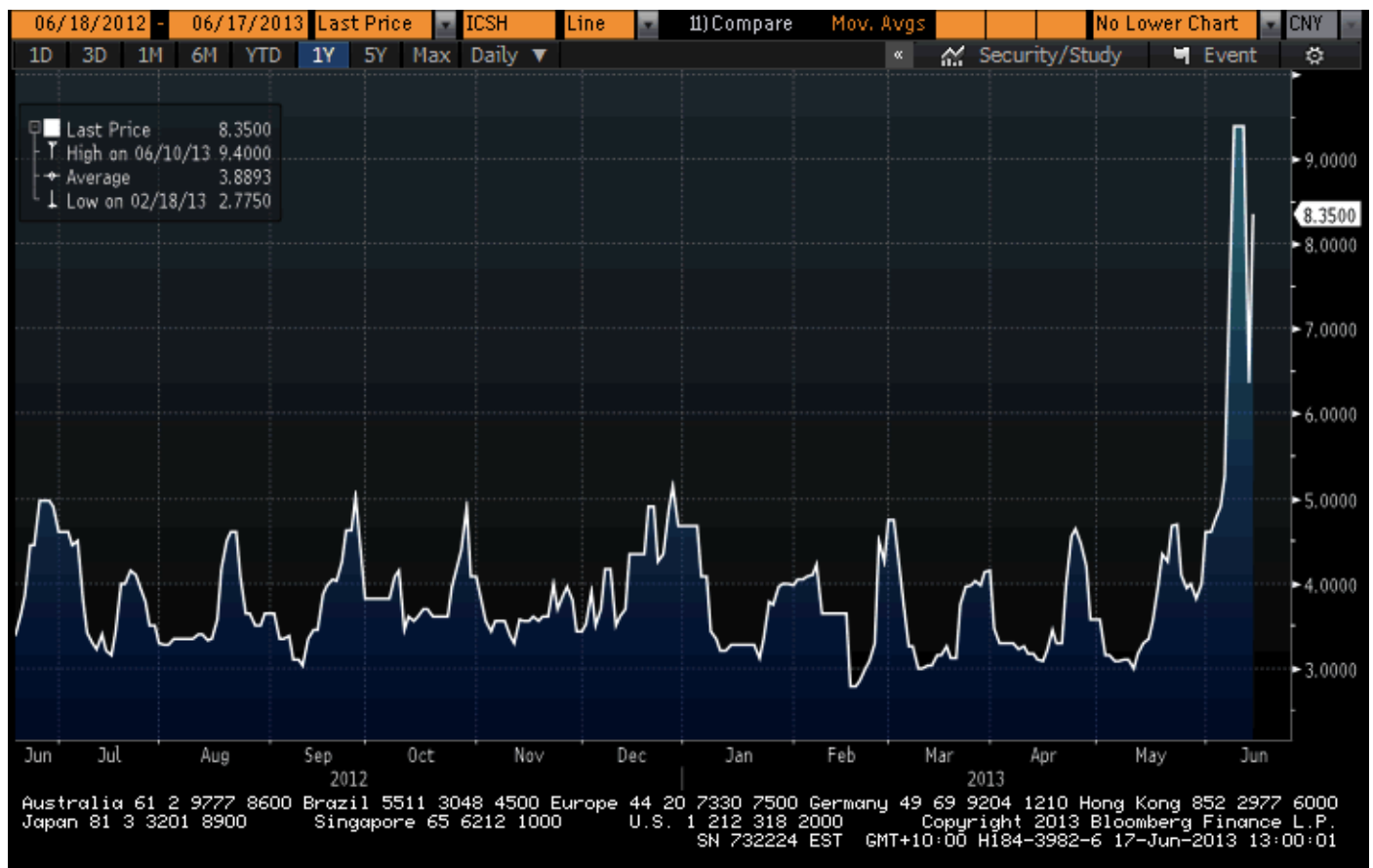


**The Chinese Shadow Banking Sector & Interbank Concerns, 18<sup>th</sup> of June 2013**

Fitch, the rating agency, downgraded China’s credit rating in April from AA- to A+ , and has recently described the credit bubble residing in the Chinese shadow Banking System as “Unprecedented in History.”

One of the key issues of the Chinese shadow banking system (apart from its size), relate to the need to roll-over a good portion of the loan book in less than 6 months (the banks are borrowing short).

The below chart. shows the rate at which Chinese Banks lend secured money to each other. As you can see, the rate in June has skyrocketed to touch nearly 9% for a three-week loan, nearly triple the regular rate.



Watch for policymakers in China to react forcefully to make sure this risk remains contained.

To discuss this information and how Realm Investment House is positioned in the current environment feel free to contact Richard Kerr of Realm Investment House on (02) 8014-4234.

The BIS press release is available on the following link, as is the relevant annex.

<http://www.bis.org/publ/bcbs238.htm>

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