To the Basel Committee on Banking Supervision:

The Industrial Bank (the Bank) has already seriously studied the exposure draft <Supervisory Framework for Measuring and Controlling Large Exposure> and carried out some comments and proposals.

Industrial Bank is one of the first batch of joint-stock commercial banks in P.R. of China（PRC）. On February 5, 2007, Industrial Bank was listed on Shanghai Stock Exchange. At the end of 2012, the Bank's total assets reached RMB 3,250,975 million, shareholders' equity amounted to RMB169,577 million, net profit for the year was RMB34,718 million, and NPL ratio was 0.43%. According to the Top 1000 World Banks released by the British Magazine <The Banker> in 2012, the Bank was ranked 61st in terms of total assets and 69th in terms of tier 1 capital. In addition, the Bank was ranked 78th According to the TOP 500 Chinese corporate released by the magazine <Fortune> Chinese edition.

Nowadays, the Bank has opened 88 branches and 717 sub-branches in major cities of PRC, and is preparing to open the Hong Kong branch. The Bank has a wholly-owned subsidiary, Industrial Financial Leasing Co., Ltd., and has acquired a controlling stake in Industrial international Trust Co., Ltd.

We appreciate the efforts to improve the global banking risk management that the Basel Committee has made. We also are grateful to the opportunity provide by the Basel Committee for us to express our voice in the formulation of the supervisory documents. We hope the Basel Committee can understand Chinese banking system's situation and give consideration to the comments and proposals, which is in the appendix <Industrial Bank's comments and proposals on <Supervisory Framework for Measuring and Controlling Large Exposure>>.

28, June, 2013

To the Basel Committee on Banking Supervision:

The Industrial Bank has already studied the exposure draft <Supervisory Framework for Measuring and Controlling Large Exposure> (hereinafter referred to as the supervisory framework) and carried out the following comments and proposals in terms of setting the large exposure limit of 25% of tier 1 capital to a single interbank counterparty.

Ⅰ. Comments

The need for banks to measure and control large exposures has long been recognized by internationally active banks. The supervisory framework is offering a new insight for China's banking industry which has never experienced large scale systematic risks. However, we consider that the framework should have different scope of application for there still exist some gap between mature financial market and developing market under the financial reform. Specifically, the stringent large exposure limit to a single interbank counterparty would bring negative impact for financial reform and development in China. It would strike the small and medium-sized commercial

banks.

The contagion of the systematic risk not only depends on the size of core capital and the concentration ratio of counterparties but also relies on the probability of default and the loss given default. It relates to the macroeconomic environment、asset quality of related party、feasibility of risk mitigation and the costs of bankrupts as well. Currently, only a few state banks with quasi-sovereign credit are the main counterparties for the small and medium-sized banks in China. As a result, small and medium-sized banks are typically squeezed against the limit of 25% due to the finite core capital. Considering the limited exposure to large sized banks, small and medium-sized banks have to reduce the exposure or choose other financial institutions with high credit risk as their counterparties. The interbank business would be cut substantially.

For instance, Industrial Bank serves as a commercial bank in China and focuses on interbank business over recent years. Therefore, we prefer to trade with state banks and large-sized commercial banks which have quasi-sovereign credit characters

and lower credit risk in interbank market. We set out the credit line、limit management、access permission mechanism、risk-weighted assets、economic capital etc. to avoid credit risk and control it in advance. If the large exposure limit to single interbank counterparties is set as 25% of tier 1 capital, Industrial Bank has to sharply reduce the trading volume with state banks and trade with lower capital and higher risk counterparties instead, such as rural commercial banks and rural credit cooperatives.

Therefore, the large exposure limit of 25% of tier 1 capital between interbank would result in amplifying the degree of unbalanced structure in China's banking industry and severely hampered the business of small and medium-sized banks. If most of the small and medium-sized banks cannot participate in the interbank market competition effectively, the pricing are subjected to minority state banks and large-sized banks. In addition, the allocation of the monetary resources and financial development in China would be inefficient, lacking of sufficient and effective competition. As a consequence, state banks and large-sized bank would occupy more market shares and meanwhile the development prospects of small and

medium-sized bank are limited. Eventually, it would not benefit the development of financial market.

Ⅱ. Proposal

Since the large exposure regulations would apply to world-wide scope, we propose the Committee to further refine the contents of the proposal to make it more reasonable and pertinent.

A. Implementing different large exposure limit to different countries and counterparties based on the internal structure of the financial markets in different countries

To reduce the systematic risk of the global banking industry substantially, we propose that the Committee could consider the various level of marketization in different countries thoroughly. Based on the present structure of financial markets in different countries, the Committee could accordingly set the large exposure limit to match the characteristics of different types of banks in different countries, which can control the risk more accurately and effectively. Hence, we provide some proposals in detail as follow:

(a) Based on the various level of marketization in different countries, the Committee could divide the countries into different groups and set large exposure limit to single interbank counterparties in different groups distinctively.

(b) Considering a country of relative lower marketization such as China, the Committee could set different large exposure limit based on the types of the interbank counterparties in this country. For instance: (1) the large exposure limit of the single state banks with quasi-sovereign credit should be set as 100% of Tier I capital; (2) the large exposure limit of the single listed commercial banks should be set as 50% of Tier I capital; (3) the large exposure limit of the other single small-sized banks, such as regional commercial banks, rural and commercial banks etc., should be set as 25% of Tier I capital.

B. Refining the calculation rules of large exposure limit by considering practical operations and market condition

We propose that the Committee could apply further specific risk conversion factors and other tools to the risk exposure

calculation of single interbank counterparties. The Committee could not only take the micro features including product types of interbank business, credit rating of counterparties and terms etc. into consideration, but also consider about the macro factors such as the degree of marketization and globalization of the financial markets in the country and so on. To be specific: (1) we propose that the Committee could exempt the 7-day or overnight interbank borrowing when measuring the large exposure risk, since these business that satisfy the adjustment of short-term capital position have a low probability of default; (2) we propose that the Committee could exempt the bond repo business when measuring the large exposure risk. The risk exposure to both parties in such business is equal because the party of lending will hold the bond as the guaranty. Hence, the risk exposure of these business should be an exemption.

C. Executing the rules step by step

We propose that the Committee could conduct the rules of large exposure limit to single interbank counterparties by several stages based on the importance of the bank with respect to the country and the world. In the first place, the

large exposure limit should be executed by the Global Systematically Important Banks (G-SIBs), which reflects the determination of a better control of systematic risk in the global banking industry. Afterward, based on the experience of supervising the G-SIBs, the large exposure limit can be applied to large and medium-sized commercial banks, regional banks by several stages. In this way, the enthusiasm of the small financial institutions to participate in the financial market can be maintained at the same time.

Industrial Bank Co., Ltd.