (d) None of our equity and debt securities is listed or dealt with on any other stock exchange nor is any listing or permission to deal being or proposed to be sought.
- (e) There are no arrangements under which future dividends are waived or agreed to be waived.
- (f) There are no procedures for the exercise of any right of pre-emption or transferability of subscription rights.
- (g) There are no contracts for hire or hire purchases of plant to or by us for a period of longer than one year which are substantial in relation to our business.
- (h) There have been no interruptions in our business which may have or have had a significant effect on our financial position in the last 12 months.
- (i) There are no restrictions affecting the remittance of profits or repatriation of capital by us into Hong Kong from outside Hong Kong.
- (j) We have no outstanding convertible debt securities.
- (k) We currently do not intend to apply for the status of a Sino-foreign investment joint stock limited company and do not expect to be subject to the Sino-foreign Joint Venture Law of the PRC.

J Waiver and Exemption

The Bank has applied to the SFC for a certificate of exemption from strict compliance with paragraph 27 and 31 of the Third Schedule to the Companies (Winding up and Miscellaneous Provisions) Ordinance in relation to the requirement of including an accountants' report for the three years ended 31 December 2012 in this prospectus. The SFC has granted a certificate of exemption under section 342A of the Companies (Winding up and Miscellaneous Provisions) Ordinance.

An application was made to the Hong Kong Stock Exchange for a waiver from strict compliance with Rule 4.04(1) of the Hong Kong Listing Rules, and such waiver was granted by the Hong Kong Stock Exchange on the conditions that:

- (i) our Bank lists on the Hong Kong Stock Exchange by 31 March 2014;
- (ii) our Bank obtains a certificate of exemption from the SFC from similar requirements under paragraph 27 and 31 of Part II of the Third Schedule to the Companies (Winding up and Miscellaneous Provisions) Ordinance; and

- (iii) this prospectus must include the financial information for the latest financial year and a commentary on the results for the year. The financial information to be included in the prospectus must (a) follow the same content requirements as for a preliminary results announcements under Rule 13.49 of the Hong Kong Listing Rules; and (b) be agreed with the reporting accountants following their review under Practice Note 730 “Guidance for Auditors Regarding Preliminary Announcements of Annual Results” issued by the Hong Kong Institute of Certified Public Accountants.

For details of waivers given by the Hong Kong Stock Exchange and SFC, see “Waivers and Exemption from Compliance with the Hong Kong Listing Rules”.

K Bilingual Prospectus

The English language and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided by section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

L Promoters

The promoters of our Bank comprise 154 corporate shareholders and 4,756 individual shareholders. See “Our History and Operational Reform – Our Shareholding and Corporate Structure”.

Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus, no cash, securities, amount or other benefit has been paid, allotted or given, or has been proposed to be paid, allotted or given, to any of the Promoters named above in connection with the Global Offering or the related transactions described in this prospectus.

M Particulars of the Selling Shareholders

An aggregate of 274,870,000 Sale Shares are to be sold by the Selling Shareholders (assuming the Over-allotment Option is not exercised). Assuming full exercise of the Over-allotment Option, the aggregate number of Sale Shares to be sold by the Selling Shareholders shall be 316,100,000. Certain particulars of the Selling Shareholders are set forth as follows:

- Harbin Economic Development, located at No. 52, Jingwei Shi’erdao Street, Daoli District, Harbin, Heilongjiang. Its principal business is to make investments in the fixed assets of municipally owned enterprises for dividends.
- The Finance Bureau of Acheng, Harbin, located at No. 361, Pailu Street, Acheng District, Harbin, Heilongjiang. It is a local government institution.
- ICBC Heilongjiang Province Branch Banking Department, located at No. 7, Heluo Street, Daoli District, Harbin, Heilongjiang. Its principal business is financial services. It provides gold and silver trading services for individuals.
- The Finance Bureau of Daoli, Harbin, located at No. 103, Anhua Street, Daoli District, Harbin, Heilongjiang. It is a local government institution.
- The Finance Bureau of Nangang, Harbin, located at No. 50, Dacheng Street, Nangang District, Harbin, Heilongjiang. It is a local government institution.
- China Guangfa Bank, located at No. 713, East Dongfeng Road, Yuexiu District, Guangzhou, Guangdong. Its principal business is to take deposits from the public, to provide short-term,

medium-term and long-term loans, to handle domestic and overseas settlement, to accept and discount instruments, to issue financial bonds, to act as issuing agent, payment agent and underwriter of government bonds and to provide other banking business.

- Harbin Daowai Investment Co. Ltd., located at No. 243, Jingyu Street, Daowai District, Harbin, Heilongjiang. Its principal business is to invest in industry, commerce, real estate, tourism, catering, husbandary and feed processing, financial, securities and gold.
- Harbin Science and Technology Venture Capital Centre, located at No. 86, Youyi Road, Daoli District, Harbin, Heilongjiang. Its principal business is to provide financial assistance to technology companies and technology projects, to raise funds for investment in technology venture funds, to coordinate technology projects, to commercialise technology developments, to provide guarantee for the burrowing, tendering and contracting of technology projects.
- Tsingtao Brewery (Harbin) Co. Ltd., located at 627 Yanchuan Avenue, Acheng District, Harbin, Heilongjian. Its principal business is brewery.
- Heilongjiang Overseas Chinese Remittance Service Company, located at 98A Wenjing Street, Nangang District, Harbin, Heilongjiang. Its principal business is money remittance, tourism and sales of consumer goods.
- Heilongjiang Science and Technology Information Centre, located at Room 103, 6 Xuanxin Street, Nangang District, Harbin, Heilongjiang. Its principal business is to provide technology consultancy, development, training and related services.
- China Cinda Asset Management Co., Ltd., located at Block 1, 9 Laoshikou Avenue, Xicheng District, Beijing. Its principal business is the purchase and management of non-performing assets of financial and non-financial institutions, management, investment and disposal of non-performing assets, debt to equity transaction, management, investment and disposal of equity interests, bankruptcy administration, investment and dealing in transferrable securities.
- China Life Investment Holding Company Limited, located at 11/F, No. 17 Financial Street, Xicheng District, Beijing. Its principal business is investment and investment management; asset management.
- PICC Investment Holding Company Limited, located at No. 6 Wudinghou Street, Xicheng District, Beijing. Its principal business is investments in industry and real estate, asset operation and management, property management.
- Family Life Guide Press, located at No. 204 Zhongshan Road, Nangang District, Harbin. Its principal business is publication and distribution of “Family Life Guide”.
- Harbin Industry and Commerce Administration Cadre School, located at Wanbao Town, Songbei District, Harbin. Its principal business is to provide education, professional training and civil servant training.
- China Jianyin Investment Limited, located at Floor 7-14, Building 2, No. 1, Naoshikou Avenue, Xicheng District, Beijing. Its principal business is investment and investment management, asset management and disposal, business management, property leasing and consulting.
- Agricultural Bank of China Limited, located at No. 69, Jianguomen Nei Avenue, Dongcheng District, Beijing. Its principal business is to take deposits from the public, to provide short-term, medium-term and long-term loans, to handle domestic and overseas settlement, to accept and discount instruments and other banking business.

- Heilongjiang Federation of Social Science, located at No. 64 Lianfa Street, Nangang District, Harbin. It is a social organisation.
- Heilongjiang Xingsui Hotel, located at No. 130 Hongjun Street, Nangang District, Harbin. Its principal business is hospitality and sale of consumer goods.
- Heilongjiang Branch of Bank of China Limited, located at No. 19 Hongjun Street, Nangang District, Harbin, Heilongjiang. Its principal business is to conduct activities approved by the China Banking Regulatory Commission pursuant to the relevant laws, administrative regulations and other rules.
- Heilongjiang Branch of China Everbright Bank Co., Ltd., located at No. 278, Dongdazhi Street, Nangang District, Harbin, Heilongjiang. Its principal business is finance.
- The Finance Bureau of Xiangfang, Harbin, located at No.229, Sanhe Road, Xiangfang District, Harbin, Heilongjiang. It is a local government institution.
- Harbin Local Taxation Cadre Training Centre, located at Shijia Village, Lanling Town, Shuangcheng City, Harbin. Its principal business is responsible for the training of local taxation cadre and the provision of related social services.
- Harbin Institute of Technology, located at No. 92 West Dazhi Street, Nangang District, Harbin, Heilongjiang. Its principal business is to provide higher education to talents specialising in science and engineering for technology development.
- Harbin Housing Property Guarantee Co., Ltd., located at No. 151, Changjiang Road, Nangang District, Harbin, Heilongjiang. Its principal business is property valuation, credit guarantee, housing brokerage, consulting and agency services, property marketing planning and sales.
- Harbin Finance University, located at No.65, Diantan Street, Xiangfang District, Harbin. Its principal business is to provide training for senior financial professionals, to promote economic development and to provide general education for undergraduates.
- Harbin Industrial Investment Group Co. Ltd., located at No. 189, Yiman Street, Nangang District, Harbin. Its principal business is investment, financing, operation and management of commercial and industrial projects, state-owned assets management and capital operation, real estate development and management.
- Harbin New City Integrated Development Company, located at Unit 709, No. 209, Xuanhua Street, Nangang District, Harbin. Its principal business is trading of metals, building materials and chemicals.
- Harbin Pharmaceutical Group Holding Co., Ltd., located at No. 431 Youyi Road, Daoli District, Harbin. Its principal business is investment in the business allowed for foreign investment according to the PRC law, establishment of research and development centres or departments, conducting research, development and training activities with respect to products and technologies as approved by the company and provision of consulting services to its shareholders.

1. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were copies of the Application Forms, the written consents referred to under “Consents of Experts” of Statutory and General Information, copies of the material contracts referred to under “Summary of Material Contracts” of Statutory and General Information, and the name, description and address of each Selling Shareholder.

2. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Linklaters at 10/F Alexandra House, Chater Road, Central, Hong Kong during normal business hours up to and including the date which falls 14 days after the date of the prospectus:

- (a) Articles of Association;
- (b) the Accountants’ Report, the text of which is set out in “Appendix I – Accountants’ Report”;
- (c) the audited financial statements of our Group for the Track Record Period;
- (d) the unaudited supplementary financial information, the text of which is set out in “Appendix II – Unaudited Supplementary Financial Information”;
- (e) the report on the unaudited pro forma financial information, the text of which is set out in “Appendix III – Unaudited Pro Forma Financial Information”;
- (f) material contracts referred to under “Summary of Material Contracts” of Statutory and General Information to this prospectus;
- (g) written consents referred to under “Consents of Experts” of Statutory and General Information to this prospectus;
- (h) service contracts referred to under “Particulars of Service Contracts” of Statutory and General Information to this prospectus;
- (i) the PRC legal opinions issued by Jun He Law Offices Beijing, our legal advisers on PRC law, dated 10 March 2014 in respect of general matters relating to our Group and property interests;
- (j) copies of the following PRC laws and regulations, together with their unofficial English translations:
 - (i) the PRC Company Law
 - (ii) the Special Regulations
 - (iii) the Mandatory Provisions
 - (iv) the PRC Securities Law
 - (v) the Provisional Regulations Concerning the issue and Trading of Shares
 - (vi) the PRC Commercial Banking Law
 - (vii) the PRC Arbitration Law
 - (viii) the PRC Civil Procedure Law

