渤海银行
CHINA BOHAI BANK

渤海銀行股份有限公司
CHINA BOHAI BANK CO., LTD.

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

Stock Code : 9668

GLOBAL OFFERING

Joint Sponsors

建银国际 CCB International
海通國際 HAITONG
農銀國際 ABC INTERNATIONAL
CITIC SECURITIES

Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers

建银国际 CCB International
海通國際 HAITONG
農銀國際 ABC INTERNATIONAL
CITIC SECURITIES
CICC 中金公司
ICBC 工银国际

Joint Bookrunners and Joint Lead Managers

Deutsche Bank
交銀國際 BOCOM International
浦銀國際 SPDB INTERNATIONAL
招銀国际 CMB INTERNATIONAL
國泰君安國際 GUOTAI JUNAN INTERNATIONAL
CMS 招商證券國際
BOC INTERNATIONAL

***IMPORTANT:** If you are in doubt about any information contained in this prospectus, you should obtain independent professional advice.*

CHINA BOHAI BANK CO., LTD.*

渤海銀行股份有限公司*

(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	**:**	**2,880,000,000 H Shares (subject to the Over-allotment Option)**
Number of Offer Shares in the International Offering	**:**	**2,736,000,000 H Shares (subject to adjustment and the Over-allotment Option)**
Number of Hong Kong Offer Shares	**:**	**144,000,000 H Shares (subject to adjustment)**
Maximum Offer Price	**:**	**HK$4.98 per H Share (payable in full on application in Hong Kong dollars, subject to refund), plus brokerage of 1%, a SFC transaction levy of 0.0027% and a Hong Kong Stock Exchange trading fee of 0.005%**
Nominal value	**:**	**RMB1.00 per H Share**
Stock code	**:**	**9668**

Joint Sponsors

Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers

Joint Bookrunners and Joint Lead Managers

Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus. A copy of this prospectus, having attached thereto the documents specified in "Appendix VIII – Documents Delivered to the Registrar of Companies and Available for Inspection", has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). 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 Representatives (on behalf of the Underwriters) and us on the Price Determination Date. The Price Determination Date is expected to be on or around Thursday, July 9, 2020 and, in any event, not later than Sunday, July 12, 2020. The Offer Price will be no more than HK$4.98 per Offer Share and is currently expected to be no less than HK$4.75 per Offer Share unless otherwise announced. If, for whatever reason, the Offer Price is not agreed by Sunday, July 12, 2020, between the Joint Representatives (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 IV – Summary of Principal Legal and Regulatory Provisions" and "Appendix V – Summary of Articles of Association".

The Joint Representatives (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$4.75 to HK$4.98 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 the Bank at **www.cbhb.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 Representatives (on behalf of the Hong Kong Underwriters) if certain grounds arise prior to 8:00 a.m. on the Listing Date. The Global Offering will become unconditional in all respects at 8:00 a.m. on the Listing Date if not terminated. See "Underwriting – Underwriting Arrangements and Expenses – The Hong Kong Public Offering – Grounds for Termination".

The Offer Shares have not been and will not be registered under the U.S. Securities Act of 1933, as amended, and may only be offered, sold, pledged or transferred (i) within the United States to QIBs as defined in Rule 144A or in reliance on another exemption from registration requirements under the U.S. Securities Act of 1933, as amended, or (ii) outside the United States in accordance with Regulation S.

* *We are not an authorized institution within the meaning of the Banking Ordinance (Chapter 155 of the Laws of Hong Kong), not authorized to carry on banking and/or deposit-taking business in Hong Kong, and not subject to the supervision of the HKMA other than our local representative office in Hong Kong.*

June 30, 2020

Latest time for completing electronic applications under **White Form eIPO** service through the designated website **www.eipo.com.hk**[2] . . . . .11:30 a.m. on Thursday, July 9, 2020

Application lists open[3] . . . . .11:45 a.m. on Thursday, July 9, 2020

Latest time for lodging **WHITE** and **YELLOW** Application Forms . . . . .12:00 noon on Thursday, July 9, 2020

Latest time for giving **electronic application instructions** to HKSCC[4] .12:00 noon on Thursday, July 9, 2020

Latest time for completing payment for **White Form eIPO** applications by effecting Internet banking transfer(s) or PPS payment transfer(s) . . . . .12:00 noon on Thursday, July 9, 2020

Application lists close[3] . . . . .12:00 noon on Thursday, July 9, 2020

Expected Price Determination Date[5] . . . . .Thursday, July 9, 2020

(1) Announcement of:

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

to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese), and on the website of the Hong Kong Stock Exchange at **www.hkexnews.hk**[6] and the Bank's website at **www.cbhb.com.cn**[6] on. . . . . .Wednesday, July 15, 2020

(2) Announcement of results of allocations in the Hong Kong Public Offering (including successful applicants' identification document numbers, where appropriate) will be available through a variety of channels (see "How to Apply for Hong Kong Offer Shares – 11. Publication of Results") from. . . . . .Wednesday, July 15, 2020

Results of allocations in the Hong Kong Public Offering will be available at **www.iporesults.com.hk** (alternatively: English **https://www.eipo.com.hk/en/Allotment**; Chinese **https://www.eipo.com.hk/zh-hk/Allotment**) with a "search by ID" function from .... Wednesday, July 15, 2020

H Share certificates in respect of wholly or partially successful applications to be despatched or deposited into CCASS on or before[7] .... Wednesday, July 15, 2020

White Form e-Refund payment instructions/refund cheques in respect of wholly or partially unsuccessful applications to be despatched on or before[8 & 9] .... Wednesday, July 15, 2020

Dealings in the H Shares on the Hong Kong Stock Exchange expected to commence at 9:00 a.m. on .... Thursday, July 16, 2020

The application for the Hong Kong Offer Shares will commence on Tuesday, June 30, 2020 through Thursday, July 9, 2020, being slightly longer than normal market practice of four Business Days. The application monies (including the brokerages, SFC transaction levies and Hong Kong Stock Exchange trading fees) will be held by the receiving banks on behalf of the Bank and the refund monies, if any, will be returned to the applicants without interest on Wednesday, July 15, 2020. Investors should be aware that the dealings in the H Shares on the Hong Kong Stock Exchange are expected to commence on Thursday, July 16, 2020.

(1) All dates and 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, please refer to the section headed "Structure of the Global Offering."

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

(3) If there is a "black" rainstorm warning or a tropical cyclone warning signal number 8 or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, July 9, 2020, the application lists will not open on that day. Please refer to the section headed "How to Apply for the Hong Kong Offer Shares – 10. Effect of Bad Weather on the Opening of the Application Lists" for further details.

(4) Applicants who apply for the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC should refer to the section headed "How to Apply for the Hong Kong Offer Shares – 6. Applying by Giving Electronic Application Instructions."

(5) The Price Determination Date is expected to be on or about Thursday, July 9, 2020, and, in any event, not later than Sunday, July 12, 2020. If, for any reason, the Offer Price is not agreed among the Bank, the Joint Representatives (on behalf of the Underwriters) on or before Sunday, July 12, 2020, the Global Offering will lapse.

(6) None of the website or any of the information contained on the website forms part of this prospectus.

(7) No temporary documents of title will be issued in respect of the Offer Shares. H Share certificates will only become valid certificates of title **provided that** (i) the Global Offering has become unconditional in all respects and (ii) the Underwriting Agreements have not been terminated in accordance with their respective terms prior to 8:00 a.m. on the Listing Date. Investors who trade H Shares on the basis of publicly available allocation details prior to the receipt of share certificates or prior to the share certificates becoming valid certificates of title do so entirely at their own risk.

(8) Applicants who apply for 1,000,000 or more Hong Kong Offer Shares under the Hong Kong Public Offering and have provided all required information may collect refund cheque(s) (where applicable) and/or H Share certificate(s) (where applicable) in person from our H Share Registrar, Computershare Hong Kong Investor Services Limited, from 9:00 a.m. to 1:00 p.m. on Wednesday, July 15, 2020. Applicants being individuals who are eligible for personal collection must not authorize any other person to make collection on their behalf. Applicants being corporations who opt for personal collection must attend by their authorized representatives each bearing a letter of authorization from their corporation stamped with the corporation's chop. Both individuals and authorized representatives (if applicable) must produce, at the time of collection, evidence of identity to our H Share Registrar. Uncollected H Share certificates and refund cheques will be dispatched by ordinary post at the applicants' own risk to the addresses specified on the relevant Application Forms. For details of the arrangements, please refer to the section headed "How to Apply for Hong Kong Offer Shares – 14. Despatch/Collection of H Share Certificates and Refund Monies."

(9) e-Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering and also in respect of wholly or partially successful applications in the event that the final Offer Price is less than the price payable per Offer Share 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 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 (which is expected to be on or about Thursday, July 16, 2020). 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 Shares certificates becoming valid certificates of title do so entirely at their own risk.

The above expected timetable is a summary only. For details of the structure of the Global Offering, including its conditions, and the procedures for applications for Hong Kong Offer Shares, see the sections headed "Structure of the Global Offering" and "How to Apply for Hong Kong Offer Shares" in this prospectus respectively.

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. We have not authorized anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made in this prospectus must not be relied on by you as having been authorized by us, the Joint Sponsors, the Joint Representatives, the Joint Global Coordinators, the Underwriters, any of our or their respective directors, officers or representatives, or any other party involved in the Global Offering.

CONTENTS

This summary aims to give you an overview of the information contained in this prospectus. As it is a summary, it does not contain all the information that may be important to you. You should read the whole document before you decide to invest in the H Shares. There are risks associated with any investment. Some of the particular risks in investing in the H Shares are set out in the section headed "Risk Factors" of this prospectus. You should read that section carefully before you decide to invest in the H Shares.

OVERVIEW

We are the youngest Nationwide Joint-stock Commercial Bank in China and enjoy significant late-mover advantages. Since our establishment, through capturing opportunities brought by various national strategies in China, we have established an extensive network with national coverage and an international business with strong growth potential.

As a result, we experienced rapid growth during the Track Record Period. In 2019, we ranked 178th among the "Top 1000 World Banks" released by *The Banker*, moving up nine places compared with the previous year and ranking 27th among all PRC banks, in terms of tier-one capital as of December 31, 2018. For the year ended December 31, 2019, we achieved a 15.7% year-on-year growth in net profit and a weighted average return on net assets of 13.71%, which ranked first and third, respectively, compared to all listed Nationwide Joint-stock Commercial Banks. As of December 31, 2019, our business network comprised 245 outlets, including 33 tier-one branches (including branches directly administered by our head office), 30 tier-two branches, 127 sub-branches, 54 community and micro sub-branches and one representative office in Hong Kong, which enables us to penetrate into regional markets throughout China and lay a solid foundation for our development.

We identify target customers that fit our strengths and competitive advantages by closely following the trend of national strategies and industry development, while conducting multidimensional studies on potential customers. Through years of efforts, we have attracted and retained a large number of loyal customers who have grown with us. We have established advantages in terms of differentiated competition and service quality through optimizing our customer structure and developing innovative tailor-made products and services for specific customer groups. In developing our corporate banking business, we primarily focus on customers who have strong track records. Our core customers comprise enterprises with leading industry positions conforming to trends of economic transformation and industry upgrade. In managing our retail banking business, we have identified two demographic groups as our core retail banking customers, namely the "pressurized generation (壓力一代)", the group with strong demand for financial products and services, and the "grey-haired group (養老一族)", the group in pressing need of wealth management services for their accumulated wealth.

Our corporate banking customers increased by 43.0% from January 1, 2015 to December 31, 2019. As of December 31, 2017, 2018 and 2019, our corporate loans and advances amounted to RMB343.4 billion, RMB384.4 billion and RMB465.2 billion, respectively, representing a CAGR of 16.4% which ranked first compared to all listed Nationwide Joint-stock Commercial Banks. As of December 31, 2017, 2018 and 2019, our personal loans amounted to RMB118.8 billion, RMB167.8 billion and RMB233.4 billion, respectively, representing a CAGR of 40.2% which ranked second compared to all listed National Joint-stock Commercial Banks; our interest income from personal loans amounted to RMB4.4

billion, RMB8.4 billion and RMB12.5 billion, respectively, for the years ended December 31, 2017, 2018 and 2019, representing a CAGR of 69.3% which ranked first compared to all listed Nationwide Joint-stock Commercial Banks. The rapid growth in our corporate loans and advances and personal loans was attributable both to our competitive product lines and effective marketing efforts, and to the fact that we are the youngest Nationwide Joint-stock Commercial Bank growing from a relatively small scale. For details on the market shares of our total loans and advances among Nationwide Joint-stock Commercial Banks during the Track Record Period, please see "Industry Overview – Competitive Landscape".

Capturing the opportunities brought up by technologies, we endeavor to expand the depth and breadth of our business scenarios. In selecting key cooperating partners, we focus on leading enterprises in industries compatible with both our strengths and the prevailing trends of economic growth. As of December 31, 2019, we had established cooperation relationships with over 100 internet platforms, and the aggregate number of online customers we acquired in 2019 through the various established scenarios reached 281.5 thousand, and, in the same year, the total transaction volume through these platforms reached RMB42.0 billion. Benefiting from the interaction within these jointly established ecosystems, we have been able to gradually expand our customer-acquisition channels, increase our fee and commission income, and further enhance the competitiveness and market-recognition of our financial products and services. During the Track Record Period, we won various awards in relation to FinTech, including the "China Golden Orange Awards – Best FinTech Services Award (中國金桔獎–最佳金融科技服務獎)", "FinTech and Outstanding Service Innovation Awards – Outstanding Contribution Award for Management Innovation (金融科技及服務優秀創新獎評選–管理創新突出貢獻獎)" and "China Electronic Banking Gold Rank – Best Personal Online Bank Award (中國電子銀行金榜獎–最佳個人網上銀行獎)" in 2018. In 2019, we were named "Annual FinTech Bank (年度金融科技銀行)" by 21st Century Business Herald (《21世紀經濟報道》).

We uphold a sound risk appetite and compliance awareness. As of December 31, 2017, 2018 and 2019, our NPL ratio was 1.74%, 1.84% and 1.78%, respectively. In particular, we have recorded a decrease in NPL ratio since 2018 amidst China's economic slow-down, primarily due to our enhanced credit risk management to improve quality of our assets and efforts to recover and write off NPLs in accordance with relevant regulatory policies, while the overall NPL ratio for PRC commercial banks decreased from 1.89% as of December 31, 2018 to 1.86% as of December 31, 2019. Our allowance coverage ratio was 185.89%, 186.96% and 187.73%, respectively, as of the same dates, ranking fourth for all three years compared with all listed Nationwide Joint-stock Commercial Banks. As of December 31, 2017, 2018 and 2019, our allowance to gross loan ratio was 3.24%, 3.44% and 3.34%, respectively, ranking fourth, second, and second, respectively, compared to all listed Nationwide Joint-stock Commercial Banks. We strictly implement the regulatory requirements governing the recognition of NPLs to ensure that our NPL ratio accurately reflect the quality of our credit assets.

OUR COMPETITIVE STRENGTHS

Our key competitive strengths include:

- The youngest Nationwide Joint-stock Commercial Bank in the PRC exhibiting strong competitiveness since establishment
- Precise customer targeting and outstanding financial services underlying a strong growth potential
- Capitalizing on a prudent risk management concept and comprehensive risk management system to enhance competitiveness in asset quality
- A progressive technology bank which enjoys the benefits from open ecosystems
- Distinguished management team supported by outstanding employees and a lean and agile management culture

For details of our strengths, please see "Business – Our Competitive Strengths".

OUR DEVELOPMENT STRATEGIES

Our strategic mission is to become a modern wealth and treasury manager offering the best customer experience (客戶最佳體驗的現代財資管家). We are devoted to offering customers a comprehensive financial service plan in a welcoming way, creating sustainable and stable value for shareholders and establishing optimum development platform for employees.

To achieve these goals, we plan to implement the following business development strategies:

- Continuously improve customer experience and improve the brand recognition of "wealth and treasury manager (財資管家)" with craftsmanship spirit
- Keep expanding product portfolio and continuously improve comprehensive and stewardship-style financial service capability
- Continuously enhance multi-channel product offering and introduce banking services through our open ecosystems
- Adhere to a risk management system featuring "integration, vertical, independence, balance and integration (集中、垂直、獨立、制衡、融入)" and further improve risk management capability
- Continue to develop our international business and steadily promote cross-border financial services ecosystems
- Optimize our lean management model, corporate culture and talents recruitment so that we can offer the best customer experience though a high-quality and efficient management and operation system

For details of our strategies, please see "Business – Our Development Strategies".

SUMMARY HISTORICAL FINANCIAL INFORMATION

You should read the summary historical financial information set forth below in conjunction with our historical financial information included in the Accountants' Report set forth in Appendix I, which were prepared in accordance with IFRS, and the sections headed "Assets and Liabilities" and "Financial Information". The statements of profit or loss and other comprehensive income for the years ended December 31, 2017, 2018 and 2019, as well as the statements of financial position as of December 31, 2017, 2018 and 2019 set out below have been derived from the Accountants' Report set forth in Appendix I.

We have adopted for the first time IFRS 9 for periods beginning on or after January 1, 2018. IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and liabilities, and the impairment of financial assets and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. As permitted by IFRS 9, we have not restated the comparative information for 2017 and prior periods for financial instruments within the scope of IFRS 9. Therefore, the comparative information for 2017 in this prospectus is reported under IAS 39 and is not comparable to the financial information presented for 2018 or 2019.

The major differences between IFRS 9 and IAS 39 are the measurement categories and the approach for classifying financial assets. The classification of financial assets under IFRS 9 requires us to consider the business model and the contractual cash flow characteristics of financial assets to determine classification and subsequent measurement. Further, for certain financial assets under IFRS 9, we are required to apply a new expected credit loss impairment model, which, as compared to the incurred loss model in IAS 39, uses more forward-looking information instead of an objective evidence of impairment as a precondition for recognizing credit losses. For the impact of the transition to IFRS 9 on our statement of financial position, see Note 2(1)(a) of the Accountants' Report in Appendix I and "Financial Information – Critical Accounting Judgments and Key Sources of Estimation Uncertainty – Impact of New Accounting Policies." The adoption of IFRS 9 did not result in any significant impact on our financial position and performance compared to the adoption of IAS 39.

In addition, we started to adopt IFRS 15 from January 1, 2018 to replace IAS 18. Compared to IAS 18 that we adopted prior to January 1, 2018, the adoption of IFRS 15 has not resulted in any significant impact on our financial position and performance. We started to adopt IFRS 16 from January 1, 2019 to replace IAS 17 that we adopted prior to January 1, 2019. IFRS 16 primarily affected our accounting as a lessee of the lease for certain office premises which were previously classified as our operating leases. The adoption of IFRS 16 does not have any significant impact on our financial position and results of operations compared with the results have we applied IAS 17. For details, please see "Financial Information – Critical Accounting Judgments and Key Sources of Estimation Uncertainty – Impact of New Accounting Policies" and Note 2(1)(a) of the Accountants' Report in Appendix I.

Selected Data from Statements of Financial Position

The following table sets forth selected data from the statements of financial position as of the dates indicated.

	As of December 31,					
	2017(1)		2018(2)		2019(2)	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Assets						
Loans and advances to customers	449,813.7	44.9%	548,022.4	53.0%	687,279.1	61.5%
Financial investments	412,648.6	41.2%	312,957.9	30.3%	300,306.9	26.9%
Cash and deposits with the central bank	105,000.3	10.5%	123,250.0	11.9%	93,013.7	8.3%
Deposits with banks and other financial institutions	8,722.8	0.9%	25,923.1	2.5%	14,051.6	1.3%
Placements with banks and other financial institutions	10,168.0	1.0%	2,059.1	0.2%	4,410.8	0.4%
Derivative financial assets	198.1	0.0%	393.4	0.0%	158.7	0.0%
Financial assets held under resale agreements	–	–	10,571.0	1.0%	1,850.3	0.2%
Interest in associate	51.7	0.0%	52.8	0.0%	–	–
Property and equipment	4,039.9	0.4%	3,917.3	0.4%	3,804.2	0.3%
Deferred tax assets	4,829.4	0.5%	5,065.9	0.5%	6,365.1	0.6%
Other assets(3)	7,094.5	0.6%	2,238.4	0.2%	5,689.6	0.5%
Total assets	**1,002,567.0**	**100.0%**	**1,034,451.3**	**100.0%**	**1,116,930.0**	**100.0%**
Liabilities						
Deposits from customers	582,103.3	61.0%	606,701.4	62.0%	647,764.6	62.6%
Deposits from banks and other financial institutions	151,789.2	15.9%	69,587.9	7.1%	78,547.4	7.6%
Placements from banks and other financial institutions	37,837.2	4.0%	19,535.0	2.0%	21,500.2	2.1%
Financial assets sold under repurchase agreements	2,213.8	0.2%	22,363.8	2.3%	23,069.1	2.2%
Derivative financial liabilities	2,109.8	0.2%	140.6	0.0%	171.8	0.0%
Debt securities issued	138,415.2	14.5%	218,679.0	22.3%	196,603.8	19.0%
Borrowing from the central bank	24,000.0	2.5%	28,595.8	2.9%	46,905.6	4.5%
Income tax payable	1,971.0	0.2%	397.7	0.0%	1,888.0	0.2%
Other liabilities(4)	13,662.2	1.5%	12,591.0	1.4%	17,840.9	1.8%
Total liabilities	**954,101.7**	**100.0%**	**978,592.2**	**100.0%**	**1,034,291.4**	**100.0%**
Total equity	**48,465.3**		**55,859.1**		**82,638.6**	
Total liabilities and equity	**1,002,567.0**		**1,034,451.3**		**1,116,930.0**	

Notes:

(1) IAS 39 was adopted prior to January 1, 2018.

(2) IFRS 9 was adopted from January 1, 2018.

(3) Consist primarily of interest receivable, land use rights, prepayments and right-of-use assets.

(4) Other liabilities consist primarily of interests payable, accrued staff cost, payment and collection clearance accounts, provision for credit commitment losses and lease liabilities.

For details, please see "Assets and Liabilities".

Selected Data from the Statements of Profit or Loss and Other Comprehensive Income

The following table sets forth our statements of profit or loss and other comprehensive income for the years indicated.

	For the year ended December 31,		
	2017	**2018**	**2019**
	(in millions of RMB)		
Interest income	40,865.2	44,721.5	51,487.3
Interest expense	(23,844.8)	(29,493.6)	(28,576.9)
Net interest income	**17,020.4**	**15,227.9**	**22,910.4**
Fee and commission income	8,900.9	7,128.7	5,434.3
Fee and commission expense	(214.9)	(771.4)	(1,208.5)
Net fee and commission income	**8,686.0**	**6,357.3**	**4,225.8**
Net trading (losses)/gains	(553.0)	(492.6)	196.4
Net (losses)/gains arising from investment securities	(13.7)	1,985.1	961.9
Other operating income(1)	110.4	132.4	84.0
Operating income	**25,250.1**	**23,210.1**	**28,378.5**
Operating expenses	(9,071.4)	(8,675.7)	(8,856.9)
Impairment losses on assets	(7,755.0)	(6,507.9)	(9,566.9)
Share of profits/(losses) of associate	1.7	1.0	(52.8)
Profit before tax	**8,425.4**	**8,027.5**	**9,901.9**
Income tax	(1,671.6)	(947.3)	(1,709.1)
Net profit	**6,753.8**	**7,080.2**	**8,192.8**

Note:

(1) Consists primarily of government grants and rental income.

- Our net interest income decreased by 10.5% from RMB17,020.4 million in 2017 to RMB15,227.9 million in 2018, primarily due to a 23.7% increase in interest expense for the same periods, which was partially offset by a 9.4% increase in the interest income. Our interest income increased at a slower rate than our interest expense, mainly because interest income from financial investments measured at fair value through profit or loss previously recognized in the "interest income" under IAS 39 was recognized in "net gains arising from investment securities" or "net trading gains" under IFRS 9. Our net interest income increased by 50.5% from RMB15,227.9 million for 2018 to RMB22,910.4 million for 2019, primarily due to (i) a 15.1% increase in interest income, and (ii) a 3.1% decrease in interest expense. The increase in our interest income was primarily due to increase in the volume of, as well as the average yield on, loans and advances to customers, which was in line with our business growth.

- Our net fee and commission income decreased by 26.8% from RMB8,686.0 million in 2017 to RMB6,357.3 million in 2018, and further decreased by 33.5% to RMB4,225.8 million in 2019, primarily due to a decline in our fee and commission income coupled with a rise in fee and commission expense. The reduction in our fee and commission income was attributable to a decrease in the consulting service fees, custodian service fees and agency service fees we recognized, primarily due to adjustments in our business and product mix in response to changes in the market and regulatory environment.

- Our operating income decreased by 8.1% from RMB25,250.1 million in 2017 to RMB23,210.1 million in 2018, then increased by 22.3% to RMB28,378.5 million in 2019. In addition to the impact from changes in our net interest income and net fee and commission income, our operating income were also affected by changes in our net (losses)/gains arising from investment securities, which fluctuated in 2018 mainly due to our adoption of IFRS 9, and decreased in 2019 due to reduction in the scale of our SPV investment.

- Our impairment losses on assets decreased from RMB7,755.0 million in 2017 to RMB6,507.9 million in 2018, mainly because we recorded impairment losses on financial investments of RMB1,998.6 million in 2017 but impairment reversals on financial investments of RMB902.8 million in 2018, which was due to our reduction of certain SPV investment in response to the new regulatory policies issued by PRC Government in recent years.

  Our impairment losses on assets increased by 47.0% from RMB6,507.9 million in 2018 to RMB9,566.9 million in 2019, primarily because (i) we recorded impairment losses of RMB807.1 million in 2019 compared to impairment reversals on financial investments of RMB902.8 million in 2018; and (ii) the impairment losses on loans and advances to customers increased from RMB7,245.8 million in 2018 to RMB8,789.2 million in 2019. We recognized impairment reversal on financial investments in 2018 but impairment losses on financial investments in 2019, mainly due to (i) the increased provision on certain financial investments in 2019 based on the actual level of risk and days of default in line with the principle of prudence, and (ii) our reducing SPV investment in 2018 in accordance with relevant regulatory policies, which resulted in a substantial decrease in the impairment allowance in 2018. Our impairment losses on loans and advances to customers rose in 2019, primarily due to the increased loans and advances to customers as a result of our business growth.

- Our income tax decreased from RMB1,671.6 million in 2017 to RMB947.3 million in 2018, and our effective income tax rate decreased from 19.8% in 2017 to 11.8% in 2018, primarily due to an increase in non-taxable income and the impact of adopting IFRS 9 to replace IAS 39 on the amount of current taxable income. Our income tax expenses increased to RMB1,709.1 million in 2019 primarily due to the impact of adopting IFRS 9 on the amount of current taxable income in 2018. Since January 1, 2018, we have adopted IFRS 9 to replace IAS 39. As a result, certain of our financial assets measured at amortized cost that were interest-earning under IAS 39 were reclassified to financial assets measured at fair value through profit or loss which were not interest-earning under IFRS 9, and thereby, upon changing the accounting policy, we reversed the accrued interest arising from such assets in the book. Since the income tax corresponding to this interest income had already been paid prior to 2018, we did not pay taxes repetitively when this income was actually received in 2018, which further resulted in a comparatively low taxable income in 2018 as compared to that in 2017 and 2019.

For further discussion on the fluctuations in our statements of profit or loss and other comprehensive income, please see "Financial Information – Results of Operations for the Years Ended December 31, 2017 and 2018", "Financial Information – Results of Operations for the Years Ended December 31, 2018 and 2019".

Our Principal Businesses

Our principal business lines include corporate banking, retail banking, and financial markets. For details of our principal business, please see "Business – Our Principal Businesses". The following table sets forth our key operating results by segments for the years indicated. For more details, please see "Financial Information – Summary of Operating Results – Summary Business Segment Information".

	For the year ended December 31,														
	2017					2018					2019				
	Corporate banking	Retail Banking	Financial Markets	Others(1)	Total	Corporate banking	Retail Banking	Financial Markets	Others(1)	Total	Corporate banking	Retail Banking	Financial Markets	Others(1)	Total
	(in millions of RMB)														
Net interest income	11,811.5	1,772.7	3,436.2	–	17,020.4	10,127.2	3,375.8	1,724.9	–	15,227.9	10,603.9	5,751.9	6,554.6	–	22,910.4
Net fee and commission income	1,919.9	274.1	6,485.2	6.8	8,686.0	1,858.1	25.3	4,501.2	(27.3)	6,357.3	1,727.8	(284.6)	2,803.4	(20.8)	4,225.8
Operating income(2)	13,722.4	2,055.1	9,354.9	117.7	25,250.1	12,036.5	3,409.1	7,660.4	104.1	23,210.1	12,455.8	5,478.7	10,361.6	82.4	28,378.5
Operating expenses	(4,752.7)	(2,945.9)	(1,184.7)	(188.1)	(9,071.4)	(4,558.4)	(3,053.5)	(880.4)	(183.4)	(8,675.7)	(4,508.4)	(3,242.6)	(877.8)	(228.1)	(8,856.9)
Profit/(loss) before tax	3,799.6	(1,691.7)	6,386.2	(68.7)	8,425.4	879.4	(326.2)	7,552.6	(78.3)	8,027.5	886.7	679.5	8,534.2	(198.5)	9,901.9

Notes:

(1) Consists primarily of income that is not directly attributable to any specific business segment.

(2) Our operating income from these segments represents the net interest income derived solely from the respective lines of business, which is further added/deducted by net fee and commission income/(expense), net gains/(losses) on trading activities, net gains/(losses) arising from investment securities or other operating income/(expense), as applicable, attributable to the respective lines of business.

Operating income from our retail banking business increased by 65.9% from RMB2,055.1 million in 2017 to RMB3,409.1 million in 2018, which further increased by 60.7% to RMB5,478.7 million in 2019. The continued increase in our operating income from our retail banking business was primarily attributable to the rapid growth of the scale of our personal loan and the increased average yield on personal loans. For more details on each of our principal business segments, please see “Business – Our Principal Businesses”.

Loans and Advances to Customers

As of December 31, 2017, 2018 and 2019, our gross loans and advances to customers amounted to RMB464,889.8 million, RMB565,453.7 million and RMB708,057.5 million, respectively which was primarily attributable to the growth of both our corporate loan business and personal loan business. For more details on our corporate loan and personal loan portfolio, and a detailed discussion on the changes in their composition during the Track Record Period, please see “Assets and Liabilities – Assets– Loans and Advances to Customers”.

Distribution of Loans and Advances by Security Type

The following table sets forth the distribution of our loans and advances to customers by security type as of the dates indicated.

	As of December 31,					
	2017		2018		2019	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Pledged loans[1]	41,609.8	8.9%	48,596.6	8.5%	71,143.0	10.0%
Collateralized loans[1]	167,900.9	36.2%	193,532.4	34.3%	236,573.8	33.5%
Guaranteed loans[1]	175,497.9	37.7%	216,786.5	38.4%	248,288.9	35.1%
Unsecured loans	77,143.7	16.6%	93,326.8	16.5%	142,638.3	20.1%
Discounted bills	2,737.5	0.6%	13,211.4	2.3%	9,413.5	1.3%
Gross loans and advances to customers	**464,889.8**	**100.0%**	**565,453.7**	**100.0%**	**708,057.5**	**100.0%**

Note:

(1) Represent the total amount of loans fully or partially secured by collateral, pledges or guarantees in each category. If a loan is secured by more than one form of security interest, the categorization is based on the primary form of security interest.

As of December 31, 2017, 2018 and 2019, the aggregate of our pledged, collateralized and guaranteed loans amounted to RMB385,008.6 million, RMB458,915.5 million and RMB556,005.7 million, respectively. The balance of our pledged, collateralized and guaranteed loans increased continuously during the Track Record Period, which was generally in line with overall growth of our loan business. The percentages of our pledged, collateralized and guaranteed loans of our total loans and advances remained relatively high, which was attributable to the stringent loan policies implemented by us for effective risk management.

Maturity Profile of Loan Portfolio

The following table sets forth our loan products by remaining maturity as of the date indicated.

	As of December 31, 2019					
	Overdue[1]	Due in 3 months or less	Due over 3 months up to 12 months	Due over 1 year up to 5 years	Due in more than 5 years	Total
	(in millions of RMB)					
Corporate loans and advances						
Working capital loans	14,346.6	50,946.7	135,177.3	82,185.7	–	282,656.3
Fixed asset loans	3,267.2	5,849.9	17,024.9	124,401.9	20,540.5	171,084.4
Other loans[2]	1,334.8	550.1	2,632.9	2,893.9	4,071.7	11,483.4
Subtotal	**18,948.6**	**57,346.7**	**154,835.1**	**209,481.5**	**24,612.2**	**465,224.1**
Personal loans						
Residential and commercial housing loans	579.0	–	27.7	1,428.5	125,781.0	127,816.2
Personal consumption loans	1,634.8	19,096.0	30,078.9	42,588.1	2,208.0	95,605.8
Personal business loans	321.6	–	1,566.6	2,906.0	1,917.6	6,711.8
Credit cards	193.6	880.8	276.2	1,935.5	–	3,286.1
Subtotal	**2,729.0**	**19,976.8**	**31,949.4**	**48,858.1**	**129,906.6**	**233,419.9**
Discounted bills						
Bank acceptance discounted bills	–	4,293.4	2,818.3	–	–	7,111.7
Commercial acceptance discounted bills	–	1,783.9	517.9	–	–	2,301.8
Subtotal	**–**	**6,077.3**	**3,336.2**	**–**	**–**	**9,413.5**
Gross loans and advances to customers	**21,677.6**	**83,400.8**	**190,120.7**	**258,339.6**	**154,518.8**	**708,057.5**

Notes:

(1) Represents the balance of principal of the loans on which principal or interest was overdue as of December 31, 2019.

(2) Consist primarily of merger and acquisition loans.

Distribution of Corporate Loans and Advances by Industry

The following table sets forth the distribution of our corporate loans and advances by industry classification as of the dates indicated.

	As of December 31,					
	2017		2018		2019	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Lease and business services[3]	92,565.6	27.0%	114,971.9	29.9%	137,275.0	29.5%
Real estate	77,793.2	22.7%	90,288.7	23.5%	109,253.9	23.5%
Manufacturing[2]	47,019.5	13.7%	48,896.5	12.7%	60,302.3	13.0%
Water conservancy, environment and public facilities management[3]	42,210.5	12.2%	48,193.2	12.4%	50,870.0	10.9%
Wholesale and retail	27,404.6	8.0%	24,627.3	6.4%	37,309.4	8.0%
Construction	18,335.2	5.3%	16,760.0	4.4%	19,738.8	4.2%
Transportations and communications, storage and post[3]	7,975.9	2.3%	10,885.8	2.8%	14,567.8	3.1%
Mining	7,797.6	2.3%	4,444.5	1.2%	7,737.7	1.7%
Production and supply of electricity, heat, gas and water	5,120.8	1.5%	6,349.3	1.7%	6,880.0	1.5%
Finance	6,000.8	1.7%	3,472.9	0.9%	5,628.5	1.2%
Public utilities, social security and social organizations	2,740.5	0.8%	5,848.0	1.5%	5,287.0	1.1%
Education	2,657.0	0.8%	2,636.5	0.7%	2,246.4	0.5%
Information transfer, software and IT services	1,742.9	0.5%	1,015.9	0.3%	1,235.8	0.3%
Others[1]	3,986.9	1.2%	6,012.1	1.6%	6,891.5	1.5%
Total corporate loans and advances	**343,351.0**	**100.0%**	**384,402.6**	**100.0%**	**465,224.1**	**100.0%**

Notes:

(1) Comprise (i) accommodation and catering, (ii) hygiene and social welfare, (iii) agriculture, forestry, animal husbandry and fishery, (iv) scientific research and technical services, (v) resident services, maintenance and other services, and (vi) culture, sports and entertainment.

(2) As of December 31, 2017, 2018 and 2019, approximately 6.0%, 4.1% and 2.7%, respectively, of our corporate loans and advances were granted to borrowers that had business operation in industries associated with heavy pollution, high energy consumption or overcapacity, almost all of which were borrowers in the manufacturing industry.

(3) Certain of the borrowers in the lease and business services industry, the water conservancy, environment and public facilities management industry, and the transportations and communications, storage and post industry are LGFVs, and loans we granted to such borrowers represented 1.3%, 1.9% and 1.6% of our corporate loans and advances as of December 31, 2017, 2018 and 2019, respectively.

The aggregate balance of loans to our corporate borrowers in the lease and business services, real estate, manufacturing, water conservancy, environment and public facilities management and wholesale and retail industries, being the top five industries in terms of our aggregate corporate loan exposure as of December 31, 2019, collectively accounted for 83.6%, 84.9% and 84.9% of our total corporate loans and advances as of December 31, 2017, 2018 and 2019, respectively.

Distribution of Corporate Loans and Advances by Size of Corporate Borrowers

The following table sets forth the distribution of our corporate loans and advances by the size of the borrowers as of the dates indicated.

	As of December 31,					
	2017		2018		2019	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Large enterprises[1]	123,888.3	36.1%	128,818.4	33.5%	159,251.0	34.2%
Medium enterprises[1]	109,334.0	31.8%	126,708.4	33.0%	176,477.8	37.9%
Subtotal (medium to large enterprises)	233,222.3	67.9%	255,526.8	66.5%	335,728.8	72.1%
Micro and small enterprises[1]	102,951.0	30.0%	119,242.3	31.0%	120,881.5	26.0%
Others[2]	7,177.7	2.1%	9,633.5	2.5%	8,613.8	1.9%
Total corporate loans and advances	**343,351.0**	**100.0%**	**384,402.6**	**100.0%**	**465,224.1**	**100.0%**

Notes:

(1) The classification criteria for micro and small enterprises and, medium to large enterprises are based on the number of their employees, operating income and total assets, as stated in the Classification Standards of Small and Medium Enterprises. Please see "Definitions" section.

(2) Primarily include loans to public institutions such as schools and hospitals.

Financial Markets

The following table sets forth a breakdown of the total balance of our debt securities investment, SPV investment and equity investment as of the dates indicated.

	As of December 31,					
	2017		2018		2019	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Debt securities	124,430.2	29.8%	150,039.7	48.0%	167,465.9	55.9%
SPV investment						
Trust plans	119,090.1	28.5%	79,838.6	25.3%	61,586.6	20.4%
Asset management plans	121,939.2	29.1%	65,428.2	20.9%	43,317.8	14.5%
Wealth management products	39,552.5	9.5%	3,039.0	1.0%	–	–
Funds	12,374.9	3.0%	14,280.4	4.6%	25,480.8	8.5%
Subtotal	292,956.7	70.1%	162,586.2	51.8%	130,385.2	43.4%
Equity investment	304.6	0.1%	632.4	0.2%	2,041.3	0.7%
Gross financial investments	**417,691.5**	**100.0%**	**313,258.3**	**100.0%**	**299,892.4**	**100.0%**

Our SPV investment decreased by 44.5% from RMB292,956.7 million as of December 31, 2017 to RMB162,586.2 million as of December 31, 2018, and further decreased by 19.8% to RMB130,385.2 million as of December 31, 2019, primarily due to our adjustment to the mix of our investment portfolio to reduce investment in trust plans and asset management plans according to the PRC regulatory policies regulating the SPV investment. Although we have taken a variety of risk management measures, we cannot assure you that these measures will fully protect us from credit risks and liquidity risks in relation to our SPV investment. For example, we may not be able to receive repayment of principal of, and returns on, the SPV investment due to material and adverse changes in the financial condition of the ultimate borrowers. For more details, please see "Risk Factors – Risks Relating to Our Business – We are subject to risks relating to SPV investment and any adverse development in relation to our SPV investment may materially and adversely affect our profitability and liquidity".

Cash Flows

During the Track Record Period, we had cash flows generated from operating activities before changes in operating assets and liabilities of RMB2,219.1 million, RMB6,984.5 million and RMB14,857.7 million, respectively, in 2017, 2018 and 2019.

We had net cash flows used in operating activities of RMB25,917.6 million, RMB167,616.4 million and RMB41,679.5 million, respectively, in 2017, 2018 and 2019. The net cash flows used in operating activities primarily resulted from the increases in our loans and advances to customers during the Track Record Period, which was in line with our business expansion. To improve our cash flow position, we will continue to expand cash flows generated from operating activities by (i) strengthening innovation in our business model and services and proactively expanding our quality customer base, to drive the continued growth of deposits from customers; (ii) optimizing the scale and structure of our loan business and improving the pricing mechanism of loan products to achieve stable growth in interest income; (iii) expanding the product lines for our intermediary business and improving our services in this field, so as to advance the growth of our fee and commission income; and (iv) strengthening our communication with the central bank, actively participating in the central bank's open market operations, and steadily diversifying the source of funds for operating activities.

Meanwhile, to reduce cash flows used in operating activities, we will (i) strengthen our management over the scale and pace of credit issuance, and maintain a steady increase in cash outflows consistent with the growth in our loans and advances to customers; and (ii) improve cost management over our liabilities by reasonably controlling cash flows used in operating activities, such as interest payments and fee and commission expenses.

For details of our cash flows, please see "Financial Information – Cash Flows".

Selected Financial Ratios

The following table sets forth selected profitability indicators for the years indicated.

	For the year ended December 31,		
	2017	2018	2019
Profitability indicators			
Return on average assets[(1)]	0.73%	0.70%	0.76%
Weighted average return on net assets[(2)]	15.12%	13.59%	13.71%
Net interest spread[(3)]	1.60%	1.46%	2.03%
Net interest margin[(4)]	1.77%	1.54%	2.21%
Cost-to-income ratio[(5)]	34.22%	35.40%	29.50%

Notes:

(1) Calculated by dividing net profit for the year by the average balance of total assets at the beginning and the end of the year.

(2) Calculated according to the Compilation Rules for Information Disclosures by Companies that Offer Securities to the Public (No. 9): Calculation and Disclosure of Rate of Return on Equity and Earnings per Share (2010 Revision) (《公開發行證券的公司信息披露編報規則第9號-淨資產收益率和每股收益的計算及披露(2010年修訂)》) issued by the CSRC. When calculating the weighted average return on net assets, the effect from undated capital bonds has been deducted from the "weighted average net assets".

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

(4) Calculated by dividing net interest income by the average balance of total interest-earning assets.

(5) Calculated by dividing total operating expenses (excluding taxes and surcharges) by total operating income.

The following table sets forth information relating to certain regulatory indicators as of the dates indicated, calculated in accordance with the requirements of the PRC banking regulatory authorities and applicable accounting standards.

	Regulatory requirement	As of December 31,		
		2017	2018	2019
Capital adequacy indicators				
Core tier-one capital adequacy ratio(1)	≥7.5%	8.12%	8.61%	8.06%
Tier-one capital adequacy ratio(2)	≥8.5%	8.12%(2)	8.61%	10.63%
Capital adequacy ratio(3)	≥10.50%	11.43%	11.77%	13.07%
Asset quality indicators				
NPL ratio(4)	≤5.00%	1.74%	1.84%	1.78%
Allowance coverage ratio(5)	≥150.00%	185.89%	186.96%	187.73%
Allowance to gross loan ratio(6)	≥2.50%	3.24%	3.44%	3.34%
Other indicator				
Loan-to-deposit ratio(7)	N/A	79.86%	94.53%	110.99%

Notes:

(1) Calculated by dividing core tier-one capital, net of core tier-one capital deductions, by risk-weighted assets. For details, please see "Supervision and Regulation – Supervision over Capital Adequacy " and "Financial Information – Capital Resources – Capital Adequacy".

(2) Calculated by dividing tier-one capital, net of tier-one capital deductions, by risk-weighted assets. Pursuant to the Notice on Arranging Related Matters in the Transitional Period of Carrying out Capital Management Measures of Commercial Banks (Trial) issued by the CBRC, our tier-one capital adequacy ratio as of December 31, 2017 had complied with the applicable regulatory requirement for 2017. For details, please see "Supervision and Regulation – Supervision over Capital Adequacy" and "Financial Information – Capital Resources – Capital Adequacy".

(3) Calculated by dividing total capital, net of capital deductions, by risk-weighted assets. For details, please see "Supervision and Regulation – Supervision over Capital Adequacy" and "Financial Information – Capital Resources – Capital Adequacy".

(4) Calculated by dividing total NPLs by gross loans and advances to customers.

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

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

(7) Calculated by dividing total loans and advances to customers by total deposits from customers. Prior to October 1, 2015, PRC commercial banks were required to maintain a loan-to-deposit ratio for no higher than 75%. Effective from October 1, 2015, the PRC Commercial Banking Law was amended and the 75% maximum loan-to-deposits ratio was repealed.

APPLICATION FOR THE OFFER SHARES

The application for the Hong Kong Offer Shares will commence on Tuesday, June 30, 2020 through Thursday, July 9, 2020. The application monies (including the brokerages, SFC transaction levies and Hong Kong Stock Exchange trading fees) will be held by the receiving banks on behalf of the Bank and the refund monies, if any, will be returned to the applicants without interest on Wednesday, July 15, 2020. Investors should be aware that dealing in the H Shares on the Hong Kong Stock Exchange is expected to commence on Thursday, July 16, 2020.

OFFERING STATISTICS

The statistics in the following table are based on the assumptions that (i) the Global Offering is completed and 2,880,000,000 H Shares are newly issued in the Global Offering, (ii) the Over-allotment Option for the Global Offering is not exercised, and (iii) 17,330,000,000 Shares are issued and outstanding following the completion of the Global Offering:

	Based on an Offer Price of HK$4.75	**Based on an Offer Price of HK$4.98**
Market capitalization	HK$82,317.5 million	HK$86,303.4 million
Unaudited pro forma adjusted net tangible assets per Share(1)	RMB4.31(2) (HK$4.71)	RMB4.35(2) (HK$4.75)

Notes:

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

(2) The estimated net proceeds from the Global Offering are translated into Renminbi at the rate of RMB0.9150 to HK$1.00, the exchange rate set by the PBoC prevailing on June 19, 2020. No representation is made that the Hong Kong Dollar amounts have been, could have been or could be converted to Renminbi at that rate or at any other rate.

DIVIDENDS

We currently do not have a pre-determined dividend payout ratio. Whether to pay dividends, the amount of dividends to be paid or the dividend payout ratio is based on our results of operations, cash flows, financial condition, capital adequacy ratios, future business prospects, statutory and regulatory restrictions on the payment of dividends by us and other factors that our Board of Directors considers relevant. Pursuant to PRC laws and our Articles of Association, dividends may only be distributed from our distributable profits calculated in accordance with PRC GAAP or IFRS (or the accounting standards of the overseas jurisdictions where our Shares are listed), whichever is lower. Barring the development of new accounting standards or related amendments, we expect no material differences between our net profit calculated in accordance with PRC GAAP and that prepared under IFRS beginning January 1, 2020.

During the Track Record Period, we had declared special dividends in aggregate of RMB2,128.3 million to certain shareholders who had completed the contribution obligation in relation to the second capital increase. For details on our capital increase, please see "History and Development – Our History – Changes in the Registered Capital of our Bank". As of the Latest Practicable Date, such dividends had been fully paid up.

As approved by our Shareholders' general meeting in October 2019, immediately after the completion of the Global Offering, all the Shareholders are entitled to our accumulated retained earnings prior to the Listing, subject to compliance with our Articles of Association and relevant regulatory requirements.

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. For details on our dividends, see "Financial Information – Dividends".

INFORMATION ON SUBSTANTIAL SHAREHOLDERS

As of the Latest Practicable Date, TEDA Holding was directly interested in 25.00% of our total issued Shares. Immediately after the Global Offering and assuming that the Over-allotment Option is not exercised, TEDA Holding will be directly interested in approximately 20.85% of our total issued Shares (or approximately 20.34%, assuming that the Over-allotment Option is fully exercised).

As of the Latest Practicable Date, SCB was directly interested in 19.99% of our total issued Shares. Immediately after the Global Offering and assuming that the Over-allotment Option is not exercised, SCB will be directly interested in approximately 16.67% of our total issued Shares (or approximately 16.26%, assuming that the Over-allotment Option is fully exercised).

As of the Latest Practicable Date, China Shipping Investment Co., Ltd. was directly interested in 13.67% of our total issued Shares. Immediately after the Global Offering and assuming that the Over-allotment Option is not exercised, China Shipping Investment Co., Ltd. will be directly interested in approximately 11.40% of our total issued Shares (or approximately 11.12%, assuming that the Over-allotment Option is fully exercised).

For details on our substantial Shareholders, please see "Substantial Shareholders".

INVESTMENT OF OCEANWIDE INDUSTRY

In 2017, Oceanwide Industry invested in an aggregate of 806,298,082 Shares distributed and assigned by Tianjin Trust, and subscribed 564,408,657 Shares under our capital increase. Upon completion of the aforesaid transactions and as of the Latest Practicable Date, Oceanwide Industry held approximately 9.49% of the total number of our issued Shares. For details of investment by Oceanwide Industry, see "History and Development".

FUTURE PLANS AND USE OF PROCEEDS

Assuming an Offer Price of HK$4.87, being the mid-point 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) to be approximately HK$13,668.1 million, if the Over-allotment Option is not exercised; or approximately HK$15,729.2 million, if the Over-allotment Option is exercised in full. We intend to use the net proceeds from the Global Offering (after deduction of underwriting commissions and estimated expenses payable by us in relation to the Global Offering) to strengthen our capital base to support the ongoing growth of our business. For more details on our plans for using the proceeds of the Global Offering, please see "Future Plans and Use of Proceeds".

RECENT DEVELOPMENTS

Our business has continued to experience growth since December 31, 2019.

From January 1, 2020 and up to the Latest Practicable Date, we issued certificates of interbank deposit in an aggregate principal amount of RMB155,370.0 million and financial bonds in an aggregate principal amount of RMB18,000.0 million. In addition, on June 24, 2020, we exercised our redemption right to redeem all the 10-year tier-two capital debts issued by us in 2015 with face value of RMB9,000.0 million. For details, see "Financial Information – Capital Resources – Debt – Debt Securities Issued". In May 2020, the CBIRC and the PBoC approved that we may issue financial bonds in an aggregate principal amount of up to RMB10.0 billion. The entire proceeds to be raised from this issuance of bonds will be used to grant loans to micro and small enterprises. As of the date of this prospectus, we have not issued such bonds.

Outbreak of COVID-19

Since the outbreak of COVID-19 in China and around the world, governments of different countries and regions have adopted various measures to contain the pandemic and protect residents, including implementing travel bans, social distancing measures and closure of public events and restaurants.

To prevent the transmission of COVID-19 within the Bank and our community, we have promptly taken precautionary measures, including: providing technical support for employees to work from home, distributing protective masks to our onsite employees, implementing temperature screening at entry of buildings, providing hand and desk sanitizing and disinfecting of common areas. Leveraging communication technology available and by adopting strict health measures, as of the date of this prospectus, we had not experienced material interruption of business operations or labor shortage.

Supportive Measures

Globally, governments are undertaking immediate and vigorous measures to support economies, protect workers and businesses – especially micro, small and medium-sized enterprises – most affected, and shield the vulnerable through adequate social mitigation measures. Targetted fiscal policy and monetary easing measures have been adopted by governments around the world, to counteract the social, economic and financial impacts of the pandemic. PRC government has also introduced a broad range of policy tools to minimize the negative effects from the pandemic, restore economic growth, and maintain market stability, while encouraging banks and financial institutions to enhance their credit support to affected enterprises and individuals.

On February 1, 2020, the PBoC, MOF, CBIRC, CSRC and SAFE jointly issued Notice on Further Enhancing Financial Support for Controlling the Novel Coronavirus Outbreak (《關於進一步強化金融支持防控新型冠狀病毒感染肺炎疫情的通知》), and proposed a range of financial measures to combat the impact of the epidemic and support economic stability, including enhancing support to micro and small enterprises and private enterprises that are severely affected by COVID-19 by encouraging extension of loans and reduced interest rates. On February 15, 2020, CBIRC announced that it may raise regulatory tolerance of banks' non-performing loans to businesses facing liquidity difficulties due to COVID-19.

On March 1, 2020, CBIRC, PBoC and other PRC regulatory authorities jointly issued the Notice on Temporary Deferment of Repayment on Principal and Interest for Loans to Micro, Small and Medium Enterprises (《關於對中小微企業貸款實施臨時性延期還本付息的通知》) (the "**March 1 Notice**"), according to which, qualified micro, small and medium enterprises (including individual business owners and owners of micro and small enterprises) facing temporary liquidity difficulties due to the outbreak of COVID-19 can make applications with banks to defer repayment of principal and interest expenses payable from January 25 to June 30, 2020, and overdue loan repayments during the relevant period will not be subject to penalties. On April 3, 2020, the PBoC announced a cut in reserve requirement ratio (RRR) for small and medium-sized banks by 1 percent. In addition, the interest rate on commercial banks' excess reserves with the central bank would be reduced to 0.35% from 0.72%, effective April 7, 2020. Such easing measures are implemented to increase the willingness of banks to offer loans and targeted services for enterprises, reduce the enterprises' actual financing costs, and encourage commercial banks to provide competent financial services amid the pandemic. On June 1, 2020, CBIRC, PBoC and other PRC regulatory authorities jointly issued the Notice on the Further Implementation of Periodic Deferment of Repayment on Principal and Interest for Loans to Micro, Small and Medium Enterprises (《關於進一步對中小微企業貸款實施階段性延期還本付息的通知》) (the "**June 1 Notice**"), allowing banking institutions to extend the duration of their deferment arrangements for loans granted to micro and small enterprises (including business loans granted to individual business owners and owners of micro and small enterprises) whose credit line as a single borrower does not exceed RMB10.0 million. Under the June 1 Notice, qualified borrowers as described above may apply for deferred payment of loan principal and interest due by the end of 2020, beyond the June 30 schedule originally set in the March 1 Notice, and benefit from a grace period up to March 31, 2021 during which no penalty interest will be imposed.

In prompt response to relevant initiatives, we have launched various supportive measures for qualified enterprises and individuals (the "**Affected Entities**"), with particular attention to micro and small enterprises with good business prospects and credit history who are severely affected by the COVID-19.

- **Temporary loan principal and interest deferment options**. Pursuant to the regulatory policies above, we have formulated internal policies directing each business department, branch and sub-branch to accept, and timely process, loan deferment applications from Affected Entities. These deferment options allow Affected Entities to postpone their payments of principal and/or interest, without being subject to penalty interest. When reviewing these applications for extension or renewal of existing loans, we require our employees to strictly follow our established policies and approval procedures to verify the difficulties such Affected Entities had encountered and their genuine needs for credit support.

As of March 31, 2020, pursuant to the regulatory policies above, we had approved temporary loan deferment with aggregate principal of RMB1,091.4 million (of which RMB1,055.4 million was granted to micro, small and medium enterprises and RMB35.8 million was granted to owners of micro and small enterprises or individual businesses), representing less than 0.2% of our loans and advances to customers as of the same date, and aggregate interest of RMB183.0 million.

- **Preferential loan interest rates offered to Affected Entities and Anti-epidemic Enterprises**. We offer, on a case-by-case basis, preferential loan interest rates to Affected Entities aimed at alleviating their liquidity pressure, as part of our supportive measures and in line with our business strategy in developing and retaining quality clients. We also offer preferential interest rates to enterprises engaging in anti-epidemic campaign, such as pharmaceutical companies and hospitals. As of March 31, 2020, we had approved 65 corporate loans and advances with preferential interest rates, including new loans granted to selected Affected Entities and anti-epidemic enterprises and renewal of existing loans for the same. The aggregate balance of these loans reached RMB2,313.9 million as of the same date, with the corresponding interest rates ranging generally between 4.0% and 6.0%. We also applied preferential interest rates directly on certain outstanding loans extended to selected micro and small enterprises, the aggregate balance of which was RMB20.2 million as of March 31, 2020. Applications for reduced interest rate are reviewed and approved in accordance with our established internal procedures and pricing policies.

- **Promoting online loan products and expediting loan approval process**. To cope with the practical difficulties caused by travel restrictions, we actively promoted our online loan products through our electronic distribution channels. For example, the balance of loans we granted under "Bohai Happy E Loans (渤樂e貸)", our featured online personal loan series, increased by 77.9% from RMB927.8 million as of December 31, 2019 to RMB1,650.9 million as of March 31, 2020, primarily due to (i) effective promotional efforts and increased demand for our online personal consumption loan products, and (ii) our launching of "Epidemic Fighter Loans (抗疫勇士貸)" in February 2020, a product featuring preferential interest rates offered to healthcare professionals and public servants engaged in the combat against COVID-19, under this series. As of March 31, 2020, we had granted personal loans amounting to RMB360.5 million under Epidemic Fighter Loans.

  In addition, we launched "Bohai Business Loans (渤業貸)", an online working capital loan product tailored for micro and small enterprises, in January 2020, which has been well-received by the customers amid COVID-19. In March 2020, we implemented a preferential interest rate scheme targeting applicants for Bohai Business Loans, where borrowers can benefit from an interest rate ceiling of 5.91%. As of March 31, 2020, we had granted 51 Bohai Business Loans, the outstanding balance of which reached RMB34.4 million. For more details on this new product, please see "Business – Our Principal Businesses – Corporate Banking – Corporate Loans and Advances". We also set up "green approval channels" to expedite the credit approval process for enterprises engaged in the production of medical and anti-epidemic supplies, including those applying for preferential loan interest rates described above, to make sure that their needs for credit support are met with top priority.

In addition to the measures above, since February 2020, we have waived or reduced service fees for certain transactions conducive to countering the impact of COVID-19, such as custodian service fees and remittance fees for charity trusts and funds that support anti-epidemic measures or post-COVID-19 restoration, credit card late fees for medical personnel, public servants and COVID-19 patients, and credit card holders' ATM withdrawal fees within Hubei province.

We believe that the supportive measures above have only a temporary and immaterial impact on our liquidity position, the maturity profile of our loan portfolio, and our asset quality, given their limited applicability and targeted implementation.

Impact of COVID-19

Notwithstanding the outbreak of epidemic, as of the date of this prospectus, we confirm that there has been no material adverse impact to our financial results or business operations, taking into account various factors, including our broad branch network across China, strong technical capability to deliver convenient online financial services and products, sound customer base and asset quality, and the resilience of China's economic growth.

The following tables set forth certain financial information as of the dates and for the periods indicated, including those as of and for the three months ended March 31, 2020.

	As of December 31,			As of March 31,
	2017	2018	2019	2020
				(unaudited)
	(in millions of RMB, except percentages)			
Total assets	**1,002,567.0**	**1,034,451.3**	**1,116,930.0**	**1,206,783.3**
Gross loans and advances to customers	464,889.8	565,453.7	708,057.5	772,197.9
NPL ratio	1.74%	1.84%	1.78%	1.78%
Total liabilities	**954,101.7**	**978,592.2**	**1,034,291.4**	**1,121,207.0**

	For the year ended December 31,			For the three months ended March 31,	
	2017	2018	2019	2019	2020
				(unaudited)	
	(in millions of RMB)				
Operating income	**25,250.1**	**23,210.1**	**28,378.5**	**6,421.5**	**8,198.4**
Net interest income	17,020.4	15,227.9	22,910.4	4,983.1	6,912.1
Impairment losses on assets	**7,755.0**	**6,507.9**	**9,566.9**	**1,760.4**	**3,166.5**
Impairment losses on loans and advances	5,756.4	7,245.8	8,789.2	1,932.1	2,962.2

- Since March 2020, industries and enterprises across China have gradually resumed operations and production, as the country reports a decrease in confirmed infections. As of the Latest Practicable Date, all of our outlets, except for one community and micro sub-branch located within Hubei province, had resumed operations. Amid COVID-19, we continued to offer financial products and services through our online business network and infrastructure, notwithstanding the short-term closure of our offline business outlets and the fact that our employees in affected regions worked from home temporarily.

- As of March 31, 2020, our total assets increased by 8.0% to RMB1,206,783.3 million from RMB1,116,930.0 million as of December 31, 2019, primarily driven by a 9.1% growth in our gross loans and advances to customers from RMB708,057.5 million as of December 31, 2019 to RMB772,197.9 million as of March 31, 2020. The increase in our loans and advances to customers echoed the overall growth of new loans granted by PRC banks in the first quarter of 2020.

- As of March 31, 2020, our total liabilities increased by 8.4% to RMB1,121,207.0 million from RMB1,034,291.4 million as of December 31, 2019, primarily due to increase in our deposits from customers such as in pledged deposits and deposits from individual customers over the same period, which was in turn attributable to our effective marketing efforts in the first quarter of 2020 for offering comprehensive products and services, and for key deposit products such as "Bohai Time Deposits (渤定存)" and certificates of deposits.

- For the three months ended March 31, 2020, our operating income increased to RMB8,198.4 million from RMB6,421.5 million for the same period in 2019, representing a year-on-year growth of 27.7%, primarily due to a 38.7% increase in our net interest income from RMB4,983.1 million to RMB6,912.1 million during the same period. The growth in our net interest income was in turn attributable to (i) increase in our loans and advances to customers, (ii) increase in the average yield on our loans products, primarily due to the growing proportion of personal consumption loans, which generally carry higher yields, in our loan portfolio since the first quarter of 2019, and (iii) relative abundance of market liquidity, which resulted in a decrease in our average cost on interbank liabilities.

- As of March 31, 2020, our non-performing loan ratio remained stable at 1.78%, same as that recorded as of December 31, 2019.

Notwithstanding the above, in line with our prudent risk management policy, we proactively increased our allowance for impairment losses in the first quarter of 2020 to enhance our resilience in the face of potential risks. For the three months ended March 31, 2020, our impairment losses on assets increased to RMB3,166.5 million from RMB1,760.4 million in the same period of 2019, representing a significant 79.9% year-on-year growth. This was primarily due to an 53.3% year-on-year increase in our impairment losses on loans and advances from RMB1,932.1 million to RMB2,962.2 million for the first quarter of 2019 and 2020, respectively. Our impairment losses rose primarily due to (i) increase in our loans and advances to customers, and (ii) the fact that we cautiously adjusted the forward-looking factors included in our expected credit loss model, taking into account the impact of the outbreak on the overall economy. We will continue to closely monitor the changes of various macroeconomic indicators, while carefully evaluating and timely adjusting the level of credit impairment losses.

The financial information as of and for the three months ended March 31, 2020 as shown above was extracted from our unaudited condensed interim financial statements prepared by the Directors in accordance with IAS 34 "Interim Financial Reporting", which were reviewed by KPMG, our reporting accountants of the Bank, in accordance with the Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

Our business in Hubei province, the region most severely affected by COVID-19 within China, constitutes a small portion of our overall operations. As of December 31, 2019, ten out of our 245 outlets were located within Hubei province. As of the same date, 4.5% of our total loans and advances to customers and 3.0% of our total deposits from customers were originated by outlets located within Hubei province, respectively. For the year ended December 31, 2019, 2.5% of our operating income was generated by outlets located within Hubei province.

We will continue to monitor the development of COVID-19, and in particular PRC and foreign governments' further implementation of fiscal and monetary policies which may bring downward adjustments in market interest rates, and the epidemic's further challenges to the overall business and economic conditions in China and around the world. Please also see "Risk Management – Market Risk Management – Interest Rate Risk" and "Risk Factors – Risks Relating to Our Business – The recent outbreak of the contagious COVID-19 in the PRC and worldwide may have an adverse effect on our business, financial condition and results of operations".

RISK FACTORS

There are risks associated with any investment and there are certain risks and considerations relating to an investment in the Shares. You should read "Risk Factors" carefully before you decide to invest in the Offer Shares.

The major risks relating to an investment in the Shares are as follows: (i) if we are unable to effectively maintain the quality of our loan portfolio, our financial condition and results of operations may be materially and adversely affected; (ii) our allowance for impairment losses on loans and advances may not be sufficient to cover the actual losses on our loan portfolio in the future; (iii) the recent outbreak of the contagious COVID-19 in the PRC and worldwide may have an adverse effect on our business, financial condition and results of operations; (iv) we face concentration risks from our credit exposure to certain industries, borrowers and geographic regions; (v) the collateral or guarantees securing our loans and advances to customers may not be sufficient or fully realizable; (vi) our estimation of expected credit losses under IFRS 9 relies on numerous factors beyond our control and is therefore subject to inherent limitations and uncertainties, which may materially affect our assessment of impairment allowance; (vii) we are exposed to risks arising from loans granted to micro and small enterprises; (viii) 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 business, asset quality, financial condition and results of operations; (ix) further development of interest rate liberalization, the PBoC's adjustments to the benchmark interest rate, the deposit insurance program and other regulatory changes in the PRC's banking industry may materially and adversely affect our results of operations; (x) we are subject to risks relating to SPV investment; and (xi) we may not be able to detect and prevent fraud or other misconduct committed by our employees or third parties, and we may be subject to other operational risks.

For details of the risk factors relating to an investment in the Bank's Shares, please see "Risk Factors".

REGULATORY INSPECTIONS AND PROCEEDINGS

We are subject to inspections and supervision by various PRC regulatory authorities, such as the CBIRC, PBoC, SAT, NDRC, SAFE and their respective local branches and offices. Based on the results of these inspections and examinations, the regulatory authorities may issue inspection reports demanding timely rectification of the issues identified, or, taking into account the nature and severity of the non-compliance incidents, impose administrative penalties on us or our responsible branches and sub-branches.

During the Track Record Period and up to the Latest Practicable Date, we received a total of 63 administrative penalties imposed by the CBIRC, PBoC, SAFE, SAT and other regulatory authorities, which resulted in aggregated fines and improper gains confiscated of RMB55.9 million. The main issues identified included weaknesses in our wealth management business' internal control system, and certain branches' inadequate pre-loan (or pre-investment) and post-disbursement management measures. As of the Latest Practicable Date, we had made timely payment for the fines imposed by the above-mentioned administrative penalties.

We have taken appropriate measures to rectify the identified deficiencies and submitted remedial reports as requested by the regulatory authorities. Commerce & Finance Law Offices, our PRC legal advisor, confirms that, as of the Latest Practicable Date, they were not aware of any material objections from the relevant regulatory authorities raised against the remedial reports we submitted and that the findings of the regulatory inspections or administrative penalties had no material adverse effect on our operations. Based on the above, our Directors are of the view that the findings and recommendations made by the regulatory authorities during the Track Record Period and up to the Latest Practicable Date had identified no material deficiencies nor systematic failures in our business operations, corporate governance, internal controls or risk management which may cause a material adverse impact on our business, financial condition or results of operations. Having considered the view of the Bank's PRC legal advisor and Directors, and based on the due diligence work conducted by the Joint Sponsors, as well as taking into account the work performed by the internal control advisor engaged by the Bank with no material deficiencies identified in this respect, nothing has come to the Joint Sponsors' attention which would cause them to disagree with the above Director's view.

For details on the findings of the regulatory inspections and administrative penalties we were subject to during the Track Record Period and up to the Latest Practicable Date, and the remedial measures we have taken accordingly, please see "Business – Legal and Administrative Proceedings – Regulatory Inspections and Proceedings".

LISTING EXPENSES

Assuming an Offer Price of HK$4.87, being the mid-point of the indicative Offer Price range, the listing expenses to be borne by us are estimated to be approximately RMB327.1 million (equivalent to approximately HK$357.5 million, which mainly includes professional fees, underwriting commissions and the maximum amount of the discretionary incentive fee and other fees, and represents approximately 2.5% of the estimated gross proceeds of the Global Offering accruing to us, assuming the Over-allotment Option is not exercised). RMB7.9 million of the listing expenses were reflected in our statements of profit or loss and other comprehensive income during the Track Record Period. After December 31, 2019, approximately RMB36.0 million is expected to be charged to our statement of profit or loss and other comprehensive income, and approximately RMB283.2 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 listing expenses to have a material adverse impact on our results of operations for the year ending December 31, 2020.

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

"Application Form(s)"	**WHITE** Application Form(s), **YELLOW** Application Form(s) and **GREEN** Application Form(s) or, where the context so requires, any of them, relating to the Hong Kong Public Offering
"Articles of Association" or "Articles"	our articles of association, the version of which was adopted by our Shareholders at the general meeting of the Bank held on November 14, 2019 and was approved by CBIRC on January 23, 2020, which will become effective upon the Listing, as amended, supplemented or otherwise modified from time to time
"ATM(s)"	automated teller machine(s)
"Bank", "Bohai Bank", "our Bank", "we" or "us"	CHINA BOHAI BANK CO., LTD. (渤海銀行股份有限公司), a joint stock company established on December 30, 2005 in the PRC with limited liability pursuant to the relevant PRC laws and regulations, and, if the context requires, includes its branches and sub-branches
"Banking (Disclosure) Rules"	the Banking (Disclosure) Rules (Chapter 155M of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Banking Ordinance"	the Banking Ordinance (Chapter 155 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Basel Accords"	Basel I, Basel II and Basel III, collectively
"Basel I"	the Basel Capital Accord promulgated in 1988
"Basel II"	the Revised Basel Capital Framework promulgated in June 2004
"Basel III"	the Revised Basel Capital Accord promulgated in December 2010
"Board" or "Board of Directors"	the board of Directors, as described in "Appendix V – Summary of Articles of Association"
"Board of Supervisors"	the board of Supervisors, as described in "Appendix V – Summary of Articles of Association"

"Bohai Bay Economic Rim"	the economic hinterland surrounding Beijing and Tianjin, including areas in Hebei, Liaoning and Shandong, which surrounds the Bohai Sea
"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(s) (other than a Saturday, Sunday or public holiday) on which banks in Hong Kong are generally open for normal banking business to the public
"CAGR"	compound annual growth rate
"Capital Adequacy Measures"	the Administrative Measures for Capital Adequacy Ratio of Commercial Banks (商業銀行資本充足率管理辦法) promulgated by the CBRC on February 23, 2004, effective as of March 1, 2004 and amended on July 3, 2007, which was later abolished by the Capital Administrative Measures (Provisional) on January 1, 2013
"Capital Administrative Measures (Provisional)"	the Capital Administrative Measures for Commercial Banks (Provisional) (商業銀行資本管理辦法(試行) promulgated by the CBRC on June 7, 2012 and effective on January 1, 2013
"CBIRC"	China Banking and Insurance Regulatory Commission (中國銀行保險監督管理委員會), a regulatory authority formed via the merger of the CBRC and CIRC according to the Notice of the State Council regarding the Establishment of Organizations (國務院關於機構設置的通知) (Guo Fa [2018] No. 6) issued by the State Council on March 24, 2018, and, if the context requires, includes its predecessors, namely the CBRC and CIRC
"CBRC"	China Banking Regulatory Commission (中國銀行業監督管理委員會), which was merged with the CIRC to form the CBIRC according to the Notice of the State Council regarding the Establishment of Organizations (國務院關於機構設置的通知) (Guo Fa [2018] No. 6) issued by the State Council on March 24, 2018
"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
"China" or "PRC"	the People's Republic of China, but for the purpose of this prospectus only and, unless the context otherwise requires, excluding Hong Kong, Macau and Taiwan
"China Western Development"	a policy adopted by PRC Government for the western regions in China which covers six provinces (Gansu, Guizhou, Qinghai, Sichuan, Shaanxi and Yunnan), five autonomous regions (Guangxi, Inner Mongolia, Ningxia, Tibet and Xinjiang) and one municipality (Chongqing)
"CIRC"	China Insurance Regulatory Commission (中國保險監督管理委員會), which was recently merged with the CBRC and formed the CBIRC according to the Notice of the State Council regarding the Establishment of Organizations (國務院關於機構設置的通知) (Guo Fa [2018] No. 6) issued by the State Council on March 24, 2018
"city commercial banks"	city commercial banks established with the approval of CBIRC and other regulatory authorities pursuant to the PRC Company Law and the PRC Commercial Banking Law
"Classification Standards of Small and Medium Enterprises"	the Classification Standards of Small and Medium Enterprises (中小企業劃型標準規定) jointly promulgated by the MIIT, NBS, NDRC and MOF on June 18, 2011, which classifies SMEs in 16 industries into medium, small and micro enterprises with consideration of the nature of the industry in terms of number of employees, revenue and total assets
"Co-lead Manager"	GF Securities (Hong Kong) Brokerage Limited
"Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as 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 amended, supplemented or otherwise modified from time to time
"connected person(s)"	has the same meaning ascribed to it under Chapter 14A of the Listing Rules
"Core Indicators (Provisional)"	the Core Indicators for the Risk Management of Commercial Banks (Provisional) (商業銀行風險監管核心指標(試行)), as promulgated by the CBRC on December 31, 2005 and effective on January 1, 2006, as amended, supplemented or otherwise modified from time to time
"Corporate Governance Guidelines"	the Guidelines on Corporate Governance of Commercial Banks (商業銀行公司治理指引), as promulgated by the CBRC on July 19, 2013 and effective on the same date, as amended, supplemented or otherwise modified from time to time
"COVID-19"	a newly identified coronavirus known to cause contagious respiratory illness
"CSRC"	China Securities Regulatory Commission (中國證券監督管理委員會)
"Director(s)"	the director(s) of the Bank
"Domestic Shares"	ordinary shares issued by the Bank, with a nominal value of RMB1.00 each, which are subscribed for or credited as paid up in Renminbi
"Euro"	the lawful currency of the euro zone
"Extreme Conditions"	extreme conditions caused by a super typhoon as announced by the government of Hong Kong
"FinTech"	financial technology, referring to technology and innovation that aims to enhance or compete with traditional financial methods in the delivery of financial services
"Four Major Commercial Banks"	Agricultural Bank of China Limited, Bank of China Limited, China Construction Bank Corporation, Industrial and Commercial Bank of China Limited and, where the context so requires, their respective predecessors

"Foreign Shares"	ordinary shares issued by the Bank, with a nominal value of RMB1.00 each, which are subscribed for in a currency other than Renminbi
"GDP"	gross domestic product
"GFA"	gross floor area
"Global Offering"	the Hong Kong Public Offering and the International Offering
"**GREEN** Application Form(s)"	the application form(s) to be completed by the **White Form eIPO** Service Provider, Computershare Hong Kong Investor Services Limited
"H Share Registrar"	Computershare Hong Kong Investor Services Limited
"H Shares"	the ordinary shares to be issued by the 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 Hong Kong Dollars and to be listed and traded on the Hong Kong Stock Exchange
"heavy pollution, high energy consumption or overcapacity"	a term generally used to describe industries associated with heavy pollution, high energy consumption or overcapacity such as the coking industry and steel industry. While PRC Government has imposed certain restrictions on these industries, it often encourages and supports the growth of enterprises within the sector who have advanced production capacity and are dedicated to promoting clean production and technology innovation
"HK$" or "HKD" or "Hong Kong Dollars"	Hong Kong 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, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
"HKSCC Nominees"	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC

"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Offer Shares"	144,000,000 H Shares (subject to adjustment) offered pursuant to the Hong Kong Public Offering
"Hong Kong Public Offering"	the offer for subscription of the Hong Kong Offer Shares (subject to adjustment) by the public in Hong Kong at the Offer Price and on, and subject to, the terms and conditions of this prospectus and the Application Forms relating thereto, as described in "Structure of the Global Offering – Hong Kong Public Offering"
"Hong Kong Stock Exchange" or "SEHK"	The Stock Exchange of Hong Kong Limited
"Hong Kong Underwriters"	the underwriters of the Hong Kong Public Offering listed in "Underwriting – Hong Kong Underwriters"
"Hong Kong Underwriting Agreement"	the underwriting agreement relating to the Hong Kong Public Offering dated June 29, 2020 entered into by our Bank, CCB International Capital Limited, Haitong International Capital Limited, Haitong International Securities Company Limited, ABCI Capital Limited, ABCI Securities Company Limited, CLSA Capital Markets Limited, CLSA Limited, other Joint Global Coordinators and other Hong Kong Underwriters, as described in "Underwriting – Underwriting Arrangements and Expenses – The Hong Kong Public Offering – Hong Kong Underwriting Agreement"
"IFRS"	International Financial Reporting Standards and International Accounting Standards ("IAS"), which include the related standards, amendments and interpretations issued by the International Accounting Standards Board ("IASB")
"independent third party(ies)"	a person or entity who is not considered a connected person of the Bank under the Listing Rules
"International Offer Shares"	2,736,000,000 H Shares initially offered by the Bank pursuant to the International Offering together, where relevant, with any additional H Shares that may be issued pursuant to any exercise of the Over-allotment Option, subject to adjustment as described in "Structure of the Global Offering"

"International Offering"	the conditional placement by the International Underwriters of the International Offer Shares, as further described in "Structure of the Global Offering"
"International Underwriters"	the underwriters of the International Offering who are expected to enter into the International Underwriting Agreement
"International Underwriting Agreement"	the underwriting agreement relating to the International Offering which is expected to be entered into by, among others, the International Underwriters and us on or around the Price Determination Date
"Joint Bookrunners"	CCB International Capital Limited, Haitong International Securities Company Limited, ABCI Capital Limited, CLSA Limited, China International Capital Corporation Hong Kong Securities Limited, ICBC International Capital Limited, Deutsche Bank AG, Hong Kong Branch, BOCOM International Securities Limited, SPDB International Capital Limited, CMB International Capital Limited, Guotai Junan Securities (Hong Kong) Limited, China Merchants Securities (HK) Co., Limited and BOCI Asia Limited
"Joint Global Coordinators"	CCB International Capital Limited, Haitong International Securities Company Limited, ABCI Capital Limited, CLSA Limited, China International Capital Corporation Hong Kong Securities Limited and ICBC International Capital Limited
"Joint Lead Managers"	CCB International Capital Limited, Haitong International Securities Company Limited, ABCI Securities Company Limited, CLSA Limited, China International Capital Corporation Hong Kong Securities Limited, ICBC International Securities Limited, Deutsche Bank AG, Hong Kong Branch, BOCOM International Securities Limited, SPDB International Capital Limited, CMB International Capital Limited, Guotai Junan Securities (Hong Kong) Limited, China Merchants Securities (HK) Co., Limited and BOCI Asia Limited
"Joint Representatives"	CCB International Capital Limited, Haitong International Securities Company Limited, ABCI Capital Limited and CLSA Limited
"Joint Sponsors"	CCB International Capital Limited, Haitong International Capital Limited, ABCI Capital Limited and CLSA Capital Markets Limited

"Large Commercial Banks"	Agricultural Bank of China Limited, Bank of China Limited, Bank of Communications Co., Ltd., China Construction Bank Corporation, Industrial and Commercial Bank of China Limited, and, unless the context otherwise requires, including Postal Savings Bank of China Co., Ltd., collectively
"large enterprises"	the enterprises other than those classified as medium, small or micro enterprises under the Classification Standards of Small and Medium Enterprises. For example, industrial enterprises with 1,000 or more employees and operating income of RMB400.0 million or more shall be classified as large enterprises
"Latest Practicable Date"	June 20, 2020, being the latest practicable date for the purpose of ascertaining certain information contained in this prospectus prior to its publication
"LGFVs"	local government financing vehicles, which refer to three types of legal entities (namely units, institutions, and enterprises) funded and established by local governments, who assume joint repayment responsibilities for the LGFVs
"Listing"	the listing of the H Shares on the Hong Kong Stock Exchange
"Listing Date"	the date on which dealings in the H Shares commence on the Hong Kong Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
"lean six sigma" or "LSS"	a client-centered methodology for business management which relies on data analysis and collaborative team efforts, with an aim to promote streamlined procedures, reduce waste, control variations and enhance efficiency, so as to establish an agile corporate culture and enhance a company's core competitiveness. This methodology first emerged in the 1980s among manufacturers in the United States, and has since been adopted and promoted by leading banks in the PRC and globally
"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), which were promulgated by the former Securities Commission of the State Council and the former State Restructuring Commission on August 27, 1994, effective on the same date, as amended, supplemented or otherwise modified from time to time
"medium enterprises"	the enterprises classified as medium enterprises based on the number of employees, operating income, total assets and other indicators under the Classification Standards of Small and Medium Enterprises. For example, industrial enterprises with fewer than 1,000 employees or operating income of less than RMB400 million shall be classified as SMEs, among which those with 300 or more employees and operating income of RMB20 million or more shall be classified as medium enterprises
"micro enterprises"	the enterprises classified as micro enterprises based on the number of employees, operating income, total assets and other indicators under the Classification Standards of Small and Medium Enterprises. For example, industrial enterprises with fewer than 20 employees or operating income of less than RMB3 million shall be classified as micro enterprises
"MIIT"	Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部)
"MOF"	the Ministry of Finance of the PRC (中華人民共和國財政部)
"NAFMII"	The National Association of Financial Market Institutional Investors (中國銀行間市場交易商協會)
"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 Corporation Limited, China Everbright Bank Co., Ltd., Huaxia Bank Co., Limited, China Guangfa Bank Co., Ltd., Ping An Bank Co., Ltd. (formerly named as Shenzhen Development Bank Co., Ltd.), China Merchants Bank Co., Ltd., Shanghai Pudong Development Bank Co., Ltd., Industrial Bank Co., Ltd., China Minsheng Bank Corp., Ltd., HENGFENG BANK Co., Limited, China Zheshang Bank Co., Ltd. and our Bank, collectively

"NAV"	net asset value, calculated as the total value of an entity's assets minus the total value of its liabilities
"NBS"	the National Bureau of Statistics of the PRC (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)
"net capital"	core tier-one capital, additional tier-one capital and tier-two capital of a bank less corresponding capital deductions, in each case, as specified in the relevant CBRC regulations
"new normal"	a term refers to a new phase that Chinese economy has entered that is different from the high-speed growth pattern exhibited in the past. The new economic phase features more sustainable, mid-to high-speed growth with higher efficiency and lower costs
"non-performing loan(s)" or "NPL(s)"	loan(s) classified as "substandard", "doubtful" or "loss" under our five-level loan classification system
"non-performing loan ratio" or "NPL ratio"	the percentage ratio calculated by dividing non-performing loans by total loans
"Oceanwide Industry"	Oceanwide Industry Co., Ltd. (泛海實業股份有限公司), a company established in the PRC on November 11, 1992, and a shareholder of our Bank
"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 "Structure of the Global Offering"
"Offer Shares"	the H Shares offered in the Global Offering and, where relevant, any additional H Shares issued pursuant to the exercise of the Over-allotment Option
"Over-allotment Option"	the option to be granted by the Bank to the International Underwriters exercisable by the Joint Representatives (on behalf of the International Underwriters) pursuant to the International Underwriting Agreement, details of which are described in "Underwriting – Underwriting Arrangements and Expenses – The International Offering"

"PBoC"	the People's Bank of China (中國人民銀行), the central bank of the PRC
"Pearl River Delta Region and Southern China"	the economic delta lands of the Pearl River at the South China Sea and the provinces in the southern area of China, including Guangdong, Guangxi, Hainan and Fujian provinces
"PRC Banking Supervision and Regulatory Law"	the Banking Supervision and Regulatory Law of the People's Republic of China (中華人民共和國銀行業監督管理法), which was promulgated by 6th session of the Standing Committee of the 10th National People's Congress on December 27, 2003 and became effective on February 1, 2004, as 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), which was promulgated by the 13th session of the Standing Committee of the 8th National People's Congress on May 10, 1995 and became effective on July 1, 1995, as 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 Standing Committee of the 10th National People's Congress on October 27, 2005 and became effective on January 1, 2006, as amended, supplemented or otherwise modified from time to time
"PRC GAAP"	the PRC Accounting Standards for Business Enterprises (中國企業會計準則) promulgated by MOF on February 15, 2006 and its supplementary regulations, as amended, supplemented or otherwise modified from time to time
"PRC Government"	refers to the PRC central government and local governments
"PRC PBoC Law"	the Law of the People's Bank of China of the PRC (中華人民共和國人民銀行法), which was promulgated by the 3rd session of the 8th National People's Congress on March 18, 1995 and became effective on the same date, as 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 National People's Congress of the PRC (中華人民共和國全國人民代表大會) on December 29, 1998 and became effective on July 1, 1999, as amended, supplemented or otherwise modified from time to time
"Price Determination Agreement"	the agreement to be entered into among the Bank and the Joint Representatives (on behalf of the Hong Kong Underwriters) on the Price Determination Date to record and fix the Offer Price
"Price Determination Date"	the date, expected to be on or around Thursday, July 9, 2020, on which the Offer Price is determined, but in any event no later than Sunday, July 12, 2020
"QIBs"	qualified institutional buyers as defined in Rule 144A
"real property title certificate"	real property title certificate in the PRC (中華人民共和國不動產權證書)
"Regulation S"	Regulation S under the U.S. Securities Act
"Related Party" or "Related Parties"	has the meaning ascribed to it under the Administrative Measures for Related Party Transactions between Commercial Banks and their Insiders or Shareholders (商業銀行與內部人和股東關聯交易管理辦法) promulgated by the CBRC, the PRC GAAP and/or IFRS
"Related Party Transaction(s)"	has the meaning ascribed to it under the Administrative Measures for Related Party Transactions between Commercial Banks and their Insiders or Shareholders (商業銀行與內部人和股東關聯交易管理辦法) promulgated by the CBRC, the PRC GAAP, and/or IFRS
"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"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)

"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), which was recently changed to State Administration of Market Supervision of the PRC (國家市場監督管理總局) according to the Notice of the State Council regarding the Establishment of Organisations (國務院關於機構設置的通知) (Guo Fa [2018] No. 6) issued by the State Council on March 24, 2018
"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)
"SCB"	Standard Chartered Bank (Hong Kong) Limited (渣打銀行(香港)有限公司) (formerly known as Standard Chartered (Hong Kong) Limited (渣打(香港)有限公司) from December 12, 2003 to February 4, 2004), a wholly-owned subsidiary of Standard Chartered PLC incorporated in Hong Kong on December 12, 2003, and a shareholder of our Bank
"SDIC"	State Development & Investment Corp., Ltd. (國家開發投資集團有限公司) (formerly known as State Development & Investment Corporation (國家開發投資公司)), a 100% state-owned company established in the PRC on April 14, 1995, and a shareholder of our Bank
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Shanghai Pilot Free-Trade Zone"	the free-trade zone in Shanghai, the PRC, approved by the State Council on August 22, 2013
"Shareholder(s)"	the holder(s) of the Shares
"Shares"	ordinary shares in the share capital of the Bank with a nominal value of RMB1.00 each
"SHIBOR"	the Shanghai Interbank Offered Rate, a daily reference rate published by the National Interbank Funding Center

"small enterprises"	the enterprises classified as small enterprises based on the number of employees, operating income, and total assets under the Classification Standards of Small and Medium Enterprises. For example, industrial enterprises with fewer than 300 employees or operating income of less than RMB20 million shall be classified as small or micro enterprises, among which those with 20 or more employees and operating income of RMB3 million or more shall be classified as small enterprises
"SME(s)"	the enterprises classified as micro enterprises, small enterprises and medium enterprises based on the number of employees, operating income, and total assets under the Classification Standards of Small and Medium Enterprises. For example, industrial enterprises with fewer than 1,000 employees or operating income of less than RMB400 million shall be classified as SMEs
"Special Regulations"	the Special Regulations of the State Council on the Overseas Offering and the 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), which was promulgated by the State Council on August 4, 1994, as amended, supplemented or otherwise modified from time to time
"SPV investment"	investment made by financial institutions in special purpose vehicles, including but not limited to, commercial bank financial products, trust investment plans, securities investment funds, asset management plans of the securities companies, asset management plans of the fund management companies and their subsidiaries as well as asset management products of insurance asset management institutions, which is defined in Notice on Standardizing Interbank Business of Financial Institutions (Yin Fa [2014] No. 127) (《關於規範金融機構同業業務的通知》(銀發[2014]127號)) jointly promulgated by PBoC, CBRC, CSRC, CIRC and SAFE on April 24, 2014
"SSE"	The Shanghai Stock Exchange
"Stabilizing Manager"	CCB International Capital Limited
"State Council"	the State Council of the PRC (中華人民共和國國務院)
"SWIFT"	the Society for Worldwide Interbank Financial Telecommunication (環球銀行金融電信協會)
"SZSE"	The Shenzhen Stock Exchange

"Tianjin Free-Trade Zone"	a region as defined under the Overall Program of China (Tianjin) Pilot Free-Trade Zone (中國(天津)自由貿易試驗區總體方案) which was approved by the State Council of PRC on April 8, 2015, comprising Tianjin Airport Economic Area, Dongjiang Free Trade Port Zone and Binhai New Area Central Business District
"subsidiary(ies)"	has the meaning ascribed to it under the Listing Rules
"Supervisor(s)"	the supervisor(s) of the Bank
"TEDA Holding"	TEDA Investment Holding Co., Ltd. (天津泰達投資控股有限公司), a 100% state-owned company established in the PRC on May 28, 1985, and a shareholder of our Bank
"Tianjin Trust"	Tianjin Trust Co., Ltd. (天津信託有限責任公司), formerly known as Tianjin Trust and Investment Company Limited (天津信託投資有限責任公司), a company established in the PRC on September 23, 1986, and a former shareholder of our Bank
"Track Record Period"	the years ended December 31, 2017, 2018 and 2019
"Underwriters"	collectively, the Hong Kong Underwriters and the International Underwriters
"Underwriting Agreements"	collectively, the Hong Kong Underwriting Agreement and the International Underwriting Agreement
"US$", "USD" or "U.S. dollars"	United States dollars, the lawful currency of the United States of America
"U.S. Securities Act"	the United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
"**WHITE** Application Form(s)"	the application form(s) for use by the public who require(s) such Hong Kong Offer Shares to be issued in the applicant's own name
"**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

"Yangtze River Delta Economic Rim"	the economic delta lands of the Yangtze River, including Shanghai, Jiangsu, Zhejiang and Anhui provinces
"Yangtze River Economic Zone"	refers to an economic zone covering Shanghai, Zhejiang, Jiangsu, Anhui, Jiangxi, Hubei, Hunan, Chongqing, Sichuan, Yunnan and Guizhou
"**YELLOW** Application Form(s)"	the application form(s) for use by the public who require(s) such Hong Kong Offer Shares to be deposited directly into CCASS

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them. If there are any inconsistencies between the Chinese names of entities or enterprises established in China and their English translations, the Chinese names shall prevail.

Unless the context otherwise requires, the terms including "associate(s)", "close associate(s)", "connected person(s)", "connected transaction(s)", "core connected person(s)" and "substantial shareholder(s)" shall have the meanings ascribed to them under the Listing Rules.

For the ease of reference, in this prospectus, unless otherwise indicated, we use the terms "loans and advances to customers", "loans" and "loans to customers" synonymously.

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

- "Northern and Northeastern China" refers to the following areas serviced by our head office and branches: Beijing, Tianjin, Hebei, Shanxi, Liaoning, Jilin and Inner Mongolia;

- "Eastern China" refers to the following areas serviced by our branches: Shanghai, Jiangsu, Zhejiang, Shandong and Anhui;

- "Central and Southern China" refers to the following areas serviced by our branches: Hu'nan, Hubei, Guangdong, Hong Kong, Fujian, Hainan and He'nan; and

- "Western China" refers to the following areas serviced by our branches: Sichuan, Chongqing and Shaanxi.

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 materialize or may change. These statements are subject to certain risks, uncertainties and assumptions, including the other risk factors as described in this prospectus. You are strongly cautioned that reliance on any forward-looking statements involves known and unknown risks and uncertainties. The risks and uncertainties facing our 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 development strategies and initiatives to implement these strategies;
- general economic, market and business conditions in Tianjin or the PRC and any changes thereto;
- changes or volatility in interest rates, foreign exchange rates, equity prices or other rates or prices, including those pertaining to the PRC and the industry and markets in which we operate;
- our existing risk management system and our ability to improve such system;
- our dividend policy;
- our financial condition, results of operation and performance;
- future developments, trends and conditions in the industry and markets in which the we operate and the amount and nature of, potential for and future development of our business;
- changes to the regulatory environment and general outlook in the industry and markets in which we operate;
- market competition, and the products, actions and developments of competitors;
- general political and economic conditions, including occurrence or development of epidemic and/or other social disturbance in China and globally; 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. The forward-looking statements in this prospectus are qualified by reference to the cautionary statements set out in this section.

You should carefully consider all of the information in this prospectus, including the risks and uncertainties described below, before making an investment in the H Shares. Our business, financial condition and results of operation could be materially and adversely affected by any of these risks. The trading price of the H Share could significantly decrease due to any of these risks, and you may lose part or even all 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 system which in some respects may differ from those prevailing in other countries. For more information concerning the laws and regulatory systems of the PRC and certain related matters discussed below, see "Supervision and Regulation", "Appendix IV – Summary of Principal Legal and Regulatory Provisions" and "Appendix V – Summary of Articles of Association".

RISKS RELATING TO OUR BUSINESS

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

Our financial condition and results of operations will be affected by our ability to maintain and improve the quality of our loan portfolio. Our gross loans and advances to customers before taking into account the interest accrued amounted to RMB464,889.8 million, RMB565,453.7 million and RMB708,057.5 million as of December 31, 2017, 2018 and 2019, respectively. As of the same dates, our non-performing loans amounted to RMB8,110.2 million, RMB10,416.7 million and RMB12,591.5 million, respectively, and our non-performing loan ratio was 1.74%, 1.84% and 1.78%, respectively. The rise in our NPL ratio in 2018 was primarily attributable to the weakened repayment ability of certain clients due to the slowdown of the PRC economic growth and the industrial structure adjustment.

Our financial condition and results of operations will be affected by our ability to maintain or improve the quality of our assets, including our loans to customers and investments in debt securities and SPV. Deterioration in the overall quality of our assets may occur due to a variety of reasons that are beyond our control, including, but not limited to, a slowdown of China's national or regional economy, adverse macroeconomic developments, fluctuation in capital markets, outbreak of disasters or occurrence of major accidents. All of these may adversely affect the businesses, operations, or liquidity of our customers, counterparties or ultimate financing parties of our business and we may not be able to realize the value of our collateral or guarantees securing the assets. In particular, any significant deterioration in our asset quality may lead to significant increases in our non-performing loans, allowance for impairment losses, and/or loans written off due to impairment, which may materially and adversely affect our business, financial condition, and results of operations.

In addition, we cannot assure you that we can always successfully achieve the growth of our assets and business, offer new products to attract new customers, improve our marketing efforts, or expand our sales channels. Maintaining the growth of our business will require substantial managerial and operational resources and additional capital, and we may not be able to obtain such capital on acceptable terms. Any changes in the above factors may materially and adversely affect our business, financial condition and results of operations.

Our allowance for impairment losses on loans to customers and financial investments may not be sufficient to cover the actual losses on our loan portfolio and such investments we may incur in the future.

As of December 31, 2017, 2018 and 2019, our total allowance for impairment losses on loans to customers was RMB15,076.1 million, RMB19,475.1 million and RMB23,638.0 million, respectively, and our allowance coverage ratio was 185.89%, 186.96% and 187.73%, respectively. Our allowance to gross loan ratio was 3.24%, 3.44% and 3.34%, respectively, as of the same dates. For the years ended December 31, 2017, 2018 and 2019, impairment losses we recognized on loans and advances to customers were RMB5,756.4 million, RMB7,245.8 million and RMB8,789.2 million, respectively.

As of December 31, 2017, 2018 and 2019, our financial investments amounted to RMB412,648.6 million, RMB312,957.9 million and RMB300,306.9 million, representing 41.2%, 30.3% and 26.9% of our total assets, respectively. As of December 31, 2017, 2018 and 2019, our impairment allowance on financial investments amounted to RMB5,042.9 million, RMB3,838.7 million and RMB3,204.3 million, respectively.

We determine the amount of impairment allowance on our loans and advances to customers and financial investments based on the applicable accounting policies and on our management's assessments of relevant factors, such as our borrowers or ultimate financing parties' operational and financial conditions, repayment ability and intention to repay, the realizable value of collateral, the ability of the guarantors to fulfil their obligations, as well as China's economic, legal, and regulatory environment. Many of these factors are beyond our control, and, as a result, our assessments and expectations on these factors may differ from the actual situations.

In addition, our impairment allowance may increase due to future regulatory and accounting policy changes, deviations in loan classification or adoption of a more conservative provisioning practice. In particular, following the adoption of IFRS 9 since January 1, 2018, we are required to apply an expected credit loss model in determining impairment losses which, as compared to the incurred loss model under IAS 39, relies to a larger extent on forward-looking information instead of objective evidence of impairment as a precondition for recognizing credit losses. See also "– Risks Relating to Our Business – Our estimation of expected credit losses under IFRS 9 relies on numerous factors beyond our control and is therefore subject to inherent limitations and uncertainties, which may materially affect our assessment of impairment allowance". Any of the factors above may significantly reduce our profit and materially and adversely affect our business, prospects, financial condition and results of operations.

The recent outbreak of the contagious COVID-19 in the PRC and worldwide may have an adverse effect on our business, financial condition and results of operations.

Since early 2020, the PRC and a growing number of countries and regions around the world have encountered an outbreak of COVID-19, a highly contagious disease known to cause respiratory illness. On 11 March 2020, the World Health Organization announced the COVID-19 outbreak a pandemic. Governments worldwide have since implemented various measures with the aim to curb the spread of COVID-19, including entry restrictions for foreign travelers and domestic social-distancing measures. In February and March, 2020, stringent measures, including mandatory quarantines and travel restrictions, were imposed in numerous regions across the PRC in an effort to contain the outbreak, causing a noticeable reduction in regional and national economic activities, especially in the wholesale and retail sector, which may in turn heighten some of our customers' credit risks.

Since the outbreak, PRC Government has introduced a wide range of fiscal and monetary easing initiatives aimed at countering the impact of the epidemic, including encouraging banks and financial institutions to enhance their credit support to enterprises and individuals most severely affected. We have launched special supportive measures in prompt response to these initiatives. For more details, see "Summary – Recent Development". The implementation of these measures may adversely affect the maturity profile of our loan portfolio, asset quality and liquidity position. In June 2020, PRC Government called on banks and other financial institutions to surrender part of their profits through offering loans with lower interest rates, reducing fees, deferring loan repayments and granting unsecured loans to small businesses, which could adversely affect the business, financial condition and results of operations of PRC banks, including us. We will continue to monitor the development of COVID-19, assess and actively respond to its impact on the business operations and financial position of our customers.

Although industries and enterprises across the PRC have gradually resumed operations and production since March 2020, following a continued decrease in the number of confirmed infections, we cannot foresee whether the outbreak of COVID-19 will be effectively contained worldwide, nor can we predict the severity and duration of its impact. If the outbreak is not effectively and timely controlled, our business operations, asset quality and financial condition may be materially and adversely affected due to deteriorating market outlook and sentiments, slowdown in national and global economic growth, weakened liquidity and financial condition of our customers (especially micro and small enterprises), or other factors that we cannot foresee. In particular, due to the uncertainties surrounding the impact of COVID-19, our impairment losses determined under IFRS 9 may increase in the future, as such determination relies to a larger extent on forward-looking information instead of objective evidence of impairment under IAS 39. We may also face a decline in the fair value of our financial investments measured at fair value amidst the uncertainties brought by COVID-19.

Any of these factors and other factors beyond our control could have an adverse effect on the overall business environment, cause uncertainties in the regions where we conduct business, cause our business to suffer in ways that we cannot predict and materially and adversely impact our business, financial condition and results of operations.

We face concentration risks from our credit exposure to certain industries, borrowers and geographic regions.

As of December 31, 2017, 2018 and 2019, our corporate loans and advances represented 73.8%, 68.0% and 65.7% of our total loans and advances to customers, respectively. As of December 31, 2019, our loans and advances to (i) the lease and business services industry, (ii) the real estate industry, (iii) the manufacturing industry, (iv) the water conservancy industry, and environment and public facilities management industry, and (v) the wholesale and retail industry, which were the top five industries from which our corporate loan customers are derived, represented 29.5%, 23.5%, 13.0%,10.9% and 8.0% of our total corporate loans and advances, respectively. As of December 31, 2019, the non-performing loan ratio for loans to corporate borrowers in these five industries was 0.47%, 0.14%, 11.08%, 0.06% and 4.18%, respectively.

In recent years, PRC Government has promulgated policies to restrict loans to industries with heavy pollution, high energy consumption or overcapacity. Any significant changes in such policies could materially and adversely affect our credit extension and credit risk exposure in these industries. For details on how we manage our credit risks arising from this sector, see "Risk Management – Credit Risk Management – Credit Risk Management for Corporate Loans and Advances – Portfolio Management – Credit Risk Management for Loans to Industries with Heavy Pollution, High Energy Consumption or Overcapacity".

As of December 31, 2017, 2018 and 2019, 6.0%, 4.1% and 2.7%, respectively, of our corporate loans and advances were granted to industries commonly associated with heavy pollution, high energy consumption or overcapacity in China, and the NPL ratio of these loans was 5.17%, 3.56% and 5.37%, respectively, as of the same date.

Any deterioration in any of the industries where our loans and advances are concentrated or any deterioration in the financial condition or results of operations of our borrowers could undermine the quality of our existing loans and our ability to extend new loans, which in turn could materially and adversely affect our business, financial condition and results of operations.

As of December 31, 2019, loans to our ten largest single borrowers totaled RMB48,831.9 million, representing 48.1% of our regulatory capital and were all classified as normal. As of the same date, our credit exposure to our ten largest group customers totaled RMB61,533.6 million, representing 60.5% of our regulatory capital and our loans granted to our ten largest group customers were classified as normal, special mention or substandard. If these loans deteriorate in quality or become non-performing, our asset quality could deteriorate significantly, and our financial condition and results of operations could be materially and adversely affected.

Furthermore, our business and operations are primarily concentrated in Northern and Northeastern China. As of December 31, 2017, 2018 and 2019, 46.9%, 46.0% and 46.1%, respectively, of our loans and advances to customers originated from Northern and Northeastern China, while 50.7%, 51.5% and 47.9%, respectively, of our deposits from customers originated from Northern and Northeastern China. We expect the business in Northern and Northeastern China to remain a substantial portion of our business in the foreseeable future. Therefore, our continued growth depends to a certain extent on the continued economic growth in Northern and Northeastern China, and we are exposed to risks arising from concentration of loans extended in Northern and Northeastern China. If the local economy within Northern and Northeastern China slows down or experiences negative development, we may take cautious measures to reduce our risk exposure after taking into account various factors. These factors include our overall strategy for business development in different regions and our needs for credit risk control. Any material adverse change in the economic development of or any significant natural disaster or catastrophic event occurring in Northern and Northeastern China, or any material adverse change in financial condition of our customers in this region or any parties to whom they provide guarantees, may materially and adversely affect our business, financial condition and results of operations.

The collateral or guarantees securing our loans to customers may not be sufficient or fully realizable.

As of December 31, 2019, 33.5%, 10.0% and 35.1% of our total loans and advances to customers were secured by collateral, pledges, and guarantees, respectively. The collateral and pledges securing our loans to customers primarily comprised land use rights, buildings and houses, certificates of deposit, equity, and other assets. The value of the collateral and pledges securing our loans may fluctuate and decline due to various factors beyond our control, including the macroeconomic environment affecting China. For example, a slowdown in the PRC economy may lead to a downturn in the real estate market, which, in turn, may result in declines in the value of the real estate assets securing our loans to levels below the outstanding principal balance of such loans. In addition, we cannot assure you that our assessment of the value of collateral or pledges will be accurate at all times. If the collateral or pledges prove to be insufficient to cover the related loans, we may have to obtain additional collateral or pledges from the borrowers, and we cannot assure you that we would be able to do so on satisfactory terms or at all. Reduction in value of our collateral and pledges or our inability to obtain additional collateral or pledges may result in additional impairment allowance, which may materially and adversely affect our business, financial condition, and results of operations.

In the PRC, the procedures for liquidating or otherwise realizing the value of collateral or pledges may be time-consuming, the value of collateral or pledges may not be fully realized and it may be difficult to enforce claims in respect of such collateral or pledges. In addition, under certain circumstances, other claims may be senior to our claims on the collateral or pledges securing our loans. All of the foregoing factors could adversely affect our ability to realize the value of the collateral or pledges securing our loans in a timely manner, or at all.

Our guaranteed loans are generally not backed by sufficient collateral or other security interests. Certain factors which affect a borrower's ability to repay a guaranteed loan in full and on time may also affect the guarantor's ability to fully perform its guarantee obligations. If we are unable to dispose of the assets of borrowers and guarantors at reasonable terms or in a timely manner, or if the guarantors fail to fully perform their guarantee obligations on a timely basis, our business, financial condition, and results of operations may be materially and adversely affected.

As of December 31, 2019, unsecured loans accounted for 20.1% of our total loans to customers. We granted such unsecured loans mainly based on our credit evaluation of such customers. We cannot assure you that our credit assessments of such customers are or will be accurate at all times, or that such customers will repay their loans in full and on time. As we have only general claims on the assets of defaulting borrowers under loans not secured by collateral or pledges, we are exposed to risk of losing the entire outstanding amount under such loans, which may adversely affect our business, financial condition and results of operations.

Changes in accounting standards or policies may materially affect our financial condition and results of operations.

Financial accounting and reporting standards as well as the relevant interpretation of these standards, which govern the form and content of our financial statements, are subject to changes from time to time. Such changes are beyond our control, can be difficult to predict and may materially affect how we record and report our results of operations. For example, we may be required to apply a new or a revised standard retroactively, leading to material changes to previously reported financial results. Any future changes to the accounting policies may have a material impact on our financial condition and results of operations.

In July 2014, the IASB issued the final version of IFRS 9 – Financial Instruments, which became effective during the year commencing on or after January 1, 2018, and the IASB allowed for early adoption. IFRS 9 replaced IAS 39 – Financial Instruments: Recognition and Measurement. In addition, in October 2017, the IASB introduced early repayment features and the concept of negative compensation (amendments to IFRS 9), which became effective during the year commencing on or after January 1, 2019, and the IASB allowed for early adoption.

Since January 1, 2018, we have adopted IFRS 9. Among other things, IFRS 9 adopts a different credit loss model compared with that used in IAS 39, where a loss event will no longer need to occur before an impairment allowance is recognized. In addition, the impairment model of IFRS 9 requires that our management determine whether there is a significant increase in credit risks in certain assets and, if so, to make provisions for a lifetime expected credit losses for those assets rather than setting out allowance in the amount of 12-month expected credit losses. For details of the impact of IFRS 9, see "Financial Information – Critical Accounting Judgments and Key Sources of Estimation Uncertainty – Impact of New Accounting Policies" and Note 2(1)(a) to the Appendix I attached to this prospectus. As a result, our results of operations during the year ended December 31, 2017 may not be indicative of our results of operations for the reporting years or periods beginning on or after January 1, 2018.

If we fail to maintain the growth rate of our deposits from customers or our deposits from customers decrease substantially, our liquidity, financial conditions and results of operations could be materially and adversely affected.

Deposits from customers are one of our key funding sources. Growth in deposits from customers has supported the expansion of our loan business and helped us to meet other liquidity needs. Decreases in deposits from customers will reduce our sources of funding, which, in turn, will reduce our ability to extend new loans while meeting capital and liquidity requirements. In recent years, our deposits have continued to grow. Our total deposits from customers amounted to RMB582,103.3 million, RMB606,701.4 million and RMB647,764.6 million as of December 31, 2017, 2018 and 2019, respectively. However, there are various factors affecting the growth of our deposits from customers, some of which are beyond our control, such as economic and political conditions, the availability of alternative investment products, and changes in customers' preference for savings. In particular, we may not be able to attract or retain adequate corporate deposits under a tightened credit environment, where higher financing costs and difficulties in raising funds may result in increased corporate deposit withdrawals and our customers may be less willing or able to place deposits. In such cases, our liquidity, results of operations and financial conditions may be adversely affected.

There is a mismatch between the maturities of our liabilities and our assets. For more details, please see "– Risks Relating to Our Business – We are exposed to liquidity risk arising out of the mismatches between the maturities of our assets and liabilities, which could materially and adversely affect our business, financial condition, and results of operations." Such mismatch could place strain on our liquidity position. We cannot assure you that we will always be able to maintain the growth in our deposits from customers at a pace sufficient to support our expanding business.

If we are unable to maintain the growth rates of our deposits from customers, or a substantial portion of our customers withdraw their demand deposits or do not roll over their time deposits upon maturity, our ability to meet capital liquidity requirements may be materially and adversely affected and, as a result, we may need to seek funding from alternative sources, which may not be available on reasonable terms or at all. Failure to secure funding from alternative sources on reasonable terms under such circumstances could materially and adversely affect our business, financial condition and results of operations.

We are subject to risks relating to SPV investment and any adverse development in relation to our SPV investment may materially and adversely affect our profitability and liquidity.

During the Track Record Period, our SPV investment mainly included investments in trust plans, asset management plans, wealth management products, and funds. As of December 31, 2017, 2018 and 2019, our SPV investment (exclusive of interest accrued) amounted to RMB292,956.7 million, RMB162,586.2 million and RMB130,385.2 million, respectively, accounting for 29.2%, 15.7% and 11.7%, respectively, of our total assets. For details of our SPV investment, see "Business – Our Principal Businesses – Financial Markets – Investment Management – SPV Investment".

SPV investment involves certain risks. Although we have taken a variety of risk management measures, we cannot assure you that these measures will fully protect us from credit risks and liquidity risks in relation to our SPV investment. For details of the risk management measures we adopted for our investments in these assets, see "Risk Management – Credit Risk Management – Credit Risk Management for Our Financial Market Business – Credit Risk Management for Debt Securities Investment and SPV Investment" and "Risk Management – Market Risk Management – Interest Rate Risk". For example, we may not be able to receive repayment of principal of, and returns on, the SPV investment due to material and adverse changes in the financial condition of the ultimate borrowers. In addition, we may not be able to rely on the guarantees and collateral or realize the value of the collateral provided by the ultimate borrowers, as such guarantees and collateral are provided to the trust companies, asset management companies, securities companies and other financial institutions, instead of us. Furthermore, if the agreed-upon return rates of our SPV investment cannot be achieved or the principal of our investments cannot be repaid, we primarily rely on the issuers to reduce our losses and will exercise our rights under the relevant contracts and guarantees to recover losses from the issuers and the guaranteeing financial institutions (if any). We may not have direct recourse to the ultimate borrowers or their guarantors in the underlying transactions.

In addition, as SPV investment is not traded on the interbank market or stock exchanges, and there is not yet an active trading market for them, their liquidity is limited. As a result, our ability to dispose of or realize the value of relevant investments before their maturity is limited.

All of the factors above may materially and adversely affect our business, financial condition and results of operations.

Furthermore, although PRC regulatory authorities do not currently prohibit commercial banks from participating in SPV investment, we cannot assure you that future changes in regulatory policies will not restrict commercial banks in China, including us, from conducting such transactions. In addition, adverse regulatory developments in relation to these types of investments could cause the value of our investment portfolio to decline and, as a result, may adversely affect our business, financial condition and results of operations.

We are subject to risks relating to investments in debt securities.

A significant portion of our investment portfolio comprises of debt securities. As of December 31, 2017, 2018 and 2019, the gross amount of our total debt securities investment (exclusive of interest accrued) was RMB124,430.2 million, RMB150,039.7 million and RMB167,465.9 million, respectively, representing 12.4%, 14.5% and 15.0% of our total assets, respectively. As of December 31, 2017, our debt securities were classified as financial investments measured at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments under IAS 39. Since January 1, 2018, our debt securities have been classified as financial investments measured at amortised costs, financial investments measured at fair value through profit or loss, or financial investments measured at fair value through other comprehensive income under IFRS 9.

Our investment returns on debt securities are affected by a number of factors, many of which are beyond our control, including the market interest rate, creditworthiness of the overall market and our counterparties, market liquidity, asset values, as well as other economic conditions. Any material changes in one or more of these factors could reduce the value of and the gains generated from our debt securities investment portfolio and could have a material adverse effect on our financial condition and results of operations.

The value of these debt securities may decrease due to various factors that are beyond our control, including but not limited to (i) the issuer's failure to make repayment due to bankruptcy, financial difficulties or other reasons, which has been increasing due to the slowdown of China's economic growth; (ii) lack of liquidity; (iii) inflation; (iv) an increase in the current or expected market interest rate or other economic conditions; and (v) changes in relevant government policies. Our debt securities are subject to impairment, which may affect the value of such debt securities. If the value of any debt securities we invest in significantly declines, our asset quality, financial condition and results of operations may be materially and adversely affected.

Our estimation of expected credit losses under IFRS 9 relies on numerous factors beyond our control and is therefore subject to inherent limitations and uncertainties, which may materially affect our assessment of impairment allowance.

We assess impairment allowance on loans to customers and financial investments in line with our applicable accounting policies and conduct periodic review and assessment in this respect. Following the adoption of IFRS 9 since January 1, 2018, we are required to apply an expected credit loss model in determining impairment losses which, as compared to the incurred loss model under IAS 39, relies to a larger extent on forward-looking information instead of objective evidence of impairment as a precondition for recognizing credit losses. Under the expected credit loss model, a loss event will no longer need to occur before an impairment allowance is recognized. Instead, the management is required to estimate on expected credit losses and the point at which there is a significant increase in credit risk, based on available information that the management deems reasonable and applicable, all of which may involve difficult judgment. Many of these factors are beyond our control and our estimation is subjective in nature, and therefore is subject to inherent limitations. See "Financial Information – Critical Accounting Judgments and Key Sources of Estimation Uncertainty – Impact of New Accounting Policies" and Note 2(1)(a) to our historical financial information included in the Accountants' Report in Appendix I to this prospectus for further details.

There is no assurance that we can always make accurate assessment and forecast or that the actual losses on such assets will not significantly increase in the future compared to our expected losses. We also cannot assure you that the impairment allowance will be sufficient to cover all losses we may actually incur in the future, upon the occurrence of which our business, prospects, financial condition and results of operations may be materially and adversely affected.

Changes in the fair value of our financial investments and derivative financial instruments may materially and adversely affect our operating results, financial condition and prospects.

As of December 31, 2019 we had financial investments measured at fair value through profit or loss of RMB36,238.3 million and financial investments measured at fair value through other comprehensive income of RMB64,054.6 million, before taking into account the allowance for impairment losses and the interest accrued. In addition, as of the same date, our derivative financial assets amounted to RMB158.7 million. For details of our financial investments measured at fair value through profit or loss, financial investments measured at fair value through other comprehensive income and derivative financial instruments, see "Assets and Liabilities – Assets – Financial Investments". All of these financial investments are stated at fair value. We recognize fair value changes in profit or loss arising from re-measurement of financial investments measured at fair value through profit or loss and derivative financial instruments in the relevant accounting period. For financial investments measured at fair value through other comprehensive income, we recognize changes in their fair value under other comprehensive income.

For the years ended December 31, 2017, 2018 and 2019, we recognized RMB2,010.0 million of fair value losses, RMB571.7 million of fair value losses and RMB527.6 million of fair value gains, respectively, from re-measurement of investments classified as financial investments measured at fair value through profit or loss. We also recorded net losses of RMB1.4 million from the disposal of financial investments at fair value through profit or loss in the year ended December 31, 2017, and realized net gains from the disposal of financial investments at fair value through profit or loss amounting to RMB145.5 million and RMB152.5 million, respectively, in the years ended December 31, 2018 and 2019. These net gains or losses arising from re-measurement or disposal of financial investments at fair value through profit or losses were recognized in "net trading (losses)/gains" and "net (losses)/gains arising from investment securities"). In addition, we received investment income from financial investments at fair value through profit or loss in the years ended December 31, 2018 and 2019, which amounted to RMB2,381.7 million and RMB187.4 million, respectively, and were recognized as "net trading (losses)/gains" and "net (losses)/gains arising from investment securities".

Asset valuations in future periods, reflecting then prevailing market conditions, may result in negative changes in the fair values of these financial investments, which could result in a decline in our reported shareholders' equity, book value per share and net profit. In addition, the value we ultimately realize from the disposal of these investments may be lower than their current fair value. Any of these factors could require us to record negative fair value adjustments, which may have a material adverse effect on our operating results, financial condition or prospects.

We cannot assure you that we can always obtain necessary or reliable data to apply relevant financial valuation models for determination of fair values, due to factors beyond our control such as loss of data or insufficient market information. In such circumstances, we need to make assumptions, judgments and estimates in order to establish the fair value. Since assumptions are subjective in nature and inherently uncertain, the actual results may differ from our estimates. Any consequential impairments or write-downs could have a material adverse effect on our operating results, financial condition and prospects.

We determine fair value of level 3 financial instruments based on valuation techniques and various assumptions of unobservable inputs, which may fluctuate according to the changes in the unobservable inputs.

We determine fair value of level 3 financial instruments based on valuation techniques and various assumptions of unobservable inputs, which may fluctuate according to the changes in the unobservable inputs. The fair value of a financial instrument is the amount that would be received if an asset is sold or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In line with our accounting policies, we establish a fair value hierarchy that prioritizes the inputs to valuation techniques being used to measure fair value of our financial instrument. We determine fair value of our financial assets and financial liabilities that are classified in levels 1 and 2 of the fair value hierarchy based on observable prices and inputs. Instruments classified in level 3 of the fair value hierarchy are those which require one or more significant inputs that are not observable. In particular, as of December 31, 2017, 2018 and 2019, our level 3 financial assets amounted to nil, RMB522.4 million and RMB3,744.2 million, respectively, representing nil, approximately 0.6% and 3.4%, respectively, of our total financial assets measured at fair value.

Absent evidence to the contrary, instruments classified in level 3 of the fair value hierarchy are initially valued at transaction price. To determine fair value, we rely on judgment from our management taking into account various factors, including changes in unobservable inputs such as estimated future cash flows and discount rates. Many of these factors are beyond our control and may not be available on a consistent basis. In addition, judgment and estimation are subjective and subject to inherent limitations. We cannot assure you that such judgment and estimation are accurate. The fair value of relevant financial instruments may thus be materially and adversely affected, resulting in material and adverse impact to our financial conditions and results of operations.

We are exposed to risks arising from loans granted to micro and small enterprises.

As of December 31, 2017, 2018 and 2019, our loans to micro and small enterprises amounted to RMB102,951.0 million, RMB119,242.3 million and RMB120,881.5 million, respectively, representing 30.0%, 31.0% and 26.0%, respectively, of our total corporate loans and advances. We believe that micro and small enterprises are generally more vulnerable to macroeconomic fluctuations, as they may lack the financial, management or other resources necessary to withstand the adverse effects brought about by economic slowdowns or changes in the regulatory environment. Any adverse changes in the economic or regulatory environment, occurrence and/or development of natural disaster or epidemics, including the recent outbreak of COVID-19, may affect the repayment ability of micro and small enterprises, which in turn may materially and adversely affect our business, financial condition and results of operations. For more details, please also see "– Risks Relating to Our Business – Natural disasters, epidemics, acts of war or terrorism or other factors beyond our control may have a material adverse effect on our business operations, financial condition and results of operations". In addition, information available on micro and small enterprises could be relatively inadequate for us to assess their credit risks. As of December 31, 2017, 2018 and 2019, NPL ratio of loans granted to micro and small enterprises was 1.21%, 1.67% and 1.03%, respectively. Our NPL ratio may increase due to the effects on our micro and small enterprise customers caused by economic slowdowns or unfavorable changes in the economic or regulatory environment, which may materially and adversely affect our business, financial condition and results of operations.

Our asset quality, financial condition or results of operations may be materially and adversely affected if the repayment ability of LGFVs deteriorates or the government policies affecting LGFVs change.

Similar to other commercial banks in the PRC, we provide loans to LGFVs during the Track Record Period. LGFVs typically use loan proceeds to make investments in transportation and municipal infrastructure, water conservation and environmental facilities, affordable housing construction, or public interest development projects. They typically repay us with operating cash flows generated from the relevant projects, proceeds from land sales, and local governmental appropriation. As of December 31, 2017, 2018 and 2019, loans we granted to LGFVs amounted to RMB4,382.3 million, RMB7,359.6 million and RMB7,545.5 million, respectively, accounting for 1.3%, 1.9% and 1.6% of our corporate loans and advances. As of the same dates, none of our loans and advances to LGFVs were categorized as non-performing.

Apart from granting loans to LGFVs, we also invest in trust plans or asset management plans where the end borrowers are LGFVs. As of December 31, 2017, 2018 and 2019 the balance of our investment in such trust plans and asset management plans amounted to RMB1,690.0 million, RMB4,455.4 million and RMB6,967.9 million, respectively.

Pursuant to applicable PRC regulations, unless otherwise provided by the laws and the State Council, local governments and their departments or organizations and institutions funded primarily by fiscal budget are not permitted to, directly or indirectly, provide guarantees for the financing activities of LGFVs by using either fiscal income or state-owned assets. In addition, many projects sponsored by LGFVs are carried out primarily for public interest purposes and are not necessarily commercially viable. Therefore, the operating cash flows generated from such projects may not be sufficient to cover the principal of and interest on the relevant loans. As a result, the ability of a LGFV to repay its loans may depend, to a significant extent, on its ability to receive financing support from the government, which may not always be available due to the government's liquidity, budgeting priorities and other considerations.

Furthermore, any macroeconomic slowdown, unfavorable changes in governmental policies, deterioration in the financial condition of local governments, significant decline in property prices or other external factors may undermine the repayment capabilities of LGFVs. Since 2010, the State Council, CBIRC and PBoC, along with several other PRC regulatory authorities, have promulgated a series of notices, guidelines and other regulatory measures that instruct PRC banks and other financial institutions to strengthen their risk management measures regarding loans to LGFVs. For further details, see "Supervision and Regulation – Regulation on Principal Commercial Banking Activities – Loans". For details on how we manage risks related to loans to LGFVs, see "Risk Management – Credit Risk Management – Credit Risk Management for Corporate Loans – Portfolio Management – Credit Risk Management for Loans to LGFVs". We cannot assure you that our measures are sufficient to protect us against losses in connection with default by LGFVs, which may materially and adversely affect our asset quality, financial condition and results of operations.

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 business, asset quality, financial condition and results of operations.

We are exposed to risks associated with the PRC real estate market, especially from corporate loans and advances to the real estate industry, residential mortgage loans and other loans secured by real estate. As of December 31, 2017, 2018 and 2019, our loans and advances to corporate borrowers in the real estate industry represented 22.7%, 23.5% and 23.5%, respectively, of our total corporate loans and advances. As of the same dates, our residential and commercial mortgage loans represented 89.1%, 67.8% and 54.7%, respectively, of our total personal loans. As of the same dates, loans secured by real estate amounted to 35.7%, 33.8% and 33.1% of our total loans and advances.

PRC Government has imposed, and may continue to impose, macroeconomic policies to regulate the real estate market including imposing value-added tax on the transfer of residential apartments. 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 industry. These measures may also reduce the demand for residential mortgage loans in the PRC. In addition, any significant or continued decline in property prices in the PRC may have a material adverse effect on the asset quality of our corporate loans and advances to customers in the real estate industry and personal residential mortgage loans. If the real estate market in the PRC experiences a recession or a prolonged period of downturn, the value of the real property as collateral for our loans and advances may decrease to a level insufficient to cover the principal of and interest on the loans, which could therefore prevent us from recovering all or part of our principal and interest if the borrower defaults. We cannot guarantee that the measures we have taken to manage these risks will be effective or sufficient to protect us against the foregoing adverse effects.

Our deferred tax assets may not be recovered, which could materially and adversely affect our results of operations.

As of December 31, 2019, our deferred tax assets amounted to RMB6,365.1 million, representing approximately 0.6% of our total assets. We periodically assess the probability of the realization of deferred tax assets, using accounting judgments and estimates with respect to, among other things, historical operating results, expectations of future earnings and tax planning strategies. In particular, these deferred tax assets can only be recognized to the extent that it is probable that future taxable profits will be available against which the unused tax credits can be utilized. However, we cannot assure you that our expectation of future earnings will materialize, due to factors beyond our control such as general economic conditions or negative development of regulatory environment, in which case we may not be able to recover our deferred tax assets which in turn could have a material adverse effect on our results of operations.

We are subject to risks relating to the wealth management products we offer.

We started to offer wealth management products to our customers in April 2011. For the years ended December 31, 2017, 2018 and 2019, wealth management products we issued and sold to our customers amounted to RMB795,075.9 million, RMB1,532,386.0 million and RMB1,061,648.6 million, respectively. We invested the proceeds from our wealth management products mainly in debt securities and SPV investment, which accounted for 87.7%, 66.3% and 94.7% of our wealth management products as of December 31, 2017, 2018 and 2019, respectively. The rise in the percentage of our investment in debt securities and SPV investment in 2019 was primarily because structured deposits, which constituted a significant portion of our investments in 2018, were taken out of the calculation pursuant to adjustments in the relevant statistical requirements imposed by the regulatory authorities. Our ability to pay the principal and investment returns under the wealth management agreements relies heavily on the performance of our financial investments made using proceeds raised from such wealth management products.

For the years ended December 31, 2017, 2018 and 2019, 83.6%, 84.9% and 100.0% of the wealth management products we issued were non-principal protected. As of the Latest Practicable Date, all of the wealth management products we issued were non-principal protected, and we are not liable for losses suffered by the investors in these products. Furthermore, since investment risks associated with non-principal protected wealth management products, unlike principal protected products, are borne by our customers who invested in these products but not ourselves, funds raised from these non-principal protected wealth management products are not consolidated into our balance sheet. However, to the extent that investors suffer losses on these wealth management products, our reputation may be damaged, and we may also suffer a loss of business or decrease in deposits. Furthermore, we may eventually bear losses for non-principal protected products if the investors bring lawsuits against us and the court rules that we are liable for inadequate disclosure or any other reason.

In addition, the tenor of some of the wealth management products we issued is shorter than those of their underlying assets. The mismatch exposes us to liquidity risk and we examine and monitor the impact of such risk from time to time, and take actions to address the risk as circumstances may require. During the Track Record Period, the wealth management plans we issued did not encounter major liquidity risk incidents arising from such mismatch. Furthermore, the PRC regulatory authorities have released regulations to limit the size of commercial banks' SPV investment with funds raised from wealth management products. For more details, see "Supervision and Regulation – Regulation on Principal Commercial Banking Activities – Wealth Management Business".

If the PRC regulatory authorities further restrict the wealth management business of PRC commercial banks, our liquidity and profitability could be adversely affected. We cannot assure you that we will be able to complete these transactions on commercially acceptable terms, in a timely manner, or at all. As a result, our business, financial condition and results of operations could be materially and adversely affected.

We face risks and uncertainties associated with the PRC regulations governing the wealth management business of financial institutions.

In recent years, PRC Government has promulgated various rules and regulations to mitigate systemic risks in the financial industry. In particular, in order to, among other things, enhance risk management measures relating to leverage in the financial markets and thereby mitigate liquidity and market risks and regulatory arbitrage, the PBoC, CBIRC, CSRC and SAFE jointly issued the Guiding Opinions on Regulating the Asset Management Business of Financial Institutions (《關於規範金融機構資產管理業務的指導意見》) (the "**April 27 Guideline**") on April 27, 2018. The April 27 Guideline prohibits financial institutions, including banks, from providing investors with guarantees, in any form, for principal and investment returns in relation to wealth management products ("**Non-Guarantee Requirements**"). The April 27 Guideline also requires banks and other financial institutions to, among other things, manage the products by net value, regulate fund pools, reduce the risks of maturity mismatch, limit debt ratio of products, properly categorize underlying assets based on nature of assets, improve information disclosure on products sales and distribution management, and eliminate the practice of channels for multi-layer embedment ("**Other Requirements**"). In addition, the CBIRC issued the Measures for the Supervision and Administration of the Wealth Management Business of Commercial Banks (《商業銀行理財業務監督管理辦法》) on September 26, 2018 (the "**September 26 Guidelines**"), which, among other things, strengthen the supervision and administration of wealth management products issued by commercial banks. For details on the content of the April 27 Guideline and the September 26 Guidelines, see "Supervision and Regulation – Regulation on Principal Commercial Banking Activities – Wealth Management Business".

In line with restrictions set out in the April 27 Guideline (particularly the Non-Guarantee Requirements and Other Requirements) and its subsequent interpretations as well as the September 26 Guidelines, we will no longer be permitted to issue principal-protected wealth management products, whether as new products or under existing products, after a transitional period ending on December 31, 2020. For the year ended December 31, 2019 and up to the Latest Practicable Date, all of the wealth management products we issued were non-principal protected.

In addition, to ensure compliance with the Non-Guarantee Requirements and Other Requirements, we may need to incur additional administrative or other operating expenses to bring our operation and management measures into compliance, which may materially and negatively impact our financial conditions and results of operations. Furthermore, the April 27 Guideline and the September 26 Guidelines were recently issued and may be subject to interpretation. We cannot assure you that PRC Government will not publish implementation rules with more stringent standards in interpreting the April 27 Guideline and the September 26 Guidelines, or issue new laws and rules to replace the April 27 Guideline and the September 26 Guidelines setting out limitations that are costly for us to follow. Such additional rules and interpretations may materially and adversely affect our financial conditions and results of operations.

Further development of interest rate liberalization, the PBoC's adjustments to the benchmark interest rate, the deposit insurance program and other regulatory changes in the PRC's banking industry may materially and adversely affect our results of operations.

Similar to most PRC commercial banks, our results of operations depend, to a large extent, on our net interest income, which accounted for 67.4%, 65.6% and 80.7% of our operating income for the years ended December 31, 2017, 2018 and 2019, respectively.

Our net interest income is sensitive to adjustments in the benchmark interest rates set by PBoC. In recent years, PBoC has adjusted the benchmark interest rates several times. See "Supervision and Regulation – Pricing of Products and Services – Interest Rates for Loans and Deposits". Adjustments by PBoC to the benchmark interest rates on loans or deposits or changes in market interest rates may affect our financial condition and results of operations in different ways. For example, changes in the PBoC benchmark interest rates could affect the average yield on our interest-earning assets to a different extent than the average cost on our interest-bearing liabilities and, therefore, may narrow our net interest margin. Such a change may lead to a decrease in our net interest income, and may materially and adversely affect our results of operations and financial condition. PRC Government also implemented other monetary policies in recent years, including adjusting the PBoC statutory deposit reserve ratios from time to time. These monetary policies have a significant impact on the liquidity and funding costs of PRC commercial banks and borrowers' demand for bank financing, which in turn may affect our business, financial condition and results of operations.

Interest rates in China have been gradually liberalized in recent years. Since June 8, 2012, PBoC has allowed financial institutions to increase the Renminbi deposit interest rate to 110% of the PBoC benchmark interest rate. On July 20, 2013, PBoC abolished the minimum interest rate for loans excluding residential mortgage loans, which was 70% of the benchmark interest rate, and allowed financial institutions to set lending rates based purely on commercial considerations. Furthermore, on November 22, 2014, PBoC permitted financial institutions to raise the Renminbi deposit interest rate up to 120% of the PBoC benchmark interest rate. The Renminbi deposit interest rate was raised again in March 1, 2015 and May 11, 2015 up to 130% and 150% of the PBoC benchmark interest rates, respectively. On August 26, 2015, the PBoC maintained the interest rate cap of Renminbi demand deposits and time deposits with maturity in less than one year. Then on October 24, 2015, PBoC announced that it would no longer set a floating ceiling deposit interest rate for commercial banks, signifying the further liberalization of controls on interest rates. Furthermore, in August 2019, the PBoC announced to reform the mechanism used to establish the loan prime rate ("**LPR**"). The new LPR quotations will be based on rates of open market operations and published on a monthly basis. According to the PBoC, commercial banks must set interest rates on new loans by mainly referring to the LPR and use LPR as the benchmark for setting floating loan interest rates. For more information on the LPR reform, see "Supervision and Regulation – Pricing of Products and Services". Interest rate liberalization may intensify competition in the PRC banking industry, as PRC commercial banks may seek to make loans and take deposits with more attractive interest rates, which could narrow the net interest margin of PRC commercial banks, thereby materially and adversely affecting our results of operations. We cannot assure you that we will be able to promptly diversify our businesses, adjust the mix of our assets and liabilities and change our pricing to effectively respond to further liberalization of interest rates.

As a crucial step for liberalizing interest rates in China, the Deposit Insurance Regulation was published on February 17, 2015 and came into effect on May 1, 2015. Under the Deposit Insurance Regulation, deposit insurance is subject to a certain reimbursement limit, with the maximum reimbursement limit set at RMB500,000. Where a depositor's total principal and interest in all insured deposit accounts at the same insured institution, calculated on a consolidated basis, is within the maximum reimbursement limit, such total amount will be reimbursed in full. Banks are required to pay premiums for the deposit insurance program, which may increase our operating costs and adversely affect our financial condition and results of operations. The Deposit Insurance Regulation's impact on the banking industry in China is still uncertain.

We also conduct trading and investment activities involving certain financial instruments. Our income generated from these activities is subject to volatility caused by, among other things, changes in interest rates and foreign exchange rates. For example, increases in interest rates generally cause the value of our fixed income securities portfolio to drop, which may materially and adversely affect our results of operations and financial condition. In addition, the derivatives market in the PRC is still in the early stages of development. As a result, we may not be able to effectively hedge such market risks.

We manage our liquidity partly through short-term borrowing in the interbank market. Our borrowing costs may increase as a result of the fluctuation in interest rates on the interbank market, which may materially and adversely affect our liquidity, financial condition and results of operations.

As of December 31, 2017, 2018 and 2019, the balances of our financial assets sold under repurchase agreements, deposits from banks and other financial institutions and placements from banks and other financial institutions accounted for 20.1%, 11.4% and 11.9% of our total liabilities, respectively. According to relevant PRC laws and regulations, including the Notice on Standardizing Interbank Business of Financial Institutions (《關於規範金融機構同業業務的通知》) ("**Interbank Business Notice 127**") jointly issued by the PBoC, CBRC, CSRC, CIRC and SAFE on April 24, 2014, the net balance of interbank lending of a commercial bank to a single incorporated financial institution (excluding interbank deposits for settlement purposes), after deducting assets with zero risk weight, shall not exceed 50% of its tier-one capital. The balance of interbank borrowing of a commercial bank shall not exceed one-third of its total liabilities. We had complied with these requirements in the Interbank Business Notice 127 during the Track Record Period. For more details on the Interbank Business Notice 127, please see "Supervision and Regulation – Regulation on Principal Commercial Banking Activities – Interbank Business". Subject to the aforementioned laws and regulations and other applicable requirements, we may not be able to acquire sufficient short-term funds from the interbank market at all times, and regulatory authorities may impose further restrictions on interbank business and interbank borrowing. As a result, our funding costs may increase, which may materially and adversely affect our liquidity and profitability.

Our current risk management framework, policies and procedures and internal control may not fully protect us from credit, market, liquidity, operational, and other risks.

We have established a risk management framework and an internal control system to protect us from various risk exposure. For details, see "Risk Management". However, as these systems, policies and procedures require constant and ongoing testing and maintenance, we cannot assure you that these current systems are adequate to protect us from all types of risks. In addition, our risk management capabilities are limited by the information, tools and technologies available to us.

Although we have taken various measures to improve and upgrade our overall risk management system, policies and procedures, due to the inherent limitations of our systems, we may not adequately or effectively identify or mitigate our risk exposure in all market environments or against all types of risks, including, without limitation, risks arising from the failure to dispose of non-performing assets in a timely manner and in full compliance with the regulatory requirements. As a result, our risk management methodologies and techniques may not be always effective, and we may not be able to manage and control our risks in a timely and appropriate manner, and thereby our asset quality, business, financial condition and results of operations may be materially and adversely affected.

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

We provide certain off-balance sheet commitments to our customers in the ordinary course of business, such as bank acceptances, letters of credit and letters of guarantees. Such arrangements are not reflected on our balance sheet, but they constitute contingent assets or contingent liabilities. As of December 31, 2019, our off-balance sheet commitments totaled RMB261,420.3 million. For more details, see "Financial Information – Off-balance Sheet Commitments". We are subject to credit risks associated with certain of these off-balance sheet commitments and are required to provide funds when our customers are unable to perform their obligations. If we are unable to recover payment from our customers, our financial condition and results of operations may be materially and adversely affected.

We may have difficulties in meeting capital adequacy requirements in the future.

We are subject to capital adequacy regulations set by the CBIRC. See "Supervision and Regulation – Supervision over Capital Adequacy". Pursuant to the requirements of PRC banking regulatory authorities, our capital adequacy ratios for each tier shall remain no lower than the minimum capital adequacy requirements under the Capital Administrative Measures

(Provisional) during the transitional implementation period. Calculated in accordance with the Capital Administrative Measures (Provisional), as of December 31, 2019, our core tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio all satisfied the requirements of the PRC banking regulatory authorities. The CBIRC may further 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. Such changes may materially and adversely affect our financial condition and results of operations.

Our ability to satisfy the current regulatory capital adequacy requirements could be adversely affected by the deterioration of our financial condition, or the quality of our assets, such as an increase in NPLs and a decline in our profitability. If our business growth calls for additional capital in excess of what we are able to generate internally or raise in the capital markets, we may need to seek additional capital by alternative means which may not be available to us 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, general market conditions for capital-raising activities by commercial banks and other financial institutions, as well as economic, political and other conditions both within and outside of China. We may face increased compliance and capital costs as a result of these capital requirements. Furthermore, as these capital adequacy requirements place restrictions on the ability of banks to leverage their capital to achieve growth in their loan portfolios, our results of operations may be materially and adversely affected, and our capacity to further grow our business may be constrained. If at any time in the future we fail to meet these capital adequacy requirements, the CBIRC may take a series of measures on us, including, for example, imposing restrictions on our lending and investment activities, restricting the growth of our loans and other assets, limiting our application to launch new businesses or restricting our ability to declare or pay dividends. Such measures may materially and adversely affect our business, financial condition and results of operations.

We are exposed to liquidity risk arising out of the mismatches between the maturities of our assets and liabilities, which could materially and adversely affect our business, financial condition, and results of operations.

Most of our deposits from customers are due within one year or shorter, or are repayable upon demand, while most of our assets have a longer maturity period, which exposes us to liquidity risks caused by mismatches in the maturity of assets and liabilities. In particular, deposits from customers with remaining maturities of less than one year or repayable on demand represented 83.6%, 84.1% and 74.4% of total deposits from customers as of December 31, 2017, 2018 and 2019, respectively. Meanwhile, 39.9%, 44.9% and 50.3% of our net loans and advances to customers were due within one year as of December 31, 2017, 2018 and 2019, respectively.

Due to the mismatch in the maturity of our assets and liabilities, if the growth of our deposits to customers cannot be maintained at a rate in line with our business expansion, or the majority of our customers withdraw their demand deposits or do not renew after the maturity of time deposits, we may need to seek other sources of funds at higher costs to meet our capital needs, which may have a material adverse impact on our business, financial condition and results of operation.

On May 23, 2018, the CBIRC promulgated the Administrative Measures on Liquidity Risk Management of Commercial Banks (《商業銀行流動性風險管理辦法》), under which we are required to establish and optimize our liquidity risk management system. We must also comply with various regulatory liquidity indicators, such as liquidity ratio, liquidity coverage ratio, and net stable funding ratio, and submit reports to the regulatory authorities as required. For more details on our historical liquidity indicators, please see "Supervision and Regulation – Other Risk Management Ratios".

Internal and external factors affecting our liquidity risks include changes in the maturity profiles of our assets and liabilities and asset quality, as well as changes in macroeconomic trends and monetary policy. Please see "Risk Management – Liquidity Risk Management" for the measures we have taken to manage our liquidity risks. We cannot assure you that we will be able to meet all applicable regulatory requirements and guidelines relating to liquidity risk management at all times. If we fail to comply with the relevant regulatory requirements, the regulators may issue risk warnings or take corresponding regulatory measures, which may adversely affect our business, financial condition and results of operations.

We had net cash flows used in operating activities during the Track Record Period. If we have operating cash outflows in the future, our liquidity and financial conditions may be materially and adversely affected.

We had net cash flow used in operating activities of RMB25,917.6 million, RMB167,616.4 million and RMB41,679.5 million, respectively, for the years ended December 31, 2017, 2018 and 2019. The negative net cash flow from operating activities primarily resulted from the increases in our loans and advances to customers during the Track Record Period which was in line with our business expansion. We cannot assure you that we will be able to generate positive cash flows from operating activities in the future. Our liquidity and financial condition may be materially and adversely affected by negative net cash flows, and we cannot assure you that we will have sufficient cash from other sources to fund our operations. If we resort to other financing activities to generate additional cash, we will incur financing costs and we cannot guarantee that we will be able to obtain the financing on terms favorable to us, or at all.

There are legal defects regarding some of our properties.

As of the Latest Practicable Date, we owned 158 real properties in the PRC with an aggregate GFA of approximately 338,033.6 square meters, which we mainly used as outlets and offices, among which, we only had limited ownership rights for 23 of these real properties with an aggregate GFA of approximately 1,589.7 square meters (accounting for 0.5% of the aggregate GFA of our owned real properties) and are therefore subject to certain restrictions in relation to the transfer, leasing and use of these properties. For one real property with GFA of approximately 2,823.1 square meters (accounting for 0.8% of the aggregate GFA of our owned real properties), we had obtained the relevant building ownership, and obtained the land use right through allocation. For four real properties with an aggregate GFA of approximately 6,531.6 square meters (accounting for 1.9% of the aggregate GFA of our owned real properties), we had obtained the building ownership certificates, but had not obtained the land use right certificates for the land on which such buildings were erected. We also occupied two real properties with an aggregate GFA of approximately 1,271.1 square meters (accounting for 0.4% of the aggregate GFA of our owned real properties), for which we had not yet obtained the relevant real property title certificates. For details on our properties, see "Business – Properties". We may not be able to obtain all of these title certificates. We cannot assure you that our ownership rights will not be adversely affected in respect of properties for which we are unable to obtain the relevant title certificates. If we were forced to relocate any of the operations we conduct on the affected properties, we may incur additional costs as a result of such relocation.

As of the Latest Practicable Date, we leased 304 properties in the PRC with an aggregate GFA of approximately 401,760.8 square meters, which we mainly used as outlets and offices. Among these properties, for 68 properties with an aggregate GFA of approximately 60,001.8 square meters, the lessors had not provided the title certificates of these properties or documents which entitle the lessors to lease out these properties. Therefore, the validity of such leases may be subject to dispute. In addition, we cannot assure you that we will be able to renew such leases on terms acceptable to us upon their expiration or at all. If any of our leases is terminated as a result of challenges by third parties or if we fail to renew them upon expiration, we may be forced to relocate affected branches and sub-branches and incur additional costs associated therewith, and our business, financial condition and results of operations may be adversely affected.

As of the Latest Practicable Date, for our 304 leased properties, we had registered 54 leasing agreements with the relevant housing administrative authorities with an aggregate GFA of approximately 62,542.7 square meters. According to the Administrative Measures for Commercial Housing Leases (《商品房屋租賃管理辦法》), the housing administrative authorities may require the parties to the lease agreements to complete lease registration within a prescribed period of time and the failure to do so may subject the parties to the lease agreements to fines from RMB1,000 to RMB10,000. As a result, if we fail to timely complete lease registration upon the housing authorities' request and the highest fines are to be imposed for each of our leasing agreements unregistered as of the Latest Practicable Date, we may face total fines up to RMB2.5 million. For details of our properties including leased properties, see "Business – Properties".

We transferred certain non-performing assets during the Track Record Period and should we become unable to transfer such assets in the future, our liquidity, financial condition and results of operations may be affected.

During the course of our business, we, in line with our risk management policies, transferred certain non-performing loans and other assets at various discount rates to state-owned asset management companies in the PRC. These asset management companies are independent third parties. During the Track Record Period, the non-performing assets we transferred were all non-performing loans. We may continue to transfer non-performing loans and other assets from time to time in accordance with our risk management policies when we deem appropriate. Our current results of operations and financial condition would be different had these transfers not taken place. For the years ended December 31, 2017, 2018 and 2019, the principal of non-performing loans we transferred to independent third parties amounted to RMB1,877.9 million, RMB405.3 million and RMB667.7 million, respectively. Our NPL amount and NPL ratio during the relevant periods would be higher had these transfers failed to take place. Should we become unable to transfer such assets in the future, our liquidity, financial condition and results of operations may be affected.

We face risks and uncertainties associated with national and local government policies and initiatives adopted to promote local economic development.

We benefit from favorable policies adopted by the national and local governments to promote the economic development, in particular initiatives targetting those areas where we make substantial investment, such as the Collaborative Development of Beijing, Tianjin and Hebei (京津冀協同發展), the development of the Yangtze River Economic Zone and the Guangdong-Hong Kong-Macao Greater Bay Area, and the "Belt and Road Initiative (一帶一路倡議)". However, we cannot guarantee that PRC Government will maintain its favorable policies in promoting the development of these regions. Any discontinuation or unfavorable change in such policies may adversely affect our business, financial condition and results of operations. In addition, any new policies issued or to be issued by the national or local government on curbing the spending limit of the local government on its local economic development could adversely affect our business, financial condition and results of operations.

We historically received certain non-recurring income, the unavailability or reduction of which could adversely affect our business, financial condition and results of operations.

During the Track Record Period, we received certain non-recurring income which amounted to RMB101.9 million, RMB124.1 million and RMB75.1 million, respectively, for the years ended December 31, 2017, 2018 and 2019. The non-recurring income we received mainly included government grants and rental income.

The availability of non-recurring income is dependent on a variety of factors. For example, our eligibility for government grants may depend on various factors such as the relevant government policies, the availability of funding at different granting authorities, and the granting authorities' assessments on us. Some of these factors are beyond our control. We cannot assure you that we will continue to receive non-recurring income on the same or similar scale as the relevant factors may change over time. Negative changes in non-recurring income could have an adverse effect on our business, financial condition and results of operations.

We may not be able to successfully accomplish our relevant plans to expand our portfolio of products and services. In particular, we may not be able to promote fee- and commission-based businesses and other non-interest income businesses as intended.

We have invested in expanding our portfolio of products and services and intend to continue doing so in the future, to enhance our leading market position, capture ever changing market demand and cope with different challenges. The sustainable development of our business depends on, in part, our ability to expand our product and service portfolio to capture customer demand and evolving industry trends. However, the success of this strategy is subject to various factors beyond our control, including general economic conditions, regulatory restrictions and market competition.

Our net fee and commission income amounted to RMB8,686.0 million, RMB6,357.3 million and RMB4,225.8 million for the years ended December 31, 2017, 2018 and 2019, respectively, representing 34.4%, 27.4% and 14.9% of our operating income for the same periods, respectively. We cannot assure you that we will record increased net fee and commission income and not net fee and commission losses in the future.

In addition, in recent years, many non-bank enterprises or newly established banks with strong internet technology backgrounds have started offering internet finance services crucial to the banking value chain, including core areas that are key sources of banks' revenues, such as payment and settlement, wealth management, consumer finance and card services. See the section headed "– Risks Relating to the PRC Banking Industry – The competitive environment in the banking industry is continually evolving in line with advancements in information technology, and as a result traditional banking institutions face intensified challenges with respect to internet finance" for more details.

Furthermore, the regulatory regimes for certain products and services that generate fee and commission income continue to evolve, particularly those relating to financial markets business. See the section headed "– Risks Relating to Our Business – We face risks and uncertainties associated with the PRC regulations governing the wealth management business of financial institutions". We cannot assure you that our business will not be materially and adversely affected by the continued development of the relevant regulations. Furthermore, if we are unable to obtain relevant regulatory approvals, or comply with relevant banking regulations in relation to the sales and marketing of our new financial products and services, we may be subject to legal proceedings or regulatory sanctions, which in turn could lead to significant financial losses and reputational damages to us. In addition, for products where our income depends on the underlying financing party's capacity to make timely repayment, we are also subject to inherent risks associated with financial performance or business operations of relevant issuers or owners of underlying assets, which are affected by many factors beyond our control, including general economic conditions and proper compliance with laws and regulations by relevant third parties. We may also be subject to client complaints, negative news coverage and possible litigations which could have an adverse effect on our reputation.

The occurrence of any above-mentioned events may materially and adversely affect our business, financial condition and results of operations.

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

Our business largely relies on the secure and efficient operation of our information technology systems, including our internal control, risk management, customer service and other data processing systems, each of which is critical to the sustainable development of our business and our ability to maintain competitiveness. For details of the operation and backup mechanism of our information technology systems, see "Business – Information Technology and Business Innovation". However, our information technology systems may encounter events beyond our control, including network breakdowns, software bugs, computer virus attacks, intrusion attacks, catastrophic incidents or providers' failure to provide ongoing maintenance, which could result in a partial or complete failure of our information technology systems and disrupt our business continuity. For example, failure to prevent cyber-attacks can affect the normal operation of our internet banking or mobile banking system, causing suspension of system services, data leakages and other adverse consequences, which may further lead to litigation risks. Although we have configured internet firewall access policies, intrusion detection defense and other defensive measures, the possibility of being attacked still exists, and our information system is not completely protected from damage. For details of our relevant measures, see "Risk Management – Information Technology Risk Management". The occurrence of any of the above-mentioned risk events or safety intrusion incidents could materially and adversely affect our business, financial condition and results of operations.

In addition, our ability to remain competitive depends partially on our ability to upgrade our information technology systems in a cost-effective manner in order to address increasing market demand for financial products and services and evolving technology challenges. Any failure to timely develop or upgrade our information technology systems effectively may materially and adversely affect our business, financial condition and results of operations.

If we fail to fully comply with various regulatory requirements applicable to us, our reputation could be harmed and our business, financial condition and results of operations could be materially and adversely affected.

We are subject to the regulatory requirements and guidelines set forth by various PRC regulatory authorities, such as the CBIRC, PBoC, SAFE, SAMR, CSRC, NAO, SAT, NDRC, and MOF when we conduct our business in the PRC. These laws, regulations, guidelines and regulatory requirements include 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. These regulatory authorities supervise and spot check banks and have the authority to impose penalties or remediation requirements based on their findings.

During the Track Record Period and up to the Latest Practicable Date, we failed to meet certain of the above regulatory requirements, causing an aggregated fine and improper gains confiscation of about RMB55.9 million. For details on the penalties in respect of these failures to meet certain of the regulating requirements, see "Business – Legal and Administrative Proceedings – Regulatory Inspections and Proceedings". Failure to meet the regulatory requirements may be viewed by the regulatory authorities as a violation of prudent operation rules, which, depending on the severity of the non-compliance, could lead to a number of regulatory actions, including demand for timely rectification, fine, suspension of certain businesses, revocation of business license, restrictions on dividend distributions and asset transfers or disciplinary actions against the directors, officers or persons directly responsible for such non-compliance. We cannot assure you that we will be able to meet all applicable regulatory requirements and guidelines, or comply with all applicable regulations at all times, or that we will not be subject to sanctions, fines or other penalties in the future as the result of non-compliance. Any failure to comply with applicable requirements, guidelines, or regulations could have a material adverse effect on our business, financial condition and results of operations, and damage our reputation and our ability to grow our business.

Our business, financial condition, results of operations, prospects and the value of your investment may be adversely affected as a result of negative media coverage of our Bank, our senior management, our business partners, or China's banking industry in general, even if such negative publicity is inaccurate, unsubstantiated or immaterial.

Our business reputation is crucial to our success. China's banking industry continues to be covered extensively and critically by various news media. In recent years, incidents of fraud and issues in relation to non-performing loans, loan quality, capital adequacy, solvency, internal controls, internet finance and risk management have been extensively reported by the media. Any such negative media coverage, accurate or not, may have a material adverse effect on our reputation and will consequently undermine our customers' confidence in us. As a result, our business, financial condition, results of operations, prospects and the value of your investment may be materially and adversely affected.

We will need approvals from the regulatory authorities to expand our business, including establishing new branches and sub-branches and we cannot guarantee that we will obtain such approvals successfully. Even if we obtain such approvals, there is no assurance that we can successfully compete with the banks and other financial institutions in these regions.

We will need to submit applications to regulatory authorities if we plan to further develop our business, including opening new branches and sub-branches (including overseas outlets). We may not be able to obtain such approvals or may otherwise fail to successfully establish new branches and sub-branches. Even if we successfully obtain the approval to launch new business or set up new branches and sub-branches, we may not possess the adequate knowledge of the local business environment, risk management tools and qualified personnel to successfully compete with the banks and other financial institutions existing in those areas or regions. The rate of our growth and the expansion of our business may be affected if we are unable to or unsuccessful in expanding our operation geographically, which, in turn, may materially and adversely affect our business, financial condition and results of operations.

We have entered into certain agreements for information technology services and any difficulties experienced in these arrangements could result in additional expense, loss of customers and income or an interruption of our services.

We obtained certain information technology services by entering into contracts with third-party technology and service providers. In the event that these service providers either fail to provide support service as usual, terminate our contracts or refuse to renew our contracts, our services to customers and our reputation may be damaged. If such an event occurs, although we may pursue new third-party technology and service relationships, it may still disrupt our normal operations, increase the costs of these technology services and divert management's time and resources. If we are unable to complete a transition to a suitable new service provider on a timely basis, or at all, we could be forced to temporarily or permanently discontinue certain services, which could materially and adversely affect our business, prospects, financial condition and results of operations.

We may be involved in legal and other disputes arising out of our business operations from time to time.

We are involved in legal and other disputes from time to time for a variety of reasons, primarily for loan collection purposes or other claims arising out of our ordinary daily operations. We are also subject to various legal proceedings and claims brought by others that have arisen in the ordinary course of business. See "Business – Legal and Administrative Proceedings – Legal Proceedings". Regardless of the merits of particular claims, legal proceedings can be unpredictable, expensive and time-consuming. As of the Latest Practicable Date, there was no litigation, arbitration or investigation against the Bank, our Directors, Supervisors or senior management which we believe would have a material adverse effect on our business operations or financial results. We cannot guarantee that the outcome in any of the litigation in which we are involved would be favorable to us, or that the judgments in litigations against us will not be subject to disputes resulting in new litigation, appeal or retrial. In addition, we cannot guarantee that existing or potential disputes will not have a material adverse effect on us, or that any future legal disputes we may confront will not result in damage to our reputation, additional operational costs and a diversion of resources and management's attention from our business operations, in which case our business, financial condition and results of operations may be adversely affected.

We may not be able to effectively detect money laundering and other illegal or improper activities on a timely basis, or at all, which could expose us to reputational damages and additional legal or regulatory liability risks.

We are required to comply with applicable PRC anti-money laundering and anti-terrorism laws and regulations. These laws and regulations require us to adopt and enforce "know-your-customer" policies and procedures and to report large and doubtful transactions to the relevant regulatory authorities. Due to the complexity of money-laundering activities and other illegal or improper activities, such policies and procedures may not be able to eliminate the possibility that other parties use our services to engage in money laundering and other illegal or improper activities. To the extent that we fail to fully comply with applicable anti-money laundering and anti-terrorism laws and regulations, the relevant governmental authorities may impose fines and other penalties on us. In addition, our business and reputation could deteriorate if customers manipulate their transactions with us for money laundering or other illegal or improper purposes. For details on how we control risks arising from these activities and the applicable PRC laws and regulations, see "Risk Management – Operational Risk Management – Anti-money Laundering" and "Supervision and Regulation – Anti-money Laundering Regulations".

We rely on the continuing efforts of our key personnel and may not be able to recruit or retain sufficient qualified staff.

Our ability to maintain growth and meet future demands is dependent upon the continued service of our senior management and other key personnel. In particular, our future success depends substantially upon our key personnel's experience in the banking industry and our business operations as well as their sales and marketing skills. The departure of any member of our key personnel may have a material adverse effect on our business and results of operations. In addition, we may face increasingly fierce competition in recruiting and retaining qualified staff, including senior management, since other banks are competing for the same pool of qualified candidates and our compensation packages may not be as competitive as those of our competitors. We cannot assure you that we will be able to recruit or retain qualified staff, or that competition in recruitment will not lead to increases in our employment costs. If we fail to recruit or retain sufficient qualified staff, our business, financial condition and results of operations may be materially and adversely affected.

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

We are exposed to fraud or other misconduct committed by our employees or third parties, including the business partners with whom we cooperate, which could subject us to financial losses, third party claims, regulatory actions or reputational damage. For instance, during the Track Record Period, we were subject to one administrative penalty due to one sub-branch's failure to timely identify and prevent its employees' participation in private lending activities, and inadequate management over the use of official seals. Please see "Business – Legal and Administrative Proceedings – Regulatory Inspections and Proceedings – Administrative Penalties" for more details. Despite our efforts to implement remedial measures and impose disciplinary actions upon identifying such misconduct, we cannot assure you that our internal control policies and procedures will be sufficient to prevent, detect or deter all incidents of fraud and misconduct involving our employees or third parties.

Illegal activities, misconduct or improper behavior of our customers, business partners or other third parties, whether or not related to us, may damage our reputation or cause us to incur economic losses. For instance, the wrongful debt-collection and illegal sales activities by third-party internet platforms in relation to our products or services may bring us certain reputational damage, or even expose us to regulatory penalties. As we have no control over these third parties, we cannot assure you that we can always effectively prevent or mitigate the negative impact their misconduct may cause on our reputation, business, financial condition or results of operations.

Failure to protect the personal data of our customers or to comply with data privacy and protection laws and regulations could harm our reputation and deter customers from using our services, which could materially affect our results of operations.

During the ordinary course of our business, we collect and store certain private information about our customers, such as their names, addresses and contact information, as well as their social and financial information, such as employment, proof of income and credit ratings. Although we strive to implement our data protection policies and procedures in a strict and consistent manner, unauthorized access to or leakage of personal data may still occur, which could materially and adversely affect our reputation, financial condition and results of operations.

PRC data privacy laws restrict our collection, storage, use, processing, disclosure and transfer of non-public personal information of customers. The PBoC's Notice on the Further Protection of Personal Financial Information by Financial Institutions issued on March 27, 2012 (Yin Fa [2012] No. 80) (《中國人民銀行關於金融機構進一步做好客戶個人金融信息保護工作的通知》) requires that banking financial institutions strictly follow the relevant laws and regulations when collecting, maintaining and using personal financial information, or when providing the same to external parties. Meanwhile, banking institutions shall not sell personal financial information of customers to any entity or individual, or provide such information to any external party against the relevant laws and regulations. They must adopt effective measures to ensure the safety of customers' personal financial information and prevent the unauthorized disclosure and misuse of the same. The State Council General Office's Guiding Opinions on Strengthening the Protection of Financial Consumers' Rights and Interests (《國務院辦公廳關於加強金融消費者權益保護工作的指導意見》), effective since November 2015, explicitly states that financial institutions must respect and protect consumers' basic rights, including their right to information safety. Regulatory authorities including the CBIRC and PBoC have also placed a growing emphasis on the protection of personal data. In December 2016, for instance, the PBoC released its Implementation Measures for Protecting Financial Consumers' Rights and Interests (《中國人民銀行金融消費者權益保護實施辦法》), which clearly state that private information obtained during the course of financial services must be kept confidential, and financial institutions shall establish and improve the internal control measures necessary for protecting their customers' personal information.

Furthermore, as the internet banking business continues to evolve, it is likely that the PRC regulatory authorities, including the CBIRC and PBoC, may tighten its regulation on the protection of consumers' online personal data. The existing and any future laws and regulations can be costly to comply with and can delay or impede the development of our new products, increase our operating costs, call for significant management time and attention, and subject us to claims for remedies, litigations, fines, or demands to modify or cease existing business practices. In addition, any public concerns about our practices with regard to the collection, use or disclosure of personal information or other privacy-related matters, even if unfounded, could damage our reputation, which may in turn cause material and adverse effects on our business, financial condition and results of operations.

RISKS RELATING TO THE PRC BANKING INDUSTRY

We face increasingly intensive competition in China's banking industry.

The banking industry in China is becoming increasingly competitive, and competition may intensify in response to consumer demand, technological changes, the impact of market consolidation and new market entrants, regulatory actions and other factors. We face competition with PRC and foreign commercial banks in all of our principal lines of business. We principally compete with other Nationwide Joint-stock Commercial Banks, large state-owned commercial banks and city commercial banks. We may also face intensified competition from privately-owned banks in the future as a result of PRC market liberalization. Competition between us and foreign financial institutions may also increase in the future. In particular, the lifting of various restrictions on foreign financial institutions conducting business in the PRC may cause us to lose certain existing competitive advantages over foreign financial institutions in the banking markets of China. We expect to see greater competition from foreign financial institutions in the future. Such competition may materially and adversely affect our business and future prospects by, for example, reducing our market share in our principal products and services, reducing our fee and commission income, slowing the growth of our loan or deposit portfolios and their related products and services and increasing competition for senior management talents and qualified professional personnel.

In addition to competition from other banks and financial institutions, we also face competition from other forms of investment alternatives in China. In recent years, financial disintermediation, which involves investors' moving of funds out of commercial banks and other financial institutions to direct investments, has increased in China due to the availability of new financial products, the further development of the capital markets, the diversification of customer demand and other factors. Our deposit customers may move their funds deposited with us to invest into stock, debt securities or wealth management products, which may result in a decrease in our deposits from customers, the most important source of funds for our lending business, further impacting our net interest income. In addition, due to the development of the capital markets, we may face competition from direct corporate financing, such as the issuance of debt or equity securities in the domestic and international capital markets. If a substantial number of our customers choose alternative ways of financing to meet their funding needs, this may adversely affect our interest income. A decrease in the demand of our corporate banking customers could materially and adversely affect our business, financial condition and results of operations.

The competitive environment in the banking industry is continually evolving in line with advancements in information technology, and as a result traditional banking institutions face intensified challenges with respect to internet finance.

In recent years, internet-based financial service companies are developing rapidly in China. At present, the major financial services provided by China's internet-based financial service companies include online personal loans, third-party online and mobile payment, as well as online and mobile wealth management. China's commercial banks are facing the challenges with respect to products, technologies and customer experience. Personal loan products provided by internet-based financial service companies may result in decreased demand of retail banking customers for commercial banks' loans. Various funds and internet wealth management products have developed rapidly, which may result in outflows of a large amount of saving deposits from commercial banks and then the return of these amounts to commercial banks in the form of interbank deposits. As a result, commercial banks may experience increased funding costs and narrowed interest margins, and therefore reduced profitability. With the further development of the internet, many non-banking financial institutions have started to distribute financial products on internet platforms, which has affected commercial banks' fee income for agency services. Competition from internet-based financial service industry may materially and adversely affect our business, financial condition, results of operations and prospects. See the section headed "Industry Overview – Development Trend and Business Drivers – Challenges and Opportunities for the Banking Industry Arising from Financial Technology".

The PRC banking industry is highly regulated, and we are susceptible to changes in regulations and government policies.

The PRC banking industry is highly regulated and our business could be directly affected by changes in the policies, laws and regulations relating to the PRC banking industry, such as those affecting the specific lines of business in which we operate, or the specific businesses for which we can charge fees, as well as changes in other governmental policies. We are subject to various regulatory requirements and guidelines set forth by the PRC regulatory authorities, which include but are not limited to the CBIRC, PBoC, MOF, NDRC, SAMR, NAO, SAT, CSRC, SAFE and their respective local branches.

Some of these regulatory authorities conduct periodic and ad hoc inspections, examinations and inquiries on our business operations and compliance with their laws, regulations and guidelines, and some have the authority to impose sanctions, penalties or remediation actions. These laws, regulations and guidelines impose regulatory requirements on, among other things, banking products and services, market entry, opening of new branches or institutions, tax and accounting policy and pricing. The CBIRC, as the primary banking industry regulator, has promulgated a series of banking regulations and guidelines aimed at improving the operations and risk management of Chinese commercial banks. In particular, since late 2017, in line with the policy to mitigate potential risks in the PRC financial markets, the CBIRC has promulgated a series of rules and regulations enhancing supervision and adding restrictions on various business operations of banks, including entrusted loans and cooperation between banks and trust companies. These regulations encourage banking institutions and other financial institutions to improve their risk management systems, enhance supervision on business operations and adopt more stringent corporate governance measures. The CBIRC's visions to promote financing services in the real economy and optimize the asset quality of the financial system in China. For details of the relevant regulations, see "Industry Overview – Development Trend and Business Drivers" and "Supervision and Regulation".

Many of the policies, laws and regulations governing the banking industry or the interpretation thereof may change in the future, and we may not be able to adapt to such changes on a timely basis or at all. For example, although PRC regulatory authorities do not prohibit commercial banks' joint-lending business through cooperation with third-party internet platforms, we cannot assure you that future changes in regulatory policies will not restrict commercial banks in China, including us, from continuing such businesses. Failure to comply with new policies, laws and regulations may result in fines or restrictions on our business. In addition, implementation of relevant laws and regulations may cause us to incur additional costs or expense in business operation, force us to reduce the size of our businesses affected, divert our resources and management attention from ordinary business or demand us to engage or retain a large number of personnel with the necessary skills or expertise. We may not be able to cope with these challenges in a timely manner, or at reasonable costs. Occurrence of any of such event could materially and adversely affect our business, financial condition and results of operations.

The rapid growth of the banking industry in China may not be sustainable.

The PRC banking industry has experienced rapid growth along with China's economic development. Banks have historically been, and are likely to remain, the principal domestic financing channel for corporates and the primary choice for savings. We expect the banking industry in the PRC to maintain its growth as a result of the continued growth in the PRC economy and increases in household income, among other factors.

Notwithstanding the significant growth in the banking industry in China, it is uncertain whether the banking industry in China can sustain its current rate of growth. A slowdown in the growth of the PRC economy or other unfavorable macroeconomic developments and trends in China and other parts of the world could materially and adversely affect the banking industry in China. We cannot assure you that the banking industry in China is free from systemic risks, given the slowing economy, increasing local government debts, and overcapacity in certain sectors as well as unbalanced development in many regions in China. In the event that we cannot adapt to such changes, our business, financial condition and results of operations could be materially and adversely affected.

We are subject to credit risks associated with interbank business.

As of December 31, 2017, 2018 and 2019, our deposits with banks and other financial institutions amounted to RMB8,722.8 million, RMB25,923.1 million and RMB14,051.6 million, respectively, representing 0.9%, 2.5% and 1.3%, respectively, of our total assets. We are exposed to credit risks in our interbank business as a result of default by counterparties, being banks and other financial institutions, which may be attributable to a broad range of factors beyond our control, including, without limitation, deterioration of general economic or social conditions, liquidity crisis in the interbank market, or credit deterioration, operational failure or bankruptcy of the relevant counterparties.

In addition, the financial soundness of commercial banks may be closely interrelated as a result of credit, trading, clearing or other relationships between the institutions. As a result, negative publicity and public concerns over the liquidity of a commercial bank in China could adversely affect the banking industry and increase the perceived default risks associated with commercial banks. A rise in actual or perceived default risk in the interbank markets could have an adverse effect on our interbank and overall business.

In May 2019, the PBoC and the CBIRC took over control of Baoshang Bank Co., Ltd. due to severe credit risk concerns over its operations. As of December 31, 2019, we placed RMB157.7 million of interbank deposits with Baoshang Bank Co., Ltd., representing 1.1% of our deposits with banks and other financial institutions. We cannot assure you that other commercial banks in China with whom we have interbank deposits will not experience credit deterioration or other material credit risk incidents. A liquidity crisis in the PRC interbank market, although unlikely at the moment, may adversely affect our business, financial condition and results of operation.

Although we strive to improve our interbank credit control mechanism, we cannot assure you that our internal policies and procedures are effective and sufficient to detect and protect us from all potential defaults by our counterparties. See "Risk Management – Credit Risk Management – Credit Risk Management for Our Financial Market Business – Credit Risk Management for Interbank Market Transactions".

Changes in the PRC interbank market liquidity and volatility in interest rates could significantly increase our borrowing costs and materially and adversely affect our liquidity as well as our financial condition.

In order to meet our liquidity needs, we, among other things, borrow short-term funds on the interbank market from time to time. As of December 31, 2019, our financial assets sold under repurchase agreements, deposits from banks and other financial institutions and placements from banks and other financial institutions accounted for 11.9% of our total liabilities. Any significant changes in the liquidity and interest rate in the PRC interbank market could have an impact on our financing costs. A market rate system based on SHIBOR has been developed for the PRC interbank market. However, due to the relatively short history of the PRC interbank market, there may be significant volatility in market interest rates. We cannot assure you that SHIBOR interest rates will not experience irregular fluctuations or will return to the normal range in the short term after irregular fluctuations in such rates in the future. SHIBOR reflects changes in the interest rates, which may materially affect our cost of borrowing of short-term funds in the interbank market. Any significant volatility in interest rates on the interbank market may have a material and adverse effect on our cost of borrowing short-term funds and our liquidity. For further discussion on risks associated with interbank business, see the section headed "Risks Relating to Our Business – We manage our liquidity partly through short-term borrowing in the interbank market. Our borrowing costs may increase as a result of the fluctuation in interest rates on the interbank market, which may materially and adversely affect our liquidity, financial condition and results of operations".

In addition, severe volatility in market interest rates may also have a significant impact on the value of our assets. For example, a significant increase in market interest rates may lead to a significant decrease in the fair value of our fixed income debt securities, which will have a material and adverse effect on our financial condition and results of operations.

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

Although national credit information databases developed by PBoC have been put into use, national credit information databases in China may not be able to provide complete credit information on certain credit applicants. When conducting background investigation on a borrower, we also rely on other publicly available information and our internal resources, which may not be effective in assessing the credit risk associated with a particular customer. As a result, our ability to effectively manage our credit risk may be limited, which could materially and adversely affect our business, financial condition and results of operations.

We may be subject to more stringent regulatory requirements in the future, and our Shareholders, including holders of our H Shares, may be subject to voting restrictions due to their pledge of our Shares.

According to the Notice of China Banking Regulatory Commission on Strengthening the Management of Equity Pledge of Commercial Banks (《中國銀監會關於加強商業銀行股權質押管理的通知》) (the "**Notice**") issued by the CBRC in November 2013, commercial banks are required to stipulate in their articles of association that, for those shareholders that have pledged 50% or more of their equity interests in the bank, their voting rights at general meetings and the voting rights of directors designated by them at board meetings shall be "subject to restrictions" (the "**Voting Restrictions**"). However, the Notice did not provide clarification or guidance on what restrictions should be imposed or how they should be imposed.

To comply with the Notice, we adopted the Voting Restrictions in our Articles of Association at a shareholders' meeting held on September 5, 2014, which was subsequently approved by the CBRC on January 8, 2015. According to the Notice and our Articles of Association, a Shareholder who pledges his equity interest shall notify the Board of Directors in advance. Meanwhile, if a Shareholder who has a seat on the Board of Directors or Board of Supervisors, or directly, indirectly or jointly holds or controls more than 2% of the share capital or voting rights in the Bank, pledges his equity interests in the Bank, he shall make a filing to the Board of Directors prior to the pledge. For details, see "Supervision and Regulation – Ownership and Restrictions of Shareholders – Restrictions on Shareholders". The PRC authority may issue more stringent rules and regulations from time to time to set restrictions or prohibitions against share pledges made by shareholders who fail to provide the relevant notice or complete the relevant filing prior to the share pledge. In addition, we cannot assure you that we will not be required by regulatory authorities to impose the Voting Restrictions on our Shareholders, including holders of our H Shares, in a manner deemed appropriate by such regulatory authorities which, in extreme cases, may involve suspension of the relevant Shareholders' voting rights.

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

Investments in commercial banks in China are subject to a number of restrictions. For example, prior approval from the regulatory authorities for the PRC banking industry is required for any person or entity to hold 5% or more of the total capital or total shares of a commercial bank in China, unless otherwise required by the approval authorities. If a shareholder of a commercial bank in China increases its shareholding above the 5% threshold without obtaining prior approval from the regulatory authorities for the PRC banking industry, such shareholder may be subject to sanctions by the regulatory authorities for the PRC banking industry, which includes correction of such misconduct, confiscation of illegal gains or fines. In addition, under the PRC Company Law, we may not extend any loans that use our Shares as pledges. Furthermore, pursuant to the Corporate Governance Guidelines and our Articles of Association, a Shareholder must notify our Board of Directors before pledging our Shares as collateral for itself or others. In addition, Shareholders who have outstanding loans from us exceeding the net book value of our Shares derived from the audited consolidated financial statements held by them at the end of the previous financial year are not permitted to pledge our Shares. Our Shareholders (especially the substantial shareholders) and our Directors designated by them are restricted from voting in Shareholders' general meetings and Board meetings, respectively, if such Shareholders fail to repay outstanding borrowings when due. For the discussion in this risk factor, "substantial shareholder" refers to (i) shareholders who hold or control over 5% shares, equity or voting rights of such bank; or (ii) shareholders who have material influence on the relevant bank's operation and management, even if they do not meet the shareholding requirement set out in the clause above. In determining whether a shareholder has material influence on the relevant bank's operation and management, this regulation takes into account various factors, including their capacity of nominating directors, supervisors or members of senior management, influencing bank's business decision on management or financial conditions through agreements or other means, and other factors that the CBIRC or its local offices deem appropriate.

According to relevant requirements of the Interim Measures for the Equity Management of Commercial Banks (《商業銀行股權管理暫行辦法》) promulgated by the CBRC on January 5, 2018, no shareholder of a commercial bank may authorize any other person to or accept any other person's authorization to hold equity of a commercial bank; in the event that the shareholders of a commercial bank intend to transfer their equity therein, the shareholders shall inform the transferees to comply with the laws and regulations as well as requirements promulgated by the CBRC; the same investor and its related parties and parties acting in concert shall comply with the shareholding percentage requirement of the CBRC, if they decide to invest in a commercial bank; if the CBRC or its local offices took steps to control risks and take-overs due to material risk issues or material non-compliance of the commercial bank, shareholders shall actively cooperate with the CBRC or its local offices to conduct risks controlling and other relevant actions.

In particular, this regulation sets out that investor and its related parties and parties acting in concert shall apply for, and obtain the prior approval from, the CBRC or its local offices with authority, if, individually or collectively, (i) they intend to hold over 5% of the total equity interests of a commercial bank of China for the first time, and (ii) each time the equity interest they hold would increase by another 5% of the total equity interest of the relevant bank. Such administrative approval in relation to acquisition of equity interest of commercial banks through stock market in China or overseas is only valid for six months. Furthermore, according to this regulation, financial products can invest in shares of listed commercial banks, subject to the restriction that the total invested shares controlled by any individual investor, issuer, manager or their respective actual controllers, affiliates or parties acting in concert shall not exceed 5% of the relevant commercial bank's shares. The substantial shareholder of a commercial bank shall not hold shares or equity of such commercial bank though financial products they issue, manage or control through any means. Changes in shareholding restrictions imposed by PRC Government or as provided for in our Articles of Association in the future 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.

For risk management purposes, we divide our loans into ten levels in addition to the CBIRC's five-category loan classification standard, namely "normal" (level 1 to 3), "special mention" (level 1 to 3), "substandard" (level 1 & 2), "doubtful", and "loss", and designate loans classified as "substandard (level 1 & 2)", "doubtful" and "loss" as non-performing loans. In making relevant assessments, we determine and recognize provisions by using the concept of impairment under IAS 39 prior to January 1, 2018, since when, we started to apply IFRS 9 in determining provisions. We are required to apply a new expected credit loss impairment model under IFRS 9, which, as compared to the incurred loss model in IAS 39, uses more forward-looking information instead of objective evidence of impairment as a precondition for recognizing credit losses. Although our loan classification criteria is in compliance with the guidelines set forth by the CBIRC, certain aspects of our loan classification criteria may not be the same as those adopted by other PRC commercial banks. For details on our loan classification criteria, see "Assets and Liabilities – Assets – Asset Quality of Our Loan Portfolio – Loan Classification Criteria". As a result, our loan classification as well as our impairment allowance, as determined under our loan classification and provisioning policies, may differ from those that could be reported if we were incorporated in those countries or regions.

The applicable PRC regulations impose certain limitations on the products in which we may invest, and our ability to seek higher investment returns and diversify our investment portfolio is limited.

Investment by commercial banks in China is subject to a number of restrictions. The investment assets of PRC commercial banks traditionally consist primarily of debt securities issued by the MOF, PBoC, PRC policy banks, PRC commercial banks and corporate entities. In recent years, as a result of changes to the regulatory regimes and market conditions, additional investment products have been introduced to the market, such as trust plans, asset management plans, wealth management products issued by financial institutions, investment funds, asset-backed securities, and beneficiary certificates. However, investments in equity products by commercial banks are still subject to strict restrictions. Restrictions on the ability to diversify the investment portfolio of commercial banks in China, including us, may limit our ability to seek optimal returns.

RISKS RELATING TO THE PRC

We are subject to risks arising from China's economic, political, social conditions, government policies, as well as the global macroeconomic environment.

The vast majority of our businesses, assets, operations and revenues are located in or derived from our operations in the PRC and, as a result, our business, financial condition and results of operations are subject, to a significant degree, to the economic, political, social and regulatory environment in the PRC. PRC Government regulates the economy and related industries by imposing industrial policies and regulating the PRC's macro-economy through fiscal and monetary policies.

The PRC economy has undergone a transition from a planned economy to a market-oriented economy. PRC Government has taken various actions to introduce free market forces, to reduce state ownership of productive assets and to promote the establishment of sound corporate governance in business entities. However, a substantial portion of productive assets in the PRC are still owned by PRC Government. In addition, PRC Government continues to play a significant role in regulating the economy and related industries by issuing industrial policies. PRC Government still retains significant control over the PRC's economic growth through the allocation of resources, its monetary policy and preferential treatment of particular industries or enterprises.

Our performance has been and will continue to be affected by China's economy, which in turn is influenced by the global economy. The uncertainties relating to the global economy as well as the political environment in various regions of the world will continue to affect China's economic growth. China's real GDP growth was 6.9% and 6.7% in 2017, and 2018, respectively.

We are unable to predict all the risks and uncertainties that we face as a result of the current economic, political, social and regulatory development, and many of these risks are beyond our control. All such factors may adversely affect our business, financial condition and results of operations.

The legal protections available to you under relevant laws and regulations in the PRC legal system may be limited.

We are incorporated under the laws of the PRC. The PRC legal system is based on written statutes. Prior court decisions may be adduced for reference but have limited precedential value. Since the late 1970s, PRC Government has promulgated laws and regulations dealing with various economic matters in line with its economic development, such as the issuance and trading of securities, shareholders' rights, foreign investment, corporate organization and governance, commerce, taxation and trade, with a view to developing a comprehensive system of commercial law. However, as many of these laws and regulations are relatively new and the PRC banking industry continues to evolve, the effect of these laws and regulations on the rights and obligations of the parties involved may involve uncertainty. As a result, the legal protections available to you under the PRC legal system may be limited.

Our Articles of Association provide that, apart from disputes over the recognition of Shareholders or the register of Shareholders, disputes between holders of H Shares and us, our Directors, Supervisors or senior management or other Shareholders arising out of our Articles of Association or any rights or obligations conferred or imposed thereupon by the PRC Company Law and related laws and administrative regulations concerning our affairs are to be resolved through arbitration by the China International Economic and Trade Arbitration Commission ("**CIETAC**") or the Hong Kong International Arbitration Center. Awards made by the PRC arbitral authorities (including CIETAC) recognized under the Arbitration Ordinance of Hong Kong can be enforced in Hong Kong, subject to provisions of the Arbitration Ordinance of Hong Kong. Hong Kong arbitration awards are also enforceable in the PRC, subject to the satisfaction of certain PRC legal requirements. However, we cannot assure you that any action brought in the PRC by holders of H Shares to enforce a Hong Kong arbitral award made in favor of holders of H shares would succeed.

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

We are a joint-stock company incorporated under the laws of the PRC with limited liability, and substantially all of our assets are located in the PRC. In addition, a majority of our Directors, Supervisors, and all of our senior management reside within the PRC. As a result, it may not be possible to effect service of process upon us or most of our Directors, Supervisors and senior management within the United States or elsewhere outside the PRC, including with respect to matters arising under the U.S. federal securities laws or applicable state securities laws. Furthermore, the PRC does not have treaties providing for the reciprocal enforcement of judgments of courts with the United States, the United Kingdom, Japan and many other countries. In addition, Hong Kong has no arrangement for the reciprocal enforcement of judgments with the United States. As a result, recognition and enforcement in the PRC or Hong Kong of judgments of a court obtained in the United States and any of the other jurisdictions mentioned above may be difficult or impossible.

On July 14, 2006, the Supreme People's Court of the PRC and the government of the Hong Kong Special Administrative Region entered into the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by Courts of the Mainland and the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements between Parties Concerned (《關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排》) (the "**2006 Arrangement**"). Under the 2006 Arrangement, where any designated PRC court or any designated Hong Kong court has made an enforceable final judgment requiring payment of money in a civil or commercial case pursuant to a choice of court agreement in writing, any party concerned may apply to the relevant PRC court or Hong Kong court for recognition and enforcement of the judgment. Under the 2006 Arrangement, a choice of court agreement in writing refers to an agreement in writing entered into between parties after the effective date of the 2006 Arrangement in which a Hong Kong court or a PRC court is expressly selected as the court having sole jurisdiction for the dispute. Therefore, it is not possible to enforce a judgment rendered by a Hong Kong court in the PRC if the parties in dispute have not agreed to enter into a choice of court agreement in writing.

On January 18, 2019, the Supreme Court of the People's Republic of China and the Department of Justice under the Government of the Hong Kong Special Administrative Region signed the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region (the "**2019 Arrangement**"). The 2019 Arrangement, for the reciprocal recognition and enforcement of judgments in civil and commercial matters between the courts in mainland China and those in the Hong Kong Special Administrative Region, stipulates the scope and particulars of judgments, the procedures and ways of the application for recognition or enforcement, the review of the jurisdiction of the court that issued the original judgment, the circumstances where the recognition and enforcement of a judgment shall be refused, and the approaches towards remedies, among others. After a judicial interpretation has been promulgated by the Supreme People's Court and the relevant procedures have been completed by the Hong Kong Special Administrative Region, both sides shall announce a date on which the 2019 Arrangement shall come into effect. The 2019 Arrangement shall apply to any judgment made on or after its effective date by the courts of both sides. The 2006 Arrangement shall be terminated on the same day when the 2019 Arrangement comes into effect. If a "written choice of court agreement" has been signed by parties according to the 2006 Arrangement prior to the effective date of the 2019 Arrangement, the 2006 Arrangement shall still apply. Although the 2019 Arrangement has been signed, its effective date has yet to be announced. Therefore, there are still uncertainties about the outcomes and effectiveness of enforcement or recognition of judgments under the 2019 Arrangement.

Withholding tax may be imposed on payments on the H Shares.

The United States has enacted rules, commonly referred to as "FATCA," under which a foreign financial institution (an "**FFI**") may be required to withhold on "foreign passthru payments" it makes to (i) other FFIs that are not exempt from, or in actual or deemed compliance with, FATCA, or (ii) account holders of such FFIs that fail to meet certain certification, reporting, or related requirements, after the later of January 1, 2019 or the date six months after the final regulations defining the term "foreign passthru payments" are published in the U.S. Federal Register. A number of jurisdictions have entered into, or have agreed in substance to enter into, intergovernmental agreements with the United States to implement under the domestic laws of such jurisdiction an alternative information reporting and exchange regime applicable to FFIs (or FFI branches) operating in such jurisdiction ("**IGAs**"). Under the provisions of IGAs currently in effect, an FFI (or branch) operating in an IGA jurisdiction is generally not required to withhold from payments that it makes if the FFI complies with the reporting requirements of the IGA.

The United States and Hong Kong have entered into an IGA, and the United States and the PRC have agreed in substance to enter into an IGA that the United States treats as in force pending finalization of a formal IGA. We intend to comply with FATCA and any applicable IGA, including the information reporting requirements related to our accountholders and investors. If the United States and the PRC ultimately fail to reach a final agreement on the terms of an IGA, then the FATCA reporting and withholding regime applicable to FFIs in non-IGA jurisdictions would apply to us.

Certain aspects of the application of the FATCA provisions and IGAs to financial instruments such as the H Shares, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on financial instruments such as the H Shares, are uncertain and may be subject to change. In particular, the term "foreign passthru payment" is not defined under FATCA and it is therefore not clear whether or to what extent payments on the H Shares would be considered foreign passthru payments.

It is not yet clear how the Hong Kong IGA and the PRC IGA will address foreign passthru payments. Prospective investors in the H Shares should consult their tax advisors regarding the potential impact of FATCA, the PRC IGA, the Hong Kong IGA and any non-U.S. legislation implementing FATCA, on their investment in the Shares.

We are subject to PRC laws and regulations on currency conversion, and the fluctuation of the Renminbi exchange rate may materially and adversely affect our ability to pay dividends to holders of H Shares.

Under China's existing laws and regulations on foreign exchange, following the completion of the Global Offering, we will be able to make dividend payments in foreign currencies by complying with certain procedural requirements and without prior approval from SAFE. However, in the future, PRC Government may, at its discretion, take measures to restrict access to foreign currencies for capital account and current account transactions under certain circumstances, which would limit our ability to exchange Renminbi for other currencies. Therefore, we may not be able to pay dividends in foreign currencies to our H Shares holders.

From time to time, the value of the Renminbi against the U.S. dollar and other currencies fluctuates, and is affected by a number of factors, such as changes in China's and the international community's political and economic conditions and the fiscal and foreign exchange policies prescribed by PRC Government. On July 21, 2005, PRC Government changed its decade-old policy of pegging the value of the Renminbi to the U.S. dollar so that the Renminbi is now permitted to fluctuate in a regulated band that is based on reference to a basket of currencies determined by the PBoC. PRC Government further reformed the Renminbi exchange rate regime in the following years. On August 11, 2015, PBoC announced its intention to improve the central parity of the Renminbi against the U.S. dollar by authorizing market-makers to provide parity to the China Foreign Exchange Trading Center with reference to the interbank foreign exchange market closing rate of the previous day, the supply and demand for foreign exchange as well as changes in major international currency exchange rates. On the same day, the central parity of the Renminbi against the U.S. dollar depreciated nearly 1.9% as compared to August 10, 2015, and further depreciated nearly 1.6% on August 12, 2015 as compared to August 11, 2015. With the development of foreign exchange markets and progress towards interest rate liberalization and Renminbi internationalization, PRC Government may in the future announce further reforms to the exchange rate regime.

As all of our revenue is denominated in Renminbi, and the proceeds from the Global Offering will be received in Hong Kong dollars, any appreciation of the Renminbi against the U.S. dollar, the Hong Kong dollar or any other currencies may result in the decrease in the value of our foreign currency denominated assets and our proceeds from the Global Offering. Conversely, any depreciation of the Renminbi may adversely affect the value of, and any dividends payable on, our H Shares in foreign currency. In addition, there are limited instruments available for us to reduce our foreign exchange exposure at reasonable costs. We cannot assure you that we will be able to minimize or reduce our foreign currency risk exposure relating to our foreign currency denominated assets. Furthermore, we are also currently required to obtain the approval from SAFE before converting significant amounts of foreign currencies into Renminbi. All of these factors could adversely affect our financial condition and results of operations.

Holders of H Shares may be subject to PRC taxation on dividends paid by us and gains realized through their disposal of our H Shares.

Under applicable PRC tax laws, regulations, and statutory documents, non-resident individuals and enterprises are subject to different tax obligations with respect to dividends received from us or gains realized upon the sale or other disposition of our H Shares. Non-PRC resident individuals are generally subject to PRC individual income tax under the Individual Income Tax Law of the PRC (《中華人民共和國個人所得稅法》) at a rate of 20% on their dividends and gains sourced from the PRC unless specifically exempted by the finance authority of the State Council or reduced or eliminated by an applicable income tax treaty or arrangement. We are required to withhold and settle such tax on behalf of the non-resident individuals from dividend payments made to them. According to relevant applicable regulations, domestic non-foreign-invested enterprises issuing shares in Hong Kong may, when distributing dividends, withhold individual income tax at the rate of 10% in general, unless a different rate applies under an applicable tax treaty or arrangement or where the non-resident individuals reside in a jurisdiction that does not have a tax treaty or arrangement with the PRC. Hong Kong investors are not required to pay individual income tax in the PRC on gains realized from public trading of H shares purchased on the same exchange pursuant to the

Fourth Protocol of the Arrangement between the Mainland and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion (《<內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排>第四議定書》) signed on April 1, 2015, effective on December 29, 2015. However, as of the Latest Practicable Date, there remains uncertainty in the interpretation and application of relevant current Chinese tax laws and regulations as to whether gains realized upon disposal of H Shares by non-resident individuals in other jurisdictions are subject to PRC individual income tax if such tax is not exempted pursuant to a tax treaty/arrangement with the PRC.

Non-resident enterprises that do not have establishments or places in the PRC, or have establishments or places in the PRC but their income is not effectively connected to such establishments or places are subject to PRC enterprise income tax at the rate of 10% on dividends received from PRC resident enterprises and gains realized upon disposal of equity interests in PRC resident enterprises 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 regulations, which may be further reduced or exempted under an applicable income tax treaty or arrangement between the PRC and the jurisdiction where the non-PRC resident enterprise resides. As of the Latest Practicable Date, there are no explicit rules about how to levy tax on gains realized by non-resident enterprise holders of H Shares through the sale or transfer by other means of H Shares.

There remains uncertainty as to how the PRC tax laws, regulations and statutory documents are interpreted and implemented by the PRC tax authorities. PRC tax laws, regulations and statutory documents may also change. If there are any unfavorable changes to applicable tax laws or interpretations or application with respect to such laws, the value of your investment in our H Shares may be materially affected. Please see "Appendix VI – Taxation and Foreign Exchange".

Payment of dividends is subject to restrictions under PRC laws.

Under PRC law and our Articles of Association, dividends may be paid only out of distributable profits. Our profit distribution plan is subject to approval by a Shareholders' general meeting. In addition to the financial statements prepared in accordance with PRC accounting standards and regulations, we will also prepare our financial statements in accordance with IFRS. Our profit after tax available for distribution for a particular financial year shall be the lower of profit after tax as shown in the financial statements prepared under either of the two accounting standards mentioned above. We are prohibited from paying dividends for a given year out of our profit after tax to our Shareholders in proportion to their respective shareholdings before making up any accumulated losses of previous years and making appropriations to the statutory surplus reserve and general reserve as well as discretionary reserve as approved by our Shareholders' meeting. As a result, we may not have distributable profits to make dividend distributions to our Shareholders, including in respect to periods where we have recorded an accounting profit. Any distributable profits not distributed in a given year may be retained and remain available for distribution in subsequent years. In addition, the CBIRC has the right to restrict dividend payments and other distributions by any bank that has failed to meet statutory capital adequacy ratio requirements or that has violated certain other PRC banking regulations. For more details, see "Supervision and Regulation – Supervision over Capital Adequacy".

Natural disasters, epidemics, acts of war or terrorism or other factors beyond our control may have a material adverse effect on our business operations, 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 where 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, potential wars or terrorist attacks. Serious natural disasters may result in a tremendous loss of life, injury and destruction of assets and may disrupt our business and operations. Severe communicable disease outbreaks, including the recent outbreak of COVID-19 across China and around the world, could lead to widespread health crises which may materially and adversely affect the financial markets and the national economy. Acts of war or terrorism may also injure our employees, cause loss of life, or disrupt our business operations.

We cannot give assurance to the accuracy or comparability of facts, forecasts and statistics contained in this prospectus regarding the PRC, the PRC economy or the PRC and global banking industries.

Facts, forecasts and statistics in this prospectus related 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, CBIRC, NBS, 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 or any other parties involved in the Global Offering and may not be consistent with information available from other sources, or may not be complete or up to date. We have taken reasonable care in reproducing or extracting 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. Therefore, you should not unduly rely on such information.

RISKS RELATING TO THE GLOBAL OFFERING

No prior public market for our H Shares exists, an active trading market for our H Shares may not develop and their trading prices may fluctuate significantly.

Prior to the Global Offering, there was no public market for our H Shares. There can be no assurance that an active trading market for our H Shares will develop and sustain following the Global Offering. In addition, the initial Offer Price of our H Shares is expected to be fixed by agreement between the Global Coordinator(s) (on behalf of the Underwriters) and us and may not be indicative of the market price of our H Shares following the completion of the Global Offering. Moreover, the trading volume and the price of our H Shares may be affected by various factors, including the research reports yet to be released about us prepared by securities and industries analysts or a reduction of their ratings on our H Shares. If an active public market for our H Shares does not develop after the Global Offering, the market price and liquidity of our H Shares could be materially and adversely affected.

The trading volume and market price of our H Shares may be volatile, which could result in substantial losses for investors who purchase our H Shares in the Global Offering.

The price and trading volume of our H Shares may be highly volatile. Factors, some of which are beyond our control, such as variations in our revenue, earnings and cash flow, changes in our pricing policy as a result of competition, the emergence of new technologies, strategic alliances or acquisitions, the addition or departure of key personnel, changes in ratings by financial analysts and credit rating agencies, litigation or fluctuations in the market prices and demand for our products or services could cause large and sudden changes in the volume and price at which our H Shares will trade. In addition, the Hong Kong Stock Exchange and other securities markets have, from time to time, experienced significant price and volume fluctuations that are not related to the operating performance of any particular company. These fluctuations may also materially and adversely affect the market price of our H Shares.

Future sales or perceived sales of a substantial number of our Shares in public markets could adversely affect 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 a substantial number of our Shares or other securities relating to our Shares in the public market, or the issuance of new shares or other securities, or the perception that such sales or issuances may occur. Future sales, or anticipated sales, of substantial amounts of our securities, including any future offerings, could also materially and adversely affect our ability to raise capital at a time and on terms favorable to us. In addition, our shareholders may experience dilution in their holdings to the extent we will issue additional securities in future offerings. New equity or equity-linked securities issued by us may also confer rights and privileges that take priority over those conferred by the H Shares.

The conversion of a significant number of Domestic Shares into H Shares may seriously harm the prevailing market price of our H Shares.

Our Domestic Shares can be converted into H Shares, if the conversion and trading of H Shares so converted shall have been duly completed pursuant to requisite internal approval processes and approval from the relevant PRC regulatory authorities, including the CSRC. In addition, such conversion and trading must, in all aspects, comply with the regulations promulgated by the securities regulatory authority under the State Council and the regulations, requirements and procedures 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. If a significant number of Domestic Shares are converted into H Shares, the supply of H Shares may be substantially increased, which could materially and adversely affect the prevailing market price of our H Shares.

Dividends distributed in the past may not be indicative of the amount of dividends that we may distribute in the future.

The amount of dividends we have paid historically is not indicative of our future performance or the amount of dividends that may be paid in the future. Any future declaration of dividends will be proposed by our Board, and the amount of any dividends will depend on various factors, including our financial condition, results of operations, prospects, capital adequacy levels and other factors that our Board may determine to be important. For details of our distributed dividends during the Track Record Period, see "Financial Information – Dividends". We cannot guarantee if and when we will pay dividends in the future.

If the Offer Price of our H Shares is higher than our net tangible asset value per Share, you will experience immediate dilution upon the purchase of these Shares.

The initial public offering price of our H Shares may be higher than the net tangible asset value per Share of the outstanding Shares of our then-existing Shareholders as of December 31, 2019. Therefore, purchasers of our H Shares in the Global Offering may experience an immediate dilution in the pro forma adjusted net tangible assets per Share, and our existing Shareholders may receive an increase in the pro forma adjusted net tangible assets per Share of their Shares. In addition, holders of our H Shares may experience a further dilution of their shareholding percentage if the Over-allotment Option is exercised or if we obtain additional capital in the future through equity offerings.

Since there may be a gap of several Business Days between pricing and trading of our H Shares, holders of our H Shares are subject to the risk that the price of our H Shares could fall during the period before trading of our H Shares begins.

The Offer Price of our H Shares is expected to be determined on the Price Determination Date. However, our H Shares will not commence trading on the Hong Kong Stock Exchange until they are delivered, which is expected to be several 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 development that could occur between the time of sale and the time trading begins.

You should only place reliance on information released by us including this prospectus, the Application Forms and other formal announcements made with respect to our Global Offering, and not place any reliance on any information contained in press articles or other media when making your investment decision.

We have not authorized 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 purported about us contained in any press articles or other media have not been authorized 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 in this prospectus, the Application Forms and other formal announcements made with respect to our 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 Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Listing Rules for the purpose of giving information to the public with regard to us. Our Directors, having made all reasonable enquiries confirm that, to the best of their knowledge and belief, the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make this prospectus or any statement herein misleading.

APPROVALS OF CBIRC AND CSRC

Our Bank obtained approval letters from CBIRC on January 23, 2020 and February 5, 2020, and from CSRC on June 2, 2020, for the submission of the application to list our H Shares on the Hong Kong Stock Exchange and for the Global Offering. In granting such approval, neither CBIRC nor CSRC shall accept any responsibility for our financial soundness, nor for the accuracy of any of the statements made or opinions expressed in this prospectus or on the Application Forms.

UNDERWRITING AND INFORMATION ON THE GLOBAL OFFERING

This prospectus is published solely in connection with the Hong Kong Public Offering. For applications under the Hong Kong Public Offering, this prospectus and the Application Forms contain the terms and conditions of the Hong Kong Public Offering. The Global Offering comprises the Hong Kong Public Offering of 144,000,000 H Shares initially offered and the International Offering of 2,736,000,000 H Shares initially offered (subject, in each case, to reallocation on the basis under "Structure of the Global Offering" in this prospectus).

The listing of our H Shares on the Hong Kong Stock Exchange is sponsored by the Joint Sponsors. Pursuant to the Hong Kong Underwriting Agreement, the Hong Kong Public Offering is underwritten by the Hong Kong Underwriters on a conditional basis, with one of the conditions being that the Offer Price is agreed between the Joint Representatives (on behalf of the Underwriters) and us. The International Underwriting Agreement is expected to be entered into on or about Thursday, July 9, 2020, subject to agreement on the Offer Price between the Joint Representatives (on behalf of the Underwriters) and us. Further details of the Underwriters and the underwriting arrangements are set out in "Underwriting" in this prospectus.

The H Shares are offered solely on the basis of the information contained and representations made in this prospectus and on the Application Forms and on the terms and subject to the conditions set out herein and therein. No person is authorized to give any information in connection with the Global Offering or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorized by the Bank, the Joint Sponsors, the Joint Representatives, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors, agents, employees or advisers or any other party involved in 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 this prospectus is correct as of any subsequent time.

DETERMINATION OF THE OFFER PRICE

The H Shares are being offered at the Offer Price which will be determined by the Joint Representatives (on behalf of the Underwriters) and us on or around Thursday, July 9, 2020 or such later date as may be agreed upon between the Joint Representatives (on behalf of the Underwriters) and us, and in any event no later than Sunday, July 12, 2020. If the Joint Representatives (on behalf of the Underwriters) and the Bank are unable to reach an agreement on the Offer Price on such date, the Global Offering will not proceed.

RESTRICTIONS ON OFFER AND SALE OF THE H SHARES

No action has been taken to permit a public offering of the H Shares in any jurisdiction other than Hong Kong, or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation for subscription in any jurisdiction or in any circumstances in which such an offer or invitation for subscription is not authorized or to any person to whom it is unlawful to make such an offer or invitation for subscription. The distribution of this prospectus and the offering and sales of the H Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom. Each person acquiring the H Shares under the Hong Kong Public Offering will be required to confirm, or be deemed by his acquisition of the H Shares to confirm, that he is aware of the restrictions on offers and sales of the H Shares in this prospectus. In particular, the H Shares have not been publicly offered, directly or indirectly, in the PRC or the United States.

APPLICATION FOR LISTING ON THE HONG KONG STOCK EXCHANGE

We have applied to the Listing Committee of the Hong Kong Stock Exchange for the granting of listing of, and permission to deal in, our H Shares, including (i) any H Shares which may be issued pursuant to the Global Offering and upon the exercise of the Over-allotment Option; and (ii) any H Shares converted from unlisted Foreign Shares held by SCB. Our Domestic Shares may be converted to H Shares after obtaining the approval of the CSRC or the authorized approval authorities of the State Council, details of which are set out in "Share Capital – Conversion of Domestic Shares into H Shares" in this prospectus.

Dealings in the H Shares on the Hong Kong Stock Exchange are expected to commence at 9:00 a.m. on Thursday, July 16, 2020. Except as otherwise disclosed in this prospectus, no part of our share or loan capital is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought in the near future.

REGISTRATION OF SUBSCRIPTION, PURCHASE AND TRANSFER OF H SHARES

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

(a) agrees with us and each of the Shareholders, and we agree with each Shareholder, to observe and comply with the PRC Company Law, the Special Regulations and our Articles of Association;

(b) agrees with us, each of our Shareholders, Directors, Supervisors, managers and officers, and we, acting for ourselves and for each of our Directors, Supervisors, managers and officers agree with each Shareholder, to refer all differences and claims arising from our Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant laws and administrative regulations concerning our affairs to arbitration in accordance with our Articles of Association, and any reference to arbitration shall be deemed to authorize the arbitration tribunal to conduct hearings in open session and to publish its award, which shall be final and conclusive;

(c) agrees with us and each of our Shareholders that our H Shares are freely transferable by the holders of our H Shares; and

(d) authorizes 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.

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors in the Global Offering are recommended to consult their professional advisers as to the taxation implications of subscribing for, purchasing, holding or disposal of, and/or dealing in the H Shares or exercising rights attached to them. It is emphasized that none of us, the Joint Sponsors, the Joint Representatives, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors, officers, employees, agents or representatives or any other person or party involved in the Global Offering accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription, purchase, holding, disposition of, or dealing in, the H Shares or exercising any rights attached to them.

OVER-ALLOTMENT AND STABILIZATION

Details of the arrangement relating to the Over-allotment Option and stabilization are set out under “Underwriting” in this prospectus.

PROCEDURES FOR APPLICATION FOR THE H SHARES

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

STRUCTURE OF THE GLOBAL OFFERING

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

H SHARE REGISTER AND STAMP DUTY

All the H Shares issued pursuant to applications made in the Hong Kong Public Offering and the International Offering will be registered on the H Share register of members of our Bank to be maintained in Hong Kong. We will maintain the principal register of members at our domicile in the PRC.

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

Unless otherwise determined by the Bank, dividends payable in Hong Kong dollars in respect of our H Shares will be paid to the Shareholders listed on the H Share register of members of our Bank in Hong Kong, by ordinary post, at the Shareholders' risk, to the registered address of each Shareholder of the Bank.

H SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of the listing of, and permission to deal in, the H Shares on the Hong Kong Stock Exchange and compliance with the stock admission requirements of HKSCC, our 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 our H Shares on the Hong Kong Stock Exchange or on 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 advisor for details of the settlement arrangements as such arrangements may affect their rights and interests. All necessary arrangements have been made to enable the H Shares to be admitted into CCASS.

EXCHANGE RATE CONVERSION

Solely for your convenience, this prospectus contains translations among certain amounts denominated in Renminbi, Hong Kong dollars and U.S. dollars. No representation is made and none should be construed as being made that the amounts denominated in one currency could actually be converted into the amounts denominated in another currency at the rates indicated or at all on such date or any other date. Unless indicated otherwise, (i) the translations between Renminbi and Hong Kong dollars were made at the rate of RMB0.9150 to HK$1.00, the median rate set by PBoC for foreign exchange transactions prevailing on June 19, 2020, (ii) the translations between Renminbi and U.S. dollars were made at the rate of RMB7.0913 to US$1.00, the median rate set by PBoC for foreign exchange transactions prevailing on June 19, 2020, and (iii) the translations between U.S. dollars and Hong Kong dollars were made at the rate of HK$7.7500 to US$1.00, the noon buying rate in effect on June 19, 2020 as set forth in the H.10 weekly statistical release of the Federal Reserve Bank. Further information on exchange rates is set forth in "Appendix VI – Taxation and Foreign Exchange" to this prospectus.

LANGUAGE

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, this prospectus shall prevail. However, the translated English names of the PRC nationals, entities, departments, facilities, certificates, titles, laws, regulations and the like included in this prospectus and for which no official English translation exists are unofficial translations for your reference only. If there is any inconsistency, the Chinese name prevails.

ROUNDING

Certain amounts and percentages figures included in this prospectus have been subject to rounding adjustments, or have been rounded to one or two decimal places. Any discrepancies between totals and sums of amounts listed in any table are due to rounding.

In preparation for the Listing, our Bank has applied for the following waivers from strict compliance with the relevant provisions of the Listing Rules.

WAIVER IN RELATION TO MANAGEMENT PRESENCE IN HONG KONG

Pursuant to Rules 8.12 and 19A.15 of the Listing Rules, our Bank must have sufficient management presence in Hong Kong. This normally means that at least two of the executive Directors must be ordinarily resident in Hong Kong. Our Bank's headquarter and principal business and operations are located, managed and conducted in the PRC. All of our Bank's material assets are situated in the PRC. None of the executive Directors is a Hong Kong permanent resident or is ordinarily based in Hong Kong. As a result, our Bank does not, and will not, in the foreseeable future, have sufficient management presence in Hong Kong as required under Rules 8.12 and 19A.15 of the Listing Rules. Furthermore, it would be impractical and commercially unnecessary for our Bank to appoint additional executive Directors who are ordinarily residents in Hong Kong or to relocate the existing PRC based executive Directors to Hong Kong. Accordingly, our Bank has applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the requirements under Rules 8.12 and 19A.15 of the Listing Rules on the condition of the following arrangements for maintaining regular communication with the Hong Kong Stock Exchange:

(i) our Bank has appointed two authorized representatives pursuant to Rule 3.05 of the Listing Rules, who will act as our Bank's principal channel of communication with the Hong Kong Stock Exchange. The two authorized representatives of our Bank are Mr. Du Gang (杜剛), an executive Director and a vice president of our Bank , who is ordinarily resident in the PRC, and Ms. So Shuk Yi Betty (蘇淑儀) ("**Ms. So**"), one of the joint company secretaries of our Bank, who is ordinarily resident in Hong Kong. Although Mr. Du Gang resides in the PRC, he possesses valid travel documents to visit Hong Kong and is able to renew such travel document when it expires. Accordingly, each of the two authorized representatives of our Bank will be available to meet with the Hong Kong Stock Exchange within a reasonable period upon the request of the Hong Kong Stock Exchange and will be readily contactable by telephone, facsimile and email;

(ii) each of the two authorized representatives of our Bank has means to contact all members of the Board (including the independent non-executive Directors) promptly at all times as and when the Hong Kong Stock Exchange wishes to contact the Directors on any matters. Each Director has provided his/her respective office phone numbers, mobile phone numbers, facsimile numbers and email addresses to the authorized representatives of our Bank and the Hong Kong Stock Exchange;

(iii) the Directors, who are not ordinarily resident in Hong Kong, have confirmed that they possess or can apply for valid travel documents to visit Hong Kong and are able to meet with the Hong Kong Stock Exchange within a reasonable period;

(iv) our Bank has appointed Haitong International Capital Limited as its compliance advisor pursuant to Rule 3A.19 of the Listing Rules to act as an additional channel of communication with the Hong Kong Stock Exchange for a period commencing from the Listing Date and ending on the date on which our Bank complies with Rule 13.46 of the Listing Rules in respect of its financial results for the first full financial year commencing after the Listing Date. The compliance advisor of our Bank will advise our Bank on on-going compliance requirements and other issues arising under the Listing Rules and other applicable laws and regulations in Hong Kong after Listing and have full access at all times to the two authorized representatives of our Bank and the Directors; and

(v) any meeting between the Hong Kong Stock Exchange and the Directors will be arranged through the two authorized representatives of our Bank or the compliance advisor of our Bank or directly with the Directors within a reasonable time frame. Our Bank will inform the Hong Kong Stock Exchange promptly in respect of any changes in the two authorized representatives and its compliance advisor.

WAIVER IN RELATION TO JOINT COMPANY SECRETARIES

Pursuant to Rule 8.17 of the Listing Rules, our Bank must appoint a company secretary who satisfies Rule 3.28 of the Listing Rules. Pursuant to Rule 3.28 of the Listing Rules, our Bank must appoint as its company secretary an individual who, by virtue of his or her academic or professional qualifications or relevant experience, is, in the opinion of the Hong Kong Stock Exchange, capable of discharging the functions of company secretary.

The Hong Kong Stock Exchange considers the following academic or professional qualifications to be acceptable:

(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)); and

(iii) a certified public accountant (as defined in the Professional Accountants Ordinance (Chapter 50 of the Laws of Hong Kong)).

In accessing "relevant experience", the Hong Kong Stock Exchange will consider the followings of the individual:

(i) length of employment with the issuer and other issuers and the roles he or she played;

(ii) familiarity with the Listing Rules and other relevant laws and regulations including the SFO, Companies Ordinance, Companies (Winding Up and Miscellaneous Provisions) Ordinance, and the Takeovers Code;

(iii) relevant training taken and/or to be taken in addition to be the minimum requirement under Rule 3.29 of the Listing Rules; and

(iv) professional qualifications in other jurisdictions.

Our Bank has appointed Mr. Zhao Zhihong and Ms. So as the joint company secretaries. Mr. Zhao Zhihong has been the secretary to the Board of Directors of our Bank since June 2016. He has extensive knowledge about our Bank's business operations and corporate culture and has extensive experience in matters concerning the Board of Directors and our Bank's corporate governance. For more details of Mr. Zhao Zhihong's biography, see "Directors, Supervisors and Senior Management – Senior Management". Although our Bank believes, having regard to Mr. Zhao Zhihong past experience in handling administrative and corporate matters, that he has a thorough understanding of our Bank and the Board of Directors, he does not possess the requisite qualifications as required by Rule 3.28 of the Listing Rules. Therefore, our Bank has appointed Ms. So, who is a Hong Kong resident and possesses the qualifications and relevant experience as stipulated under Rule 3.28 of the Listing Rules, to be a joint company secretary of our Bank. For more details of Ms. So's biography, please see "Directors, Supervisors and Senior Management – Joint Company Secretaries".

Given the important role of the company secretary in the corporate governance of a listed issuer, particularly in assisting the listed issuer as well as its directors in complying with the Listing Rules and other relevant laws and regulations, our Bank has put in place the following arrangements:

(i) Ms. So, one of the joint company secretaries of our Bank who satisfies the requirements under Rule 3.28 of the Listing Rules, will assist Mr. Zhao Zhihong so as to enable him to discharge his duties and responsibilities as a joint company secretary of our Bank. Given Ms. So's relevant experience, she will be able to advise both Mr. Zhao Zhihong and our Bank on the relevant requirements of the Listing Rules as well as other applicable laws and regulations of Hong Kong;

(ii) our Bank undertakes to re-apply to the Hong Kong Stock Exchange in the event that Ms. So ceases to meet the requirements under Rule 3.28 of the Listing Rules or otherwise ceases to serve as a joint company secretary;

(iii) Mr. Zhao Zhihong, one of the joint company secretaries of our Bank, will be assisted by Ms. So, for a period from the Listing Date to the end of three years after the Listing Date, which should be sufficient for him to acquire the requisite knowledge and experience under Rule 3.28 of the Listing Rules;

(iv) our Bank will ensure that Mr. Zhao Zhihong has access to the relevant trainings and support to enable him to familiarize himself with the Listing Rules and the duties required of a company secretary of a Hong Kong listed company, and Mr. Zhao Zhihong has undertaken to attend such trainings;

(v) Ms. So will communicate with Mr. Zhao Zhihong on a regular basis regarding matters in relation to corporate governance, the Listing Rules as well as other applicable laws and regulations of Hong Kong which are relevant to the operations and affairs of our Bank. Ms. So will work closely with, and provide assistance to Mr. Zhao Zhihong with a view to discharging his duties and responsibilities as a company secretary, including but not limited to organizing the Board meetings and Shareholders' general meetings; and

(vi) pursuant to Rule 3.29 of the Listing Rules, Mr. Zhao Zhihong and Ms. So will also attend in each financial year no less than 15 hours of relevant professional training courses to familiarize themselves with the requirements of the Listing Rules and other legal and regulatory requirements of Hong Kong. Both Mr. Zhao Zhihong and Ms. So will be advised by the legal advisors of our Bank as to Hong Kong law and the compliance advisor of our Bank as and when appropriate and required.

Accordingly, our Bank has applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the requirements under Rules 8.17 and 3.28 of the Listing Rules, provided that Ms. So will act as a joint company secretary and provide assistance to Mr. Zhao Zhihong. The waiver is valid for an initial period of three years commencing from the Listing Date, and will be revoked immediately if Ms. So ceases to provide assistance and guidance to Mr. Zhao Zhihong. Prior to the expiry of the initial three-year period, our Bank will re-evaluate the qualifications and experience of Mr. Zhao Zhihong. Upon the determination of our Bank that no on-going assistance to Mr. Zhao Zhihong is necessary, our Bank will demonstrate to the Hong Kong Stock Exchange that, with the assistance of Ms. So over such three-year period, Mr. Zhao Zhihong has acquired the requisite knowledge and experience as prescribed in Rule 3.28 of the Listing Rules. The Hong Kong Stock Exchange will then re-evaluate whether any further waiver would be necessary.

WAIVER IN RELATION TO HONG KONG FINANCIAL DISCLOSURE

Pursuant to Rule 4.10 of the Listing Rules, the information to be disclosed in respect of Rules 4.04 to 4.09 of the Listing Rules must be in accordance with best practices under the Companies Ordinance and HKFRS, IFRS or CASBE in the case of PRC issuers that has adopted CASBE for the preparation of its annual financial statements, and in the case of banking companies, the Guideline on the Application of the Banking (Disclosure) Rules issued by HKMA.

As our Bank is engaged in banking activities, pursuant to Rule 4.10 of the Listing Rules, the financial information to be disclosed in this prospectus should include information that is required to be disclosed in respect of those specific matters under the Banking (Disclosure) Rules.

Our Bank is currently unable to fully comply with the disclosure requirements under the Banking (Disclosure) Rules for the reasons described below. Our Bank believes that the financial disclosure requirements that our Bank is unable to comply with are immaterial to potential investors of our Bank.

Our Bank's position in relation to disclosures under the Banking (Disclosure) Rules

Section No.	Disclosure Requirements[1]	Reason for a Waiver in Relation to the Specific Disclosure	Proposal for Disclosure	Expected Timing for Full Compliance
99 . . .	Section information	Our Bank maintains a breakdown of loans to customers by industry sector as set out in the Classification and Codes of National Economic Industries in our Bank's loans system for the purpose of filing returns to the CBIRC.	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 CBIRC and maintains a breakdown of loans and advances to customers by industry sector based on the classification system as prescribed by the CBIRC, e.g., loans are categorized into corporate loans and personal loans which are further classified into detailed subcategories by industry/nature. Our Bank has disclosed the loans and advances to customers by industry sectors in accordance with its management reports prepared based on the CBIRC classification in Note 19(b) 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
102. . .	An authorized institution shall disclose its non-HKD currency exposures which arise from trading, non-trading and structural positions in accordance with the return relating to non-HKD 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 prepared and denominated in RMB, which means that our Bank only discloses non-RMB currency exposures instead of non-HKD currency exposures.	N/A	N/A
16M . .	Additional annual disclosure to be made by an authorized institution using STC in approach to calculate its credit risk for non-securitization exposures.	The computation basis for risks is promulgated by the CBIRC as set out in the Core Indicators (Provisional).	Our Bank provides information on relevant capital structure and information on adequacy level in accordance with the CBIRC disclosure requirements. Our Bank believes that these requirements result in disclosure similar to that required under the Banking (Disclosure) Rules.	N/A

Note:

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

Save for the above, as a financial institution incorporated and based in the PRC, our Bank is required to comply with the regulatory requirements set out by the PBoC and CBIRC. Certain provisions of the Banking (Disclosure) Rules require disclosure in respect of the capital structure, capital base (in particular, relating to the 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 PBoC and CBIRC. Our Bank believes that the PBoC and CBIRC requirements are intended to address similar disclosure considerations of the requirements under the Banking (Disclosure) Rules, and the differences between the above disclosure requirements under the two regulatory regimes are minimal and immaterial. If our Bank attempts to comply with such requirements under the Banking (Disclosure) Rules in parallel with the PBoC and CBIRC regulations, our Bank would be required, in its view, to carry out additional work to compile similar information already required and maintained in accordance with the PBoC and CBIRC regulations. As a result, our Bank proposes to disclose information in compliance with the PBoC and CBIRC 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 data. Our Bank is of the view that this prospectus contains sufficient information for investors to make their fully informed investment decision notwithstanding the differences between the PBoC and CBIRC requirements on the one hand, and the requirements under the Banking (Disclosure) Rules on the other hand. The Joint Sponsors concur with our Bank's view based on the reasons set out above.

Based on the above, our Bank has applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the requirements under Rule 4.10 of the Listing Rules, such that our Bank will not fully comply with the requirements in respect of the financial disclosure provided for under the Banking (Disclosure) Rules on the condition that our Bank provides alternative disclosure in accordance with the regulatory requirements of the PBoC and CBIRC.

WAIVER IN RELATION TO PUBLIC FLOAT REQUIREMENTS

Rule 8.08(1)(a) of the Listing Rules provides that there must be an open market in the securities for which listing is sought. This normally means that at least 25% of the issuer's total issued share capital must at all times be held by the public. However, pursuant to Rule 8.08(1)(d) of the Listing Rules, the Hong Kong Stock Exchange may, subject to certain conditions and at its discretion, accept a lower percentage of between 15% and 25% in the case of issuers with an expected market capitalisation at the time of listing of over HK$10 billion.

We have applied to the Hong Kong Stock Exchange to request the Hong Kong Stock Exchange to exercise its discretion under Rule 8.08(1)(d) of the Listing Rules, and the Hong Kong Stock Exchange has granted us, a waiver from strict compliance with the requirements of Rule 8.08(1)(a) of the Listing Rules. Therefore, our minimum public float shall be the highest of (1) 16.34% of our total issued share capital (based on the low-end of the proposed Offer Price range); (2) such percentage of H Shares to be held by the public immediately after the completion of the Global Offering (assuming that the Over-allotment Option is not exercised); and (3) such percentage of H Shares to be held by the public immediately after the completion of the Global Offering (as increased by the H Shares to be issued upon any exercise of the Over-allotment Option), provided that the highest of (1), (2) and (3) above is below the minimum public float requirement of 25% under Rule 8.08(1)(a) of the Listing Rules.

In order to support the application of this waiver, we have confirmed to the Hong Kong Stock Exchange that:

(a) we will have an expected market capitalization at the time of the Listing of over HK$10 billion;

(b) the quantity and scale of the issued securities would enable the market to operate properly with a lower percentage of public float;

(c) we will make appropriate disclosure of the lower prescribed percentage of public float in the Prospectus; and

(d) we will confirm sufficiency of public float in its successive annual reports after the Listing.

WAIVER IN RELATION TO CLAWBACK MECHANISM

Paragraph 4.2 of Practice Note 18 of the Listing Rules requires a clawback mechanism to be put in place, which would have the effect of increasing the number of Hong Kong Public Offer Shares to certain percentages of the total number of Offer Shares offered in the Global Offering if certain prescribed total demand levels are reached. We have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted to us, a waiver from strict compliance with paragraph 4.2 of Practice Note 18 of the Listing Rules such that, provided the initial allocation of H Shares under the Hong Kong Public Offering shall not be less than 5% of the Global Offering, in the event of over-subscription, the Joint Representatives, after consultation with us, shall apply a clawback mechanism following the closing of the application lists on the following basis:

- if the number of the Offer Shares validly applied for under the Hong Kong Public Offering represents 15 times or more but less than 50 times of the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased, so that the total number of Offer Shares available under the Hong Kong Public Offering will be 216,000,000 H Shares, representing approximately 7.5% of the Offer Shares initially available under the Global Offering;

- if the number of the Offer Shares validly applied for under the Hong Kong Public Offering represents 50 times or more but less than 100 times of the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased, so that the total number of the Offer Shares available under the Hong Kong Public Offering will be 288,000,000 H Shares, representing approximately 10.0% of the Offer Shares initially available under the Global Offering; and

- if the number of the Offer Shares validly applied for under the Hong Kong Public Offering represents 100 times or more of the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased, so that the total number of the Offer Shares available under the Hong Kong Public Offering will be 576,000,000 H Shares, representing approximately 20.0% of the Offer Shares initially available under the Global Offering.

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 Representatives deem appropriate. In addition, the Joint Representatives 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, the Joint Representatives have the authority to reallocate all or any unsubscribed Hong Kong Public Offer Shares to the International Offering, in such proportions as the Joint Representatives deem appropriate.

See "Structure of the Global Offering – The Hong Kong Public Offering – Reallocation and Clawback."

DIRECTORS

Name	Residential Address	Nationality
Executive Directors		
Mr. LI Fuan (李伏安)	Room 1201 Building 8 Kangleli Changchun Street Xicheng District Beijing PRC	Chinese
Mr. QU Hongzhi (屈宏志)	14-2 Tianhuyuan Meijiang Hexi District Tianjin PRC	Chinese
Mr. LI Yi (李毅)	Room 1201, Unit 1 Building 5, Wangjing Jinmao Palace No. 4 Laiguangying West Road Chaoyang District Beijing PRC	Chinese
Mr. DU Gang (杜剛)	301 Building 7 Fenghui Yuan Xicheng District Beijing PRC	Chinese
Non-executive Directors		
Mr. FUNG Joi Lun Alan (馮載麟)	A302 No. 35 Dongzhimenwai Main Street Dongcheng District Beijing PRC	Chinese
Mr. ZHANG Bingjun (張秉軍)	5-2-501 New Century City Hexi District Tianjin PRC	Chinese

Name	Residential Address	Nationality
Mr. CUI Xuesong (崔雪松)	2-1-701 Yixianli Hexi District Tianjin PRC	Chinese
Ms. YUAN Wei (元微)	3-202 Building 6 No. 17 Xicui Road Haidian District Beijing PRC	Chinese
Mr. YE Baishou (葉柏壽)	10-1706 Beiyingfangdongli Xicheng District Beijing PRC	Chinese
Mr. HU Aimin (胡愛民)	Room 402 No. 4 Lane 199, Biyun Road Pudong New District Shanghai PRC	Chinese
Mr. ZHANG Xifang (張喜芳)	2-5-702 CITIC Qinyuan Xicheng District Beijing PRC	Chinese
Mr. ZHANG Yunji (張雲集)	1-302 Building 4 Ningshengli Shuishang Park Road Nankai District Tianjin PRC	Chinese

Name	Residential Address	Nationality
Independent Non-executive Directors		
Mr. MAO Zhenhua (毛振華)	C0701 Zhongjun World City 7 Jinhui Road Chaoyang District Beijing PRC	Chinese
Mr. CHI Guotai (遲國泰)	No. 43 8-2 Liuxiyuan Ganjingzi District Dalian City Liaoning Province PRC	Chinese
Mr. MU Binrui (牟斌瑞)	Room 101 No. 8 Lane 789, Yingkou Road Yangpu District Shanghai PRC	Chinese
Mr. TSE Yat Hong (謝日康)	Flat 26A, Tower 6 One Silversea 18 Hoi Fai Road Tai Kok Tsui Hong Kong	Chinese
Mr. WANG Ren (汪韌)	Flat C3, 1/F Repulse Bay Apartment 101 Repulse Bay Road Repulse Bay Hong Kong	Chinese
Mr. ZHU Ning (朱寧)	8-2-302 Lianxiangyuan Community Fengtai District Beijing PRC	Chinese

SUPERVISORS

Name	Residential Address	Nationality
Mr. WANG Chunfeng (王春峰)	6-501 Ouya Garden Hexi District Tianjin PRC	Chinese
Mr. FENG Jiankuan (馮建寬)	3-2-101 Haiyichangzhou Hanjingyuan Suijiang Road Hexi District Tianjin PRC	Chinese
Mr. FAN Zhigui (范志貴)	13-2-1 Zhanxili Haigang District Qinhuangdao City Hebei Province PRC	Chinese
Mr. QI Ershi (齊二石)	5-402 Building 17, Xinyuan Cun Tianjin University Nankai District Tianjin PRC	Chinese
Mr. DIAO Qinyi (刁欽義)	Room 901, Unit 6, Floor 9 Building 3, Fourth Block Donghuashinanli Chongwen District Beijing PRC	Chinese
Mr. HUI Yung Chris (許勇)	Apartment 1283, 12/F, Tower 15 Parkview Heights-HK Parkview 88 Tai Tam Reservoir Road Hong Kong	Chinese

For more information of the Directors and Supervisors, please see "Directors, Supervisors and Senior Management".

PARTIES INVOLVED IN THE GLOBAL OFFERING

Joint Sponsors	**CCB International Capital Limited** 12/F, CCB Tower 3 Connaught Road Central Central, Hong Kong
	Haitong International Capital Limited 22/F, Li Po Chun Chambers 189 Des Voeux Road Central Hong Kong
	ABCI Capital Limited 11/F, Agricultural Bank of China Tower 50 Connaught Road Central Hong Kong
	CLSA Capital Markets Limited 18/F, One Pacific Place 88 Queensway Hong Kong
Joint Global Coordinators	**CCB International Capital Limited** 12/F, CCB Tower 3 Connaught Road Central Central, Hong Kong
	Haitong International Securities Company Limited 22/F, Li Po Chun Chambers 189 Des Voeux Road Central Hong Kong
	ABCI Capital Limited 11/F, Agricultural Bank of China Tower 50 Connaught Road Central Hong Kong
	CLSA Limited 18/F, One Pacific Place 88 Queensway Hong Kong

	China International Capital Corporation Hong Kong Securities Limited 29/F, One International Finance Centre 1 Harbour View Street Central Hong Kong
	ICBC International Capital Limited 37/F, ICBC Tower 3 Garden Road Hong Kong
Joint Bookrunners	**CCB International Capital Limited** 12/F, CCB Tower 3 Connaught Road Central Central, Hong Kong
	Haitong International Securities Company Limited 22/F, Li Po Chun Chambers 189 Des Voeux Road Central Hong Kong
	ABCI Capital Limited 11/F, Agricultural Bank of China Tower 50 Connaught Road Central Hong Kong
	CLSA Limited 18/F, One Pacific Place 88 Queensway Hong Kong
	China International Capital Corporation Hong Kong Securities Limited 29/F, One International Finance Centre 1 Harbour View Street Central Hong Kong
	ICBC International Capital Limited 37/F, ICBC Tower 3 Garden Road Hong Kong

Deutsche Bank AG, Hong Kong Branch
52/F, 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

SPDB International Capital Limited
33/F, SPD Bank Tower
One Hennessy
1 Hennessy Road
Hong Kong

CMB International Capital Limited
45/F, Champion Tower
3 Garden Road
Central
Hong Kong

Guotai Junan Securities (Hong Kong) Limited
27/F, Low Block
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

China Merchants Securities (HK) Co., Limited
48/F, One Exchange Square
Central
Hong Kong

BOCI Asia Limited
26/F, Bank of China Tower
1 Garden Road
Central
Hong Kong

Joint Lead Managers	**CCB International Capital Limited** 12/F, CCB Tower 3 Connaught Road Central Central, Hong Kong
	Haitong International Securities Company Limited 22/F, Li Po Chun Chambers 189 Des Voeux Road Central Hong Kong
	ABCI Securities Company Limited 10/F, Agricultural Bank of China Tower 50 Connaught Road Central Hong Kong
	CLSA Limited 18/F, One Pacific Place 88 Queensway Hong Kong
	China International Capital Corporation Hong Kong Securities Limited 29/F, One International Finance Centre 1 Harbour View Street Central Hong Kong
	ICBC International Securities Limited 37/F, ICBC Tower 3 Garden Road Hong Kong
	Deutsche Bank AG, Hong Kong Branch 52/F, 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

SPDB International Capital Limited
33/F, SPD Bank Tower
One Hennessy
1 Hennessy Road
Hong Kong

CMB International Capital Limited
45/F, Champion Tower
3 Garden Road
Central
Hong Kong

Guotai Junan Securities (Hong Kong) Limited
27/F, Low Block
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

China Merchants Securities (HK) Co., Limited
48/F, One Exchange Square
Central
Hong Kong

BOCI Asia Limited
26/F, Bank of China Tower
1 Garden Road
Central
Hong Kong

Co-lead Manager	**GF Securities (Hong Kong) Brokerage Limited** 29-30/F, Li Po Chun Chambers 189 Des Voeux Road Central Hong Kong

Legal Advisors to our Bank	*As to Hong Kong and United States laws:* **Paul Hastings** 21-22/F, Bank of China Tower 1 Garden Road Hong Kong *As to PRC laws:* **Commerce & Finance Law Offices** 6/F, NCI Tower A12 Jianguomenwai Avenue Beijing PRC
Legal Advisors to the Joint Sponsors and the Underwriters	*As to Hong Kong and United States laws:* **Clifford Chance** 27/F, Jardine House One Connaught Place Hong Kong *As to PRC laws:* **Haiwen & Partners** 20th Floor, Fortune Financial Center 5 Dong San Huan Central Road Chaoyang District Beijing PRC
Reporting Accountants and Auditor	**KPMG** *Certified Public Accountants* 8th Floor, Prince's Building 10 Chater Road, Central Hong Kong
Compliance Advisor	**Haitong International Capital Limited** 22/F, Li Po Chun Chambers 189 Des Voeux Road Central Hong Kong

Receiving Banks	**Standard Chartered Bank (Hong Kong) Limited** 15/F, Standard Chartered Tower 388 Kwun Tong Road Kowloon
	Bank of China (Hong Kong) Limited 1 Garden Road Hong Kong
	CMB Wing Lung Bank Limited CMB Wing Lung Bank Building 45 Des Voeux Road Central Hong Kong

Registered Address and Address of Head Office	218 Haihe East Road Hedong District Tianjin PRC
Representative Office and Place of Business in Hong Kong	Suites 1201-1209 and 1215-1216 12/F, Two International Finance Centre Central Hong Kong
Website Address	www.cbhb.com.cn *(The contents of the website do not form a part of this prospectus)*
Joint Company Secretaries	Mr. ZHAO Zhihong (趙志宏) 6-601 Building 2 Fenghui Yuan Xicheng District Beijing PRC Ms. SO Shuk Yi Betty (蘇淑儀) 40/F, Sunlight Tower 248 Queen's Road East Wanchai Hong Kong *(an associate of The Hong Kong Institute of Chartered Secretaries and an associate of The Chartered Governance Institute in the United Kingdom)*
Authorized Representatives	Mr. DU Gang (杜剛) 301 Building 7 Fenghui Yuan Xicheng District Beijing PRC Ms. SO Shuk Yi Betty (蘇淑儀) 40/F, Sunlight Tower 248 Queen's Road East Wanchai Hong Kong

Board Committees

Risk Management Committee
Mr. MU Binrui (*Chairperson*)
Mr. FUNG Joi Lun Alan
Mr. ZHANG Xifang
Mr. ZHANG Yunji
Mr. QU Hongzhi
Mr. LI Yi
Mr. CHI Guotai

Related Party Transaction Control Committee
Mr. MU Binrui (*Chairperson*)
Mr. FUNG Joi Lun Alan
Mr. ZHANG Xifang
Mr. ZHANG Yunji
Mr. QU Hongzhi
Mr. LI Yi
Mr. CHI Guotai

Audit and Consumer Rights Protection Committee
Mr. TSE Yat Hong (*Chairperson*)
Mr. CUI Xuesong
Mr. FUNG Joi Lun Alan
Mr. YE Baishou
Mr. MU Binrui
Mr. WANG Ren
Mr. ZHU Ning

Nomination and Remuneration Committee
Mr. MAO Zhenhua (*Chairperson*)
Mr. LI Fuan
Mr. ZHANG Bingjun
Mr. HU Aimin
Mr. CHI Guotai
Mr. WANG Ren
Mr. ZHU Ning

Development Strategy and Inclusive Finance Committee
Mr. LI Fuan (*Chairperson*)
Mr. CUI Xuesong
Mr. FUNG Joi Lun Alan
Ms. YUAN Wei
Mr. YE Baishou
Mr. QU Hongzhi
Mr. DU Gang

H Share Registrar

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

This section contains information and statistics relating to the industry in which we operate. We have extracted and derived such information, in part, from data relating to us which were prepared in accordance with IFRS, and from various official or publicly available sources derived from data prepared in accordance with PRC GAAP or other applicable GAAP or accounting standards which may differ from IFRS in certain significant respects. In addition, the information provided by the various official or publicly available sources may not be consistent with the information compiled within or outside China by third parties.

We believe that the sources of this information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. The information has not been independently verified by us, the Joint Sponsors, the Joint Bookrunners, the Underwriters or any other party involved in the Global Offering and no representation is given as to its accuracy. Accordingly, you should not unduly rely on such information. Our Directors confirm that, after taking reasonable care, as of the Latest Practicable Date, there has been no material adverse change in the information and statistics presented in this section.

OVERVIEW

China's Economy

China has achieved significant growth of economy over the past four decades since the implementation of "reform and opening up" policy, and has become the world's second largest economy since 2010. According to the NBS, China's nominal GDP increased at a CAGR of 9.5% from RMB68.9 trillion in 2015 to RMB99.1 trillion in 2019, while China's GDP per capita also grew steadily at a CAGR of 9.0% from RMB50,237 in 2015 to RMB70,892 in 2019. The table below sets forth China's nominal GDP, per capita GDP, disposable income of urban households per capita, fixed asset investment and total import and export volume of goods for the periods indicated.

	For the year ended December 31,					CAGR
	2015	2016	2017	2018	2019	(2015-2019)
Nominal GDP (in billions of RMB)	68,886	74,640	83,204	91,928	99,087	9.5%
GDP per capita (in RMB)	50,237	54,139	60,014	66,006	70,892	9.0%
Disposable income of urban households per capita (in RMB)	31,195	33,616	36,396	39,251	42,359	7.9%
Fixed asset investment (in billions of RMB)	56,200	60,647	64,124	64,568	56,087	(0.1%)
Total import and export volume of goods (in billions of US$)	3,953	3,686	4,107	4,622	4,576	3.7%

Source: NBS

In recent years, China's economy steps into the "new normal" as it transformed from aiming at high GDP growth to optimizing and upgrading its economic structure. It attached greater importance in promoting cooperation with different countries and regions, and strived to explore and cultivate drivers for economic growth. China has been further opening up by implementing the initiative of building "Belt and Road Initiative (一帶一路倡議)", which facilitate the connectivity and cooperation among the relevant countries and brings new drivers for China's economic development. The expansion of China's free trade zones, represented by Shanghai Free-Trade Zone and Tianjin Free-Trade Zone, also provides new drivers and growth opportunities behind the regional economic development. Meanwhile, the development of metropolitan cluster regions including the Beijing-Tianjin-Hebei region, the Yangtze River Economic Zone and the Guangdong-Hong Kong-Macao Greater Bay Area lays a solid foundation for the sustainable economic development in China.

According to the NBS, the GDP of China was approximately RMB99,087 billion in 2019, representing an increase of 6.1% over the previous year at comparable prices which met the projected target of maintaining the economic growth between 6% to 6.5%. Pursuant to the head of the NBS at a press conference held on January 17, 2020, looking forward to the year of 2020, the basic trend of steady and long-term growth of China's economy remains unchanged, and stable economic growth can be expected.

Driven by the stable macroeconomic growth in China, China's banking industry has also maintained a steady growth in the last decade. According to PBoC, RMB-denominated loans and RMB-denominated deposits of PRC banking financial institutions have increased at a CAGR of 13.0% and 9.2%, respectively, from December 31, 2015 to December 31, 2019. The table below sets forth the total RMB- and foreign currency- denominated loans and deposits of banking financial institutions in China as of the dates indicated.

	As of December 31,					**CAGR**
	2015	**2016**	**2017**	**2018**	**2019**	**(2015-2019)**
Total RMB-denominated loans (in billions of RMB)	93,954	106,604	120,132	136,297	153,112	13.0%
Total RMB-denominated deposits (in billions of RMB)	135,702	150,586	164,104	177,523	192,879	9.2%
Total foreign currency-denominated loans (in billions of US$)	830	786	838	795	787	(1.3%)
Total foreign currency-denominated deposits (in billions of US$)	627	712	791	728	758	4.8%

Source: PBoC

The table below sets forth the assets and liabilities of financial institutions in the banking industry of China as of the dates indicated.

	As of December 31,					**CAGR**
	2015	**2016**	**2017**	**2018**	**2019**	**(2015-2019)**
	(in billions of RMB, except percentages)					
Assets	199,345	232,253	252,404	268,240	290,003	9.8%
Liabilities	184,140	214,823	232,870	246,578	265,536	9.6%

Source: CBIRC

On December 30, 2019, the CBIRC issued the Guiding Opinions of the China Banking and Insurance Regulatory Commission on Promoting the High-quality Development of Banking and Insurance Industries (《中國銀保監會關於推動銀行業和保險業高質量發展的指導意見》) ("**December 31 Guiding Opinions**"), which sets the following development goal by 2025, the financial structure will have been further optimized, and a multi-layered, wide-ranging, and differentiated banking and insurance institution system will have been shaped; the level of corporate governance will continue to improve, and a modern financial enterprise system with Chinese characteristics will be basically established; the capacity capability to develop personalized, differentiated, and customized products will be significantly enhanced, and a financial product system that effectively meets market demand will be formed; the credit market, insurance market, trust market, financial leasing market, and non-performing asset market will be further improved; financial risks in key fields will be effectively addressed, and remarkable achievements will be made in the modernization of the banking and insurance regulatory system and regulatory capacity.

In addition, the PBoC held its 2020 work conference in Beijing from January 2 to January 3 ("**2020 PBoC Conference**"), which analyzed current economic and financial situations, and made arrangements for key tasks in 2020. Regarding the work for the year of 2020, the 2020 PBoC Conference requested to keep the sound monetary policy flexible and appropriate, continue to prevent and defuse major financial risks, and enhance financial support for supply-side structural reform while prioritizing addressing the difficulties in financing of micro and small enterprises, while financial reform and opening-up will be further deepened, the research, development and application of FinTech will be enhanced, and financial services and management in the PRC will be comprehensively improved.

Economy of the Beijing-Tianjin-Hebei Region

The Beijing-Tianjin-Hebei region is an economic region covering Beijing, Tianjin municipality and Hebei province. In April 2015, the Political Bureau of the Central Committee of the Communist Party of China adopted the Outline for the Collaborative Development of Beijing, Tianjin and Hebei Province (《京津冀協同發展規劃綱要》) ("**Outline for Collaborative Development**") to propose collaborative development among Beijing, Tianjin and Hebei province so that these areas can complement each other's advantages in a mutually beneficial manner, make steady progress toward achieving a new mode of coordinated growth synergies and pursue healthier development.

According to the NBS, from 2015 to 2019, the GDP of the Beijing-Tianjin-Hebei region increased from RMB6,936 billion to RMB8,458 billion, representing a CAGR of 5.1%. The table below sets forth nominal GDP, fixed asset investments and total import and export volume of goods in the Beijing-Tianjin-Hebei region for the periods indicated.

	For the year ended December 31,					CAGR
	2015	2016	2017	2018	2019	(2015-2019)
Nominal GDP (in billions of RMB)	6,936	7,562	8,058	7,896	8,458	5.1%
Fixed asset investment (in billions of RMB)	4,878	5,247	5,307	N/A	N/A	N/A
Total import and export volume of goods (in billions of US$)	485	432	487	589	581	4.6%

Source: NBS

Beijing, the capital of China, is China's center of politics, culture, science and technology, education and international communications. Tianjin is one of the four municipalities directly controlled by the PRC central government, which has served as the gateway to the capital and a transportation hub since ancient times. According to the Outline for Collaborative Development, Tianjin was officially accredited as the national base for advanced manufacturing research and development base, the international shipping center of the northern China, the financial innovation operation demonstration area, and the pioneer of the reformation and opening policy. Tianjin also benefits from a wide variety of other favorable policies, such as the development of Tianjin Free-Trade Zone and Binhai New Area, the construction of the national independent innovation demonstration zone in Tianjin, and the "Belt and Road Initiative", which reflects its significant position with regard to economics, policies, cultures and international communications. Hebei province, a traditional industrial and transportation hub with abundant natural resources, surrounds Beijing and Tianjin. In April 2017, PRC Government announced the establishment of the Xiong'an New Area, spanning three counties in Hebei Province, whose key function is to facilitate the Beijing-Tianjin-Hebei integration and to become the location for many of Beijing's non-capital functions and relocated population, including offices of some state-owned enterprises, institutions, and Beijing's innovative and high-growth technology companies.

The banking industry of the Beijing-Tianjin-Hebei region has also developed stably along with the growth of its economy. The table below sets forth the total RMB- and foreign currency- denominated loans and deposits of banking financial institutions in the Beijing-Tianjin-Hebei region as of the dates indicated.

	As of December 31,					CAGR
	2015	2016	2017	2018	2019	(2015-2019)
Total RMB-denominated loans (in billions of RMB)	10,721	12,134	13,638	14,705	16,190	10.9%
Total RMB-denominated deposits (in billions of RMB)	19,946	21,735	22,773	24,625	26,793	7.7%
Total foreign currency-denominated loans (in billions of US$)	153	128	124	82	70	(17.7%)
Total foreign currency-denominated deposits (in billions of US$)	95	102	119	118	117	5.2%

Source: Regional Financial Operation Reports of the PBoC

Economy of the Yangtze River Economic Zone

From 2015 to 2019, the nominal GDP of the Yangtze River Economic Zone (including Shanghai, Zhejiang, Jiangsu, Anhui, Jiangxi, Hubei, Hunan, Chongqing, Sichuan, Yunnan and Guizhou provinces) increased from RMB30,520 billion to RMB45,781 billion at a CAGR of 10.7%. The table below sets forth the nominal GDP, fixed asset investment and total value of imports and exports of goods in the Yangtze River Economic Zone for the periods indicated.

	For the year ended December 31,					CAGR
	2015	2016	2017	2018	2019	(2015-2019)
Nominal GDP (in billions of RMB)	30,520	33,718	37,100	42,303	45,781	10.7%
Fixed asset investment (in billions of RMB)	23,763	26,597	29,170	N/A	N/A	N/A
Total import and export volume of goods (in billions of US$)	1,669	1,567	1,792	2,029	2,033	5.1%

Source: NBS

According to the statistics of PBoC, as of December 31, 2019, the total RMB denominated deposits and loans of banking financial institutions in the Yangtze River Economic Zone reached RMB78,954 billion and RMB65,702 billion, respectively, representing an increase of 9.0% and 14.2%, respectively, compared with that of December 31, 2018. The table below sets forth the total RMB- and foreign currency- denominated loans and deposits of banking financial institutions in the Yangtze River Economic Zone as of the dates indicated.

	As of December 31,					CAGR
	2015	2016	2017	2018	2019	(2015-2019)
Total RMB-denominated loans (in billions of RMB)	39,328	44,583	50,409	57,544	65,702	13.7%
Total RMB-denominated deposits (in billions of RMB)	56,149	62,730	67,651	72,464	78,954	8.9%
Total foreign currency-denominated loans (in billions of US$)	215	204	217	213	211	(0.5%)
Total foreign currency-denominated deposits (in billions of US$)	235	271	308	296	311	7.3%

Source: Regional Financial Operation Reports of the PBoC

Economy of the Pearl River Delta Region and Southern China

From 2015 to 2019, the nominal GDP of the Pearl River Delta Region and Southern China (including Guangdong, Guangxi, Hainan and Fujian provinces) increased from RMB11,930 billion to RMB17,661 billion at a CAGR of 10.3%. The table below sets forth the nominal GDP, fixed asset investment and total value of imports and exports of goods in the Pearl River Delta Region and Southern China for the periods indicated.

	For the year ended December 31,					CAGR
	2015	2016	2017	2018	2019	(2015-2019)
Nominal GDP (in billions of RMB)	11,930	13,204	14,487	16,317	17,661	10.3%
Fixed asset investment (in billions of RMB)	7,132	7,867	8,892	N/A	N/A	N/A
Total import and export volume of goods (in billions of US$)	1,256	1,171	1,246	1,347	1,311	1.1%

Source: NBS

According to the PBoC, as of December 31, 2019, the total RMB denominated deposits and loans of banking financial institutions in the Pearl River Delta Region and Southern China reached RMB31,287 billion and RMB25,236 billion, respectively, representing an increase of 10.4% and 15.6%, respectively, compared with that as of December 31, 2018. The table below sets forth the total RMB- and foreign currency- denominated loans and deposits of banking financial institutions in the Pearl River Delta Region and Southern China as of the dates indicated.

	As of December 31,					CAGR
	2015	2016	2017	2018	2019	(2015-2019)
Total RMB-denominated loans (in billions of RMB)	14,477	16,676	18,962	21,829	25,236	14.9%
Total RMB-denominated deposits (in billions of RMB)	21,921	24,456	26,531	28,342	31,287	9.3%
Total foreign currency-denominated loans (in billions of US$)	144	148	153	130	119	(4.7%)
Total foreign currency-denominated deposits (in billions of US$)	130	149	173	143	155	4.5%

Source: Regional Financial Operation Reports of the PBoC

History and Development of the PRC Banking Industry

From 1949 to the 1970s, the PBoC not only served as the central bank of China, but also engaged in commercial banking businesses such as deposit-taking, lending and settlement. As China started its economic reform and began opening up in 1979, China's banking industry underwent significant transformations since the late 1970s. Several of the PBoC's commercial banking functions were separated from the PBoC's central bank functions, and the State Council officially authorized the PBoC to be the central bank and the principal regulatory organ of the PRC banking industry. In 2003, the CBRC was established to undertake a large part of the supervision and regulation functions of the PBoC and became the main regulatory organization in the banking industry, which was later merged with the CIRC to form the CBIRC in 2018.

With accession to the World Trade Organization (WTO) in 2001, PRC Government has taken various measures to open up the banking sector. In December 2003, the CBRC issued rules in relation to the investment in Chinese-funded financial institutions by foreign financial institutions, allowing qualified foreign financial institutions to invest in China's local commercial banks. Meanwhile, PRC Government actively promoted the shareholding system reform of state-owned commercial banks. As a result, Four Major Commercial Banks were consecutively restructured into joint-stock limited companies, and most of them introduced foreign strategic investors. In 2005, the Bank was established and became the only Nationwide Joint-stock Commercial Bank in China that has a foreign bank as its promoter and founder. The foreign strategic investors for PRC banks not only financed such banks but also helped improve the quality of financial services in the PRC financial market by increasing banks' competition, transferring modern banking skills, know-how and technology into the Chinese context, and also promoted development of the underlying supervisory and legal framework.

Meanwhile, many commercial banks have improved their asset quality by strengthening their credit risk management, writing off non-performing loans, and adopting the international standards and methods, and listed their shares on domestic or overseas stock exchange to enhance their capital strength over the past decade.

In observation of the complex international trade situation in recent years and the outbreak of COVID-19 epidemic, PRC banking financial institutions are facing an increasingly challenging market environment, which may impose difficulties in mitigating credit risks and improving asset quality.

COMPETITIVE LANDSCAPE

Current Competition in the PRC Banking Industry

The banking financial institutions in the PRC banking industry include Large Commercial Banks, Nationwide Joint-stock Commercial Banks, city commercial banks, rural financial institutions and other banking financial institutions. Due to historical reasons, Large Commercial Banks hold a large proportion of total assets of the PRC banking financial institutions and hold an important position in the PRC banking system. However, over the past decade, Nationwide Joint-stock Commercial Banks have also played an increasingly important role in the banking industry. City commercial banks generally engage in types of commercial banking businesses within the permitted scope in their respective designated regions. Rural financial institutions mainly provide limited banking products and services to enterprises and residents in the county areas.

The table below sets forth the total assets, total liabilities and relevant market share data of various types of banking financial institutions in China as of the date indicated.

	As of December 31, 2019			
	Total assets		Total liabilities	
	Total amount	Market share	Total amount	Market share
	(RMB billion, except percentages)			
Large Commercial Banks[1]	116,777	40.3%	107,131	40.3%
Nationwide Joint-stock Commercial Banks	51,782	17.9%	47,664	18.0%
City commercial banks	37,275	12.9%	34,497	13.0%
Rural financial institutions[2]	37,216	12.8%	34,251	12.9%
Others[3]	46,953	16.2%	41,993	15.8%
Total	**290,003**	**100.0%**	**265,536**	**100.0%**

Source: CBIRC

Notes:

(1) Including Industrial and Commercial Bank of China Limited, Agricultural Bank of China Limited, Bank of China Limited, China Construction Bank Corporation, Bank of Communications Co., Ltd. and Postal Savings Bank of China Co., Ltd..

(2) Primarily including rural commercial banks, rural cooperative banks, rural credit cooperatives and new-type rural financial institutions.

(3) Primarily including policy banks, China Development Bank, private owned banks, foreign banks, non-banking financial institutions and asset management companies. According to the List of Legal Persons of Banking Financial Institutions (as of the End of December 2018) (《銀行業金融機構法人名單(截至2018年12月底)》) issued by the CBIRC in February 2019, Postal Saving Bank of China had been classified as a Large Commercial Bank.

The Competitive Landscape of Nationwide Joint-stock Commercial Banks

There were twelve Nationwide Joint-stock Commercial Banks in China as of the Latest Practicable Date. Nationwide Joint-stock Commercial Banks generally concentrated on more developed areas while having their network of outlets with influence across the nation, and achieve market share by providing innovative and quality products and services. The Bank believes that compared with Large Commercial Banks, Nationwide Joint-stock Commercial Banks can better adapt to the changing market environment and meet customers' needs with flexible mechanism; compared with city commercial banks or other regional financial institutions, Nationwide Joint-stock Commercial Banks also have competitive strengths, such as larger capital base, nationwide sales network and diversified products and services, as well as advanced technical infrastructure.

As of the Latest Practicable Date, of the twelve Nationwide Joint-stock Commercial Banks, five were listed on both Shanghai Stock Exchange and Hong Kong Stock Exchange, three were listed only on Shanghai Stock Exchange, and one was listed only on Shenzhen Stock Exchange.

The table below sets forth the total assets, total deposits, total loans, shareholders' equity and net profit as well as relevant market share data of the Nationwide Joint-stock Commercial Banks as of the date indicated.

	As of December 31, 2019										
	Total assets		Total deposits		Total loans		Shareholders' equity		Net profit		
	Total amount	Market share	Total amount	Market share	Total amount	Market share	Total amount	Market share	Total amount	Market share	Listing Status
	(RMB billion, except percentages)										
China Merchants Bank Co., Ltd.	7,417.2	13.9%	4,844.4	15.7%	4,490.7	14.9%	617.7	14.5%	93.4	21.0%	Listed in SSE and SEHK
Industrial Bank Co., Ltd.	7,145.7	13.4%	3,759.1	12.2%	3,441.5	11.5%	549.7	12.9%	66.7	15.0%	Listed in SSE
Shanghai Pudong Development Bank Co., Ltd.	7,005.9	13.2%	3,627.9	11.8%	3,972.1	13.2%	561.1	13.1%	59.5	13.3%	Listed in SSE
China CITIC Bank Corporation Limited.	6,750.4	12.7%	4,038.8	13.1%	3,998.0	13.3%	532.5	12.5%	49.0	11.0%	Listed in SSE and SEHK
China Minsheng Bank Corp., Ltd.	6,681.8	12.5%	3,604.1	11.7%	3,487.6	11.6%	530.8	12.4%	54.9	12.3%	Listed in SSE and SEHK
China Everbright Bank Co., Ltd.	4,733.4	8.9%	2,985.0	9.7%	2,712.2	9.0%	386.1	9.0%	37.4	8.4%	Listed in SSE and SEHK
Ping An Bank Co., Ltd.	3,939.1	7.4%	2,436.9	7.9%	2,323.2	7.7%	313.0	7.3%	28.2	6.3%	Listed in SZSE
Hua Xia Bank Co., Limited.	3,020.8	5.7%	1,656.5	5.4%	1,872.6	6.2%	269.3	6.3%	22.1	5.0%	Listed in SSE
China Guangfa Bank Co., Ltd.	2,632.8	4.9%	1,583.1	5.1%	1,566.4	5.2%	209.6	4.9%	12.6	2.8%	Unlisted
China Zheshang Bank Co., Ltd.	1,800.8	3.4%	1,131.9	3.7%	1,027.1	3.4%	128.0	3.0%	13.1	2.9%	Listed in SSE and SEHK
Our Bank	1,116.9	2.1%	637.9	2.1%	708.1	2.4%	82.6	1.9%	8.2	1.8%	Unlisted
HENGFENG BANK CO., Limited	1,028.8	1.9%	557.4	1.8%	443.2	1.5%	87.2	2.0%	0.6	0.1%	Unlisted
Total	**53,273.7**	**100.0%**	**30,863.1**	**100.0%**	**30,042.6**	**100.0%**	**4,267.6**	**100.0%**	**445.8**	**100.0%**	

Source: 2019 annual reports of the relevant banks

The Competitive Landscape of the Banking Industry in the Beijing-Tianjin-Hebei Region

The table below sets forth the number of institutions, the number of employees and the total assets of various types of banking financial institutions in the Beijing-Tianjin-Hebei region as of the date indicated.

	As of December 31, 2019			
	Number of institutions	Number of employees	Total assets	
			Total amount	Market share
	(RMB billion, except the number of institutions and employees and percentage)			
Large Commercial Banks	8,772	178,275	15,369	38.3%
Nationwide Joint-stock Commercial Banks	1,726	46,309	6,693	16.7%
City commercial banks	1,947	44,292	5,828	14.5%
Rural financial institutions	6,176	67,722	3,273	8.2%
Foreign banks	138	5,806	460	1.1%
Others(2)	660	65,397	8,457	21.1%
Total	**19,419**	**407,801**	**40,080**	**100.0%**

Source: Regional Financial Operation Reports of the PBoC

Notes:

(1) Statistics above exclude data of headquarters of China Development Bank, policy banks, Large Commercial Banks, joint-stock banks and other financial institutions.

(2) Primarily including policy banks, China Development Bank, finance companies, trust companies, new rural financial institutions, financial lease companies, and consumer finance companies.

The Competitive Landscape of the Banking Industry in the Yangtze River Economic Zone

The table below sets forth the number of institutions, the number of employees and the total assets of various types of banking financial institutions in the Yangtze River Economic Zone as of the date indicated.

	As of December 31, 2019			
	Number of institutions	Number of employees	Total assets	
			Total amount	Market share
	(RMB billion, except the number of institutions and employees and percentage)			
Large Commercial Banks	44,083	744,878	39,298	38.1%
Nationwide Joint-stock Commercial Banks	6,083	163,137	14,825	14.4%
City commercial banks	7,526	191,441	17,572	17.0%
Rural financial institutions	29,484	346,151	15,204	14.7%
Foreign banks	401	18,116	1,795	1.7%
Others(2)	5,856	121,698	14,467	14.0%
Total	**93,433**	**1,585,421**	**103,161**	**100.0%**

Source: Regional Financial Operation Reports of the PBoC

Notes:

(1) Statistics above exclude data of headquarters of China Development Bank, policy banks, Large Commercial Banks, joint-stock banks and other financial institutions, except for those in Shanghai.

(2) Primarily including policy banks, China Development Bank, finance companies, trust companies, new rural financial institutions, financial lease companies, and consumer finance companies.

The Competitive Landscape of the Banking Industry in the Pearl River Delta Region and Southern China

The table below sets forth the number of institutions, the number of employees and the total assets of various types of banking financial institutions in the Pearl River Delta Region and Southern China as of the date indicated.

	As of December 31, 2019			
	Number of institutions	Number of employees	Total assets	
			Total amount	Market share
	(RMB billion, except the number of institutions and employees and percentage)			
Large Commercial Banks	14,355	274,578	15,358	37.8%
Nationwide Joint-stock Commercial Banks	2,813	100,987	11,130	27.4%
City commercial banks	1,483	40,649	3,804	9.4%
Rural financial institutions	10,064	119,036	5,492	13.5%
Foreign banks	290	11,721	748	1.8%
Other[(2)]	1,213	36,196	4,048	10.0%
Total	**30,218**	**583,167**	**40,579**	**100.0%**

Source: Regional Financial Operation Reports of the PBoC

Notes:

(1) Statistics above exclude data of headquarters of China Development Bank, policy banks, Large Commercial Banks, joint-stock banks and other financial institutions. The above statistics do not include data from Hainan province, as the information is not disclosed by PBoC Haikou Central Sub-branch

(2) Primarily including policy banks, China Development Bank, finance companies, trust companies, new rural financial institutions, financial lease companies, and consumer finance companies.

DEVELOPMENT TREND AND BUSINESS DRIVERS

Economic growth in China

The business expansion of banking financial institutions is affected by the market demand for financial products and services, which in turn is driven by the general economic condition in China, particularly in regions where their branch network operates. In recent years, while China's economy steps into the "new normal" amid the economic slowdown and industry restructuring, the fundamentals and long-term positive trend of China's economic development have not changed and China's economy will maintain steady growth.

In addition, global economy, including China, suffers from hit by COVID-19 pandemic that broke out in early 2020. According to National Bureau of Statistics, for the three months ended March 31, 2020, China's GDP amounted to approximately RMB20,650.4 billion, representing a 6.8% decrease from that in the three months ended March 31, 2019. However, while other industries experienced slowdown to varying degrees, financial industry and information technology industry experienced increase in GDP, for the three months ended March 31, 2020, which increased by 6.0% and 13.2% respectively, compared with that in the three months ended March 31, 2019. This shows strong resilience of market demand for financial services during the pandemic, as well as rapid on-line transformation of different services driven by the increasing public awareness of health and pandemic control.

In the same time, we noted that, according to National Bureau of Statistics, leveraging favorable national policies, efficient control on pandemic and strong domestic market demand, China's economy showed positive development as proven by improvement of various data in March 2020, such as logistics services, total retail sales of consumer goods and business growth of high-tech enterprises.

We are of the view that, leveraging continuous urbanization in China, effective implementation of the major national strategies in China, such as the coordinated development of Beijing, Tianjin and Hebei, the development of Yangtze River Economic Zone and the construction of the Guangdong-Hong Kong-Macao Greater Bay Area, as well as growing international economic cooperation such as the Belt and Road Initiative, the economy of China and the world will continue grow in a long run, and the market demand for banking products and services will keep increasing, notwithstanding the negative impact from COVID-19 pandemic. As a result, banking industry, particularly, banks with national coverage and capability to serve international business, including our Bank, are well positioned to capture relevant market opportunities.

Interest Rate Liberalization

In China, interest rates on RMB-denominated loans and deposits are determined by the financial institution with reference to the benchmark interest rates on loans and deposits published and adjusted by PBoC from time to time. In recent years, China has endeavored to reform the financial system to support a balanced and sustainable growth, including moving towards market-based lending and deposits rates through implementation of a series of initiatives.

In October 2015, the PBoC removed the cap on deposit interest rates for commercial banks. Taking effective on May 1, 2015, the Deposit Insurance Regulation (《存款保險條例》) of the PRC paved the way for a smooth establishment of a deposit insurance system in China, thereby promoting the liberalization of the interest rate mechanism. Furthermore, in August 2019, the PBoC announced to reform the mechanism used to establish the loan prime rate ("**LPR**"), as a result of which, the LPR would be linked to rates set during open market operations, primarily the PBoC's medium-term lending facility, and better reflect market demand for funds. According to the PBoC, commercial banks must set interest rates on new loans by mainly referring to the LPR and use LPR as the benchmark for setting floating loan interest rates.

Although the on-going interest rate liberalization may provide banks with greater flexibility in determining lending and deposits rates, the interest rate liberalization may intensify pricing competition in the PRC banking industry, which could reduce their net interest margins and profitability and affect their business and results of operations.

Comprehensive Business and Transformation of Commercial Banks

In addition to growing traditional banking products and services, the PRC banking industry has over the past decade expanded financial product and service offerings in areas such as financial leasing, fund management and insurance. Commercial banks in China are currently allowed to apply for licenses of, among others, trust, funds, insurance and financial leasing. A transformation towards the comprehensive service model will be a future trend for China's banking industry, which would be a gradual process involving various changes in laws and regulations.

Furthermore, there has been a trend of financial disintermediation in recent years, which will gradually transform the traditional business mode of commercial banks. Investors transfer assets from financial intermediation, such as savings and deposit banks, to direct investment. Such trend affected the level of deposit of commercial banks and the funds available for loan business. Financial disintermediation has prompted commercial banks in China to transform, and strengthen the diversity of financial products and services. Emerging financing business that supports financial market and transaction, such as inter-bank deposit, large deposit business of enterprises and securities margin trading is poised for new development opportunities.

Increasingly Comprehensive Regulatory Environment

In recent years, the PRC banking regulatory authorities have implemented a series of regulations to strengthen the supervision and regulation of China's banking industry and cultivate an orderly market for competition. These regulations aim to, among other things, enhance risk management, improve modern corporate governance and further enhance the financial services from commercial banks to real economy. For details of relevant regulations, please see the section headed "Supervision and Regulation".

With the continuous development of the regulatory environment, we expect financial institutions in China, including commercial banks, will keep optimizing asset quality and improving risk management system.

Expansion in Financing Services to Micro and small Enterprises

Micro and small enterprises in China have been playing an increasingly important role in the economic growth. Meanwhile, loans granted to micro and small enterprises increased rapidly as well. According to CBIRC, at the end of the fourth quarter of 2019, the balance of loans granted by banking financial institutions to micro and small enterprises (including loans for micro and small-sized enterprises, individual business owners and owners of micro and small enterprises) were RMB36.9 trillion, of which, the inclusive micro and small enterprise loans granted to a single borrower of RMB10 million or less amounted to RMB11.7 trillion, representing an increase of 24.6% compared to that as of the beginning of 2019.

In December 2015, the State Council issued the Plan for Promoting Inclusive Finance (2016-2020) (推進普惠金融發展規劃(2016-2020)), encouraging large banks to accelerate the establishment of specialized institutions for micro and small enterprises. Encouraged by favorable government policies, it is expected that financing services to micro and small enterprises will become a larger part of the overall business of PRC commercial banks.

In addition, in order to counter the impact of the COVID-19, the PRC Government has introduced a wide range of fiscal and monetary easing initiatives and supportive measures with the aim of encouraging banks and financial institutions to enhance their credit support to affected enterprises and individuals, particularly micro and small enterprises. Among other things, on March 1, 2020, CBIRC, PBoC and other PRC regulatory authorities jointly issued the Notice on Temporary Deferment of Repayment on Principal and Interest for Loans to Micro, Small and Medium Enterprises (Yin Bao Jian Fa [2020] No. 6) 《關於對中小微企業貸款實施臨時性延期還本付息的通知》(銀保監發[2020]6號), according to which, qualified micro, small and medium enterprises (including individual business owners and owners of micro and small enterprises) facing temporary liquidity difficulties due to the COVID-19 outbreak can make applications with banks to defer repayment of principal and interest expenses payable from January 25 to June 30, 2020, and overdue loan repayments during the relevant period will not be subject to penalties. On June 1, 2020, CBIRC, PBoC and other PRC regulatory authorities further jointly issued the Notice on the Further Implementation of Periodic Deferment of Repayment on Principal and Interest for Loans to Micro, Small and Medium Enterprises (《關於進一步對中小微企業貸款實施階段性延期還本付息的通知》), allowing banking institutions to extend the duration of their deferment arrangements for loans granted to micro and small enterprises (including business loans granted to individual business owners and owners of micro and small enterprises) whose credit line as a single borrower does not exceed RMB10.0 million. For more information, please also see the section headed "Summary – Recent Development".

We are of the view that, banks with strong technology capability of achieving efficient identifying and serving quality micro and small enterprises will be able to effectively capture business opportunities in this field. We believe that, capitalizing on our ability to provide tailor-made financial solutions based on the characteristics of industries, enterprises and scenarios, our strength in offering supply chain financial services within relevant ecosystems and industry chains, and our national business presence, we are well-positioned to grow our competitiveness in this regard.

Orderly Progress in the Opening-up of the Financial and Banking Industry

The PRC financial and banking industry has gradually opened in pace with the overall economic reform and opening up of China, which is also a natural outcome of China's increasing integration into the world economy. The banking market opening started in certain regions and has so far rolled out to cover the entire country. The foreign banks have been growing steadily in numbers and asset scale, and the range of products and services permitted to foreign banks has expanded progressively. Meanwhile, the foreign banks are encouraged to forge business and equity partnership with the local banks, and thus become an important component of the Chinese banking sector.

On July 20, 2019, the Office of Financial Stability and Development Committee under the State Council announced the Relevant Measures for Further Opening Up Financial Sector (《關於進一步擴大金融業對外開放的有關舉措》) ("**11 Measures**"). Under the 11 Measures, limits on foreign shareholdings in securities, fund management, futures and life insurance companies in China will be lifted earlier than previously anticipated, and restrictions on foreign investment in insurance companies and insurance asset management companies will be further relaxed. In addition, the State Council published an order ("**Order No. 720**") on September 30, 2019 to amend the Regulation of the PRC on the Administration of Foreign-Funded Insurance Companies (《中華人民共和國外資保險公司管理條例》) and the Regulation of the PRC on the Administration of Foreign-Funded Banks (《中華人民共和國外資銀行管理條例》).

Transformation and Development Trend of Wealth Management Business

In recent years, the PRC regulatory authorities issued a series of regulatory documents to further regulate the wealth management business of commercial banks in a comprehensive manner, such as the Guiding Opinions on Regulating the Asset Management Business of Financial Institutions (《關於規範金融機構資產管理業務的指導意見》) and the Measures for the Supervision and Administration of the Wealth Management Business of Commercial Banks (《商業銀行理財業務監督管理辦法》) which were issued and became effective in 2018. In response to changes in the regulatory environment, PRC commercial banks steadily promoted the transformation of their wealth management business, including reducing relevant investment and adjusting their wealth management business structure to comply with the new regulatory requirements. In addition, many Large Commercial Banks, Nationwide Joint-stock Commercial Banks and city commercial banks have accelerated the set-up of wealth management subsidiary companies to drive the transformation of their wealth management business.

Increasing Demand for Personal Financial Services

With the steady growth of the domestic economy and advanced urbanization, PRC household disposable income has been increasing. According to the NBS, the urban household disposable income per capita in China grew at a CAGR of 7.9% from RMB31,195 in 2015 to RMB42,359 in 2019. The increase of income per capita and changes in living patterns of PRC residents have brought about an increasing demand for diversified financial products and services, such as private banking, wealth management and consumer finance, which further continually drives the growth of the PRC banking industry. Notwithstanding the negative impact from COVID-19 outbreak to China's economy, we are of the view that, during and after the expected economy recovery that are driven by various factors, including favorable national policies and strong resilience of China's economy, market demand for personal financial products and services will keep increasing. In particular, we believe that the market will observe increasingly diversified demands for tailor-made retail banking and wealth management products and services designed for different demographic customer groups. We believe that our competitiveness built up on our experience in serving target customers, such as "pressurized generation (壓力一代)" and "grey-haired group (養老一族)", and its retail banking and wealth management businesses, could help us to effectively capture relevant market opportunities.

Challenges and Opportunities for the Banking Industry Arising from Financial Technology

With the rapid development of internet and information technologies of financial institutions, internet financial products including online and mobile wealth management products, and third-party payment have grown significantly. Mobile payment has become increasingly popular in China. In the meantime, internet-based financial service providers have grown remarkably in the PRC in recent years. These internet-based financial service providers provide types of online financial services and bring in innovative service models which lower the threshold and the cost of providing financial services for the public. As the development of financial technology offers more choices to the public and reduces cost of certain financial services, it brings challenges as we facing more development opportunities to PRC commercial banks. The development opportunities and challenges arising from financial technology will facilitate product innovation and improvement of services, which in turn drive the growth of the PRC banking industry. In particular, partly as a result of the negative impact from COVID-19 outbreak and relevant quarantine and social distance policies adopted by PRC Government, for the three months ended March 31, 2020, internet-based services and corresponding financial services experienced strong growth notwithstanding decrease in general economy activities. Banks with strong technology capability and leading market position in offering relevant services are well-positioned to capture market opportunities.

By adopting advanced financial technology, commercial banks in China have integrated electronic banking platforms into practice to achieve effective online and offline collaboration, and provided customers with more convenient traditional banking services and innovative banking products. As a result, they have further improved customer experience on their financial products, expanded business coverage and sought to improve operating efficiency and risk control ability.

OVERVIEW

In China, the banking industry is highly regulated. The current principal regulatory authorities of the PRC banking industry include the CBIRC and the PBoC. The CBIRC is responsible for supervising and regulating banking financial institutions while the PBoC, as the central bank of China, is responsible for formulating and implementing monetary policies and preparing drafts of important laws and regulations in the banking industry and prudently regulating basic systems. Laws and regulations applicable to the banking industry in China mainly include the PRC Commercial Banking Law, the PRC PBoC Law and the PRC Banking Supervision and Regulatory Law, as well as relevant regulations, rules and normative documents formulated thereunder.

MAJOR REGULATORY AUTHORITIES

The CBIRC

Functions and Power

Established by merging the former CBRC and the CIRC, the CBIRC is an institution directly under the State Council, and is now the principal regulatory authority for financial institutions of the banking industry in China, responsible for the supervision and regulation of banking financial institutions operating in China, including commercial banks, urban credit cooperatives, rural credit cooperatives, other deposit-taking financial institutions, policy banks and certain non-banking financial institutions. The CBIRC is also responsible for supervising and regulating overseas operations of the above-mentioned banking and non-banking financial institutions.

According to the PRC Banking Supervision and Regulatory Law and the State Council Institutional Reform Proposal (《國務院機構改革方案》) which was approved by the First Session of the Thirteenth National People's Congress On March 17, 2018, the major regulatory functions and supervising measures of the CBIRC over the banking industry include: (1) examining and approving the establishment of, change in, termination of and business scope of financial institutions in the banking industry, as well as granting banking licenses to commercial banks and their branches; (2) regulating the business activities of banking institutions, including their products and services; (3) approving and overseeing qualification requirements for directors and senior management of banking institutions; (4) conducting on-site inspection and off-site surveillance of the business activities and risk levels of banking institutions; (5) formulating emergency response systems and plans by cooperating with related departments; (6) taking actions to rectify and punish activities which violate regulations of the banking industry; (7) preparing and publishing statistics and financial statements of national banking institutions; and (8) taking over or procuring the restructuring of a banking institution which may materially impact the lawful rights and interests of depositors and other customers when there is, or is likely to be, a credit crisis.

Inspection and Supervision

The CBIRC, through its head office in Beijing and local agencies nationwide, regulates the operations of banks and their branches through on-site inspection and off-site supervision.

The CBIRC is authorized to take corrective and punitive measures against a banking financial institution failing to comply with related regulations on the banking industry, including imposing a fine, ordering to suspend part of its businesses or to halt approval of its engagement in new businesses, restricting the distribution of dividends and other revenue, restricting the transfer of asset, ordering the controlling shareholders to transfer equity interest or limiting the rights of relevant shareholders, ordering the adjustment of directors or senior management personnel or limiting their rights, and ceasing to approve the establishment of additional branches. Under extreme circumstances or when commercial banks fail to rectify within the period specified by the CBIRC, the CBIRC may order it to suspend business for rectification and revoke its business license. The CBIRC may take over or procure the reorganization of banking financial institutions which have seriously affected the legal rights and benefits of depositors and other clients, in the event of an actual or potential credit crisis or bankruptcy.

The PBoC and the State Council's Financial Stability and Development Committee

As the central bank of China, the PBoC is responsible for formulating and implementing monetary policies, and safeguarding the stability of the financial market in China. According to the PRC PBoC Law and related regulations, the PBoC's responsibilities include: (1) formulating and issuing orders and rules for performance of its functions and duties; (2) formulating and implementing monetary policies in accordance with laws; (3) issuing RMB and controlling the circulation of RMB; (4) regulating the inter-bank loan market and the inter-bank bond market; (5) implementing foreign exchange administration and regulating the inter-bank exchange market; (6) regulating the gold market; (7) holding, managing and operating the nation's foreign exchange and gold reserves; (8) managing the national treasury; (9) maintaining normal operation of the payment and settlement system; (10) guiding and planning anti-money laundering measures in the financial industry and monitoring anti-money-laundering funds; (11) responsible for the statistics, investigation, analysis and forecasts of the financial industry; (12) undertaking relevant international financial activities as the central bank; and (13) other functions and duties assigned by the State Council.

According to the State Council Institutional Reform Proposal, the duties of the CBRC and CIRC to prepare drafts of important laws and regulations in the banking industry and the insurance industry as well as the basic system of prudential regulation will be transferred to the PBoC.

The State Council's Financial Stability and Development Committee which was established in July 2017, is a co-ordinating institution focusing on the deliberation and coordination of major issues concerning financial stability and related reform and development. The committee's responsibilities include: (1) deliberating major reform and development programs for the financial sector; (2) coordinating financial reform, development and regulation; (3) coordinating issues concerning monetary policy; (4) coordinating the making of financial policies and related fiscal and industrial policies; (5) analyzing international and domestic financial situations; (6) addressing international financial risks; and (7) conducting policy research on systemic risk prevention and treatment and financial stability. The office of the State Council Financial Stability and Development Committee is set in PBoC.

Other Regulatory Authorities

In addition to aforesaid regulatory authorities, commercial banks in China are also subject to the supervision and regulation by other regulatory authorities, including the SAFE, the SAMR, the CSRC, the NAO, the SAT, the NDRC, the MOF and their authorized branches.

INDUSTRY ACCESS REQUIREMENTS

Basic Requirements

At present, the establishment of a Chinese-funded joint-stock commercial bank must be approved and licensed by the CBIRC.

According to the relevant provisions of PRC Commercial Banking Law and Implementation Measures of the CBIRC on Administrative Licensing Items on Chinese-Funded Commercial Banks (2018 Amendment) (《中國銀保監會中資商業銀行行政許可事項實施辦法(2018修正)》) (the "Implementation Measures on CBIRC Licensing Items"), for the establishment of a Chinese-funded joint-stock commercial bank, an applicant shall meet the following conditions: (1) the articles of association shall comply with related requirements of the PRC Company Law and the PRC Commercial Banking Law; (2) its registered capital shall be paid-in capital, in an amount of at least RMB1 billion or equivalent in convertible foreign currency; (3) it shall have competent directors, senior executives and qualified staff familiar with the banking business; (4) it shall have sound organizational structure and management system; (5) it shall have suitable business premises, safety and precautionary measures and other facilities for its business operations; and (6) it shall have established a suitable IT infrastructure for its business operation, have safe, necessary and compliant IT systems necessary to its business operation, and the related technologies and measures to ensure effective and safe operation of the IT system.

Significant Changes

A Chinese-funded joint-stock commercial bank shall be approved by the CBIRC to undertake significant changes, including: (1) change of name of head office; (2) change of registered capital; (3) change of domicile of head office; (4) change of business scope; (5) change of form of organization; (6) change of shareholders holding 5% or more of the bank's total capital or share; (7) amendments to the articles of association; (8) merge and acquisition; and (9) dissolution and bankruptcy, etc..

Establishment of Branches

According to the Implementation Measures on CBIRC Licensing Items, the establishment of a domestic branch by a Chinese-funded joint-stock commercial bank according to its business needs must be approved by the CBIRC or its provincial offices, and financial permit and business license must be obtained. The Chinese-funded joint-stock commercial bank which establishes a domestic branch shall appropriate the working capital corresponding to its operating scale. The total appropriated amount of the working capital of all branches shall not exceed 60% of the total capital amount of the head office.

On December 5, 2013, the General Office of the CBRC issued the Notice on Establishment of Community Sub-Branches and Small and Micro Sub-Branches by Small and Medium-sized Commercial Banks (《中國銀監會辦公廳關於中小商業銀行設立社區支行、小微支行有關事項的通知》), supporting eligible small and medium-sized commercial banks to set up community sub-branches and small and micro sub-branches with their own characteristics and differences on the condition that their risks and costs are manageable. As a special type of sub-branch, the community sub-branches and small and micro sub-branches are simply bank outlets specially set up to serve community residents and small and micro enterprises. To set up such sub-branches, banks are required to complete relevant administrative examination and approval procedures to obtain the license.

Business Scope

According to the PRC Commercial Banking Law, the commercial banks are allowed to: (1) take public deposits; (2) extend short-term, medium-term and long-term loans; (3) conduct domestic and overseas settlements; (4) handle acceptance and discount of negotiable instruments; (5) issue financial bonds; (6) act as an agent to issue, honor and underwrite government bonds; (7) purchase and sell government bonds and financial bonds; (8) engage in interbank borrowings; (9) buy and sell foreign exchange as principal or agent; (10) engaging in bank card business; (11) provide Letters of Credit services and guarantees; (12) act as an agent for receipts and payment and insurance business; (13) provide safe deposit box service; and (14) other businesses approved by the banking regulatory authorities of the State Council.

The business scope of Chinese-funded joint-stock commercial banks shall be specified in their articles of association and approved by CBIRC. Meanwhile, subject to the approval of the PBoC, commercial banks may engage in the settlement and sales of foreign exchange.

OWNERSHIP AND RESTRICTIONS OF SHAREHOLDERS

Regulation on Equity Investment in Banks

According to the Implementation Measures on CBIRC Licensing Items promulgated by the CBIRC on August 17, 2018, an application for the change by a joint-stock commercial bank to modify shareholders that hold no less than 5% of its total amount of capital or shares, or an application by an overseas financial institution to invest in or subscribe for shares shall be handled, examined and decided by the CBIRC. The modification of the shareholders that hold more than 1% but less than 5% of a joint-stock commercial bank shall be reported to the CBIRC within 10 days after the transfer of the equity.

Specifically, according to the Interim Measures for the Equity Management of Commercial Banks (《商業銀行股權管理暫行辦法》), investor, its related parties and parties acting in concert shall apply for, and obtain the prior approval from the CBIRC or its local offices with authority, if, individually or collectively, (1) they intend to hold over 5% of the total equity interests of a commercial bank of China for the first time, and (2) each time the equity interest they hold would increase by another 5% of the total equity interest of relevant bank. Administrative approval in relation to acquisition of equity interest of commercial banks through stock market in China or overseas in this regard is only valid for six months. Investor, its related parties and parties acting in concert shall report to the CBIRC or its local offices within ten business days after they, individually or collectively, hold over 1% but less than 5% of equity or shares of a commercial bank.

Regulation on Equity Management of Banks

The Interim Measures for the Equity Management of Commercial Banks, which applies to commercial banks established in the PRC in accordance with laws and integrates and consolidates the requirements of previous laws and regulations in relation to equity management of commercial banks, requires that equity management of a commercial bank shall conform with the principles of category management, decent quality, clear-cut relations, defined responsibilities, and fairness and transparency. The principal regulations include, but not limited to: (1) the shareholding of shareholders, their related parties and parties acting in concert shall be aggregated for calculation, and the relationship among the shareholders, controlling shareholders, de facto controllers, related parties, parties acting in concert and ultimate beneficiaries of a commercial bank etc. shall be clear and transparent; (2) substantial shareholders of a commercial bank who hold or control 5% or more of its shares or voting rights, or hold less than 5% of the total capital or total equity but have significant impact on the operations and management of the commercial bank, shall enunciate their shareholding structure to the level of de facto controllers and ultimate beneficiaries, and specify their related relationship or acting-in-concert relationship with other shareholders; (3) unless otherwise required by the Interim Measures for Management of Commercial Bank Equity, the same investor and its related parties and parties acting in concert, shall not invest in more than two commercial banks as substantial shareholders, or shall not control more than one commercial bank; (4) unless otherwise required by the Interim Measures for the Equity Management of Commercial Banks, substantial shareholders of a commercial bank shall not transfer shareholdings they held within five years from the date of obtaining shareholding; (5) the commercial bank shall strengthen examination on the qualification of its shareholders, verify the information of substantial shareholders and their controlling shareholders, de facto controllers, related parties, persons acting in concert and ultimate beneficiaries and follow up the changes thereof, judge the impact from the shareholders on the operation and management of the commercial bank and fully report or disclose relevant information in a timely and accurate manner according to the laws; (6) the commercial bank shall set up an equity custody system, centralizing the equity in a custodian institution that meets the requirements. The specific requirements of the custody shall be otherwise stipulated by the CBRC; (7) the credit balance granted to individual entities, including the substantial shareholders or their controlling shareholders, de facto controllers, related parties, parties acting in concert and ultimate beneficiaries, by the commercial bank shall not exceed 10% of the commercial bank's net equity. The total credit balance granted to the individual substantial shareholder and its controlling shareholders, de facto controllers, related parties, parties acting in concert and ultimate beneficiaries by the commercial bank shall not exceed 15% of the commercial bank's net equity; (8) If a shareholder has committed an illegal act or violation and refuses to make correction, the CBRC and its branches may singly or jointly with the relevant authorities and organizations, impose joint punishment, and may circulate a notice or public condemnation on the shareholder, or ban the shareholder from holding shares in a commercial bank for a certain period or permanently; and (9) financial products may hold shares of a listed commercial bank, but the shares accumulatively held in the same commercial bank by the financial products controlled by a single investor, issuer or manager and its de facto controllers, related parties and parties acting in concert shall not exceed 5% of total shares of the commercial bank. A substantial shareholder of a commercial bank shall not hold shares of the commercial bank through financial products issued, managed or controlled by it by any other means.

Restrictions on Shareholders

The Corporate Governance Guidelines stipulates a number of other provisions on shareholders of commercial banks. For example, shareholders, especially major shareholders, shall support the board of directors to develop a reasonable capital planning to ensure the capital of commercial banks continuously meet the supervision requirements. When commercial banks' capital cannot meet the supervision requirements, it is necessary to develop capital replenishment plan to ensure that capital adequacy ratio meets supervision requirements within the time limit and replenish the capital by increase in core capital and other means. Major shareholders shall not impede other shareholders of the commercial bank to replenish capital or qualified new shareholders to enter the bank. If shareholders of Chinese commercial banks cannot repay the loan balance before the time limit, their rights to vote at shareholders' meeting and the voting rights of director(s) designated by them at board meetings will be restricted during the period.

In addition, the PRC Company Law and relevant rules and regulations of the CBRC implement a number of restrictions on the shareholders of commercial banks in terms of their ability to pledge shares. For instance, commercial banks shall not accept their own shares as collateral. In accordance with the Corporate Governance Guidelines, the articles of associations of commercial banks shall stipulate the following terms: (1) where a shareholder provides guarantee with the stock of the bank for itself or others, such shareholder shall strictly abide by the laws, regulations and the requirements of the regulatory departments and inform the board of directors of the same in advance; and (2) where the balance of loans extended by a commercial bank to its shareholder is higher than the audited equity of the previous year held by the shareholder, the shareholder cannot pledge the stock of the bank as collateral.

In November 2013, the CBRC issued the Notice of China Banking Regulatory Commission on Strengthening the Management of Equity Pledge of Commercial Banks (《中國銀監會關於加強商業銀行股權質押管理的通知》), which stipulates that apart from the above-mentioned Corporate Governance Guidelines, commercial banks shall clarify in their articles of associations the following contents: (1) when a shareholder who holds a seat of director and supervisor of the bank, or a shareholder (or shareholders) who directly, indirectly, jointly hold or control more than 2% of the bank's shares or voting rights pledges the shares of the bank, it is necessary for the shareholder to apply to the board of directors and explain the reason of the pledge, the amount of shares involved, pledge duration, pledgee and other basic information. If the board of directors considers that the pledge could bring significant negative influence for equity stability, company governance and control for risk and related party transactions for the bank, the pledge shall not be approved. The director(s) nominated by a shareholder proposing to pledge his share in the bank shall abstain from voting at the meeting of the board of directors at which such pledge proposal is considered; (2) once registration of equity pledge is completed, the shareholder(s) shall, for the needs of risk control and information disclosure of the bank, provide the bank with the relevant information of pledged equity in a timely manner; and (3) if the pledged shares reaches or exceeds 50% of the bank's shares owned by the shareholder, the voting rights of the shareholder in shareholders' general meeting or the voting rights of the director(s) designated by the shareholder in the meeting of the board of directors shall be subject to restrictions. If a commercial bank fails to meet the regulatory requirements, the relevant regulatory authorities may require the bank to formulate rectification plans and may take corresponding regulatory actions if necessary.

In the Interim Measures for the Equity Management of Commercial Banks, the PRC Government sets out further restriction on substantial shareholders of commercial banks in China, such as (1) substantial shareholders shall enjoy its rights and undertake its obligations in strict compliance with relevant laws, regulations, administrative policies and articles of association of the bank, and shall not abuse its rights as a shareholder to intervene or use its influence to disrupt the decision-making power and management power vested in the board of directors and the senior management under the articles of association; (2) substantial shareholders shall not bypass board of directors or senior management to directly interfere or influence business operation and management of commercial banks, transfer interest or other action that would jeopardize legal rights of deposit customers, the relevant bank, or other shareholders; (3) substantial shareholders of commercial banks shall establish effective risk isolation mechanism to prevent risk contagion and transfer among shareholders, within the commercial bank and among other related entities; (4) substantial shareholders shall effectively manage its cross-holding of positions in the commercial bank and in another affiliate as a member of the board of directors, a member of the board of supervisors or a senior officer to prevent conflicts of interests.

REGULATION ON PRINCIPAL COMMERCIAL BANKING ACTIVITIES

Loans

The PRC regulatory authorities have promulgated laws and regulations related to loan business operations of financial institutions in the banking industry, including several rules and guidelines concerning loans and credit granted to certain specific industries and clients, in an effort to manage the credit risk of Chinese commercial banks.

- The Administrative Measure on Automobile Loans (《汽車貸款管理辦法》) issued by the PBoC and the CBRC on August 16, 2004 and amended on October 13, 2017 specifies that the term (including the extension period) of automobile loans shall not exceed five years. In particular, the term (including the extension period) of loans for second-hand vehicles shall not exceed three years and the terms of loans to automobile distributors shall not exceed one year;

- The Guidelines on Project Financing Business (《項目融資業務指引》), promulgated by the CBRC on July 18, 2009 specifies that banking financial institutions shall establish a set of sound operating procedures and a risk management system. Banking financial institutions shall sufficiently identify and evaluate various risks in the construction and operation period, including policy risks, financing risks, completion risks, market risks for the product, risks of over-budget, raw material risks, operation risks, exchange rate risks, environmental risks and other related risks. Banking financial institutions shall also pay attention to the borrower's debt-paying ability and evaluate risks primarily related to the technical feasibility, financial feasibility and source of funds for debt repayment. Furthermore, commercial banks shall agree with the borrowers on a designated account for receipts of the project income, requiring them to deposit all the receipts of the project in such account and make payments according to agreed conditions and method. Commercial banks shall monitor the account of receipts in a dynamic way. When the cash flow is abnormal, commercial banks shall figure out the reasons and take actions accordingly;

- On July 23, 2009, the CBRC issued the Interim Provisions on the Management of Fixed Asset Loans (《固定資產貸款管理暫行辦法》), under which commercial banks shall improve the internal control mechanism, implement full-process loan management, establish a fixed asset loan risk management system and an effective mechanism for balancing different positions, reinforce the management of loan usage, and improve the management on extension and payment of loans. Commercial banks are also required to reach an agreement with borrowers and other relevant parties in the contract on contents important to the control of loan risks, and to establish the loan quality supervision system and early warning system for loan risks;

- According to the Guidelines on Further Improving Financial Services to Support Revitalization of Key Industries and Restrain the Overcapacity of Some Industries (《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》), promulgated by the PBoC, the CBRC, CSRC and CIRC on December 22, 2009, banking financial institutions must respond to the State's industrial policies and financial control requirements, and extend credit on differentiated basis. Credit shall be extended timely and efficiently to enterprises and projects that are able to revitalize major industries, meet the requirements of market access and comply with loan policies of the banks. No credit shall be extended to enterprises and projects that fail to meet aforesaid conditions. Credit can be extended to projects in industries with overcapacity only after rigorous approval;

- The Interim Provisions on Personal Loan Management (《個人貸款管理暫行辦法》), promulgated by the CBRC on February 12, 2010, provides that commercial banks shall establish a set of effective full-process management mechanism and risk limit management system for personal loans. Certain conditions are stipulated with regard to the application for personal loans, together with relevant laws and policies applicable to personal loans. The use of personal loans must comply with laws and regulations and national policies. Commercial banks shall not grant personal loans with no specific purposes. Meanwhile, the term and interest rate of personal loans shall comply with relevant provisions of the State. Commercial banks shall establish a control mechanism for maintaining a reasonable proportion between the borrower's income and the amount used to repay loan, reasonably determine the amount and term of a loan based on the borrower's income, debt, expenditure, uses of loan funds and guarantee status, and make sure that the repayment made by the borrower for each installment is within his ability to repay the loan;

- On February 12, 2010, the CBRC issued the Interim Provisions on the Management of Working Capital Loans (《流動資金貸款管理暫行辦法》), under which commercial banks are required to improve their internal control, establish an effective risk management system to monitor and control the use of working capital loans and fully understand clients' information. Commercial banks should take reasonable and prudent measures to estimate the actual capital demand based on the working capital needs of a client and the amount of loans granted to a client shall not exceed the client's actual demand for working capital. In addition, banking financial institutions are required to clearly specify the specific and legitimate usage of loans with clients. The working capital loans shall not be used for investments in fixed assets, equity, etc., and shall not be used in the realm and purposes of business operations prohibited by the State;

- The Guidelines for Commercial Banks on the Risk Management on Credit Extension to Group Clients (《商業銀行集團客戶授信業務風險管理指引》), promulgated by the CBRC on June 4, 2010, requires commercial banks to formulate a risk management system for their credit extension to group clients and file such policies with the CBRC for record-filing. When the balance of credit extended to one single group borrower exceeds 15% of the net asset of a commercial bank, that commercial bank shall take actions such as syndicated loans, joint loans and loan transfer or take other measures to diversify the risks. Based on the requirements on prudential regulation, the CBRC may lower the ratio of the outstanding credit balance extended by a commercial bank to a single group client relative to its net capital;

- According to the Notice of the CBRC on Circulating Green Loan Guidelines (《中國銀監會關於印發綠色信貸指引的通知》), issued by the CBRC on February 24, 2012, banking financial institutions must support energy conservation, emission reduction and environmental protection, and prevent environmental and social risks. According to the Guidelines, banking financial institutions must identify, measure, supervise and control the environmental and social risks in the process of credit extension, and establish related risk management system. Banks shall clarify the direction and key fields for green loans, formulate specific credit extension guidelines for industries to which loans are restricted and industries with significant environmental and social risks, implement flexible differentiated credit extension policy, and adopt risk management system. To be specific, banking financial institutions must consider characteristics of clients and conduct due diligence on the environmental and social risks. They shall not extend credit to clients which do not comply with environmental and social performance requirements. For clients with major environmental and social risks, banking financial institutions shall require them to submit environmental and social risk reports, and include in the loan agreement specific clauses on the management of such risks. Moreover, banking financial institutions must take special measures on post-loan management against clients with potential significant environmental and social risks, promptly adopt related risk treatment measures, and report to the regulatory body the possible influence of this event on banking financial institutions;

- The Guidelines for Commercial Banks on the Management of Risks Related to Real Estate Loans (《商業銀行房地產貸款風險管理指引》), issued by the CBRC on August 30, 2004, requires commercial banks to establish approval standards for real estate loans (including land reserve loans, real estate development loans, residential mortgage loans and commercial housing loans etc.), and the risk management and internal control system for real estate market risks, legal risks and operation risks. Commercial banks are prohibited from extending real estate loans to borrowers which have not obtained land use right certificates or related licenses. The CBRC and its local offices may regularly inspect the implementation of this Guidelines;

- The Management Methods on Farmer Loans (《農戶貸款管理辦法》), issued by the CBRC on September 17, 2012, specifies the range of loans to farmers and encourages banking financial institutions to develop the farmer loan business, to formulate related operation strategies and to reinforce their ability to manage farmer loan risks;

- The Notice of the General Office of the State Council on Continuously Regulating the 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》), issued by the State Council on February 26, 2013, further prohibits commercial banks to extend newly developed real estate project loan to developers who possess idle land, or are involved in illegal behaviors such as land speculation, property hoarding, and property price gouging;

- According to the Guidelines of the CBRC on Enhancing the Supervision of Risks Related to Loans to LGFVs in 2013 (《中國銀監會關於加強2013年地方政府融資平台貸款風險監管的指導意見》) issued on April 9, 2013, all banks must set limits on total loans for the LGFVs and shall not expand the scale of loans to such companies. For LGFVs with cash flow coverage below 100% or with an asset-liability ratio above 80%, the proportion of their loans to their total loans granted by the bank to all such vehicles shall not be higher than that in the previous year, and measures shall be taken to gradually reduce the extension of loans and to enhance collection of loans;

- According to the Opinions of the State Council on Enhancing Local Government Debt Management (《國務院關於加強地方政府性債務管理的意見》) issued and adopted on September 21, 2014, financial institutions shall not illegally provide financing to local governments or require local governments to illegally provide guarantees. Financial institutions shall comply with regulatory requirements when buying local government bonds, strictly standardize credit management when providing financing to corporate legal persons belong to the government or qualified for borrowing contingent debts, and earnestly enhance risk identification and management;

- On September 29, 2014, the PBoC and the CBRC issued the Notice of the PBoC and the CBRC on Further Improving Residential Financial Services (《中國人民銀行、中國銀監會關於進一步做好住房金融服務工作的通知》), which encourages banking financial institutions to actively support the reconstruction of shanty towns and the construction of affordable houses that meet the credit extension conditions under the principles of risk manageability and financial sustainability. The term of the loans for public rental housing and shanty town reconstruction can be extended to up to 25 years. Banking financial institutions shall, under the premise of risk prevention, allocate credit resources reasonably, support real estate developers with good credentials and good faith in their development of common commercial housing, and actively fund the reasonable financing demand for projects under construction and expansion with good market prospect. The minimum down payment shall be 30% for households buying their first common owner-occupied housing and the interest rate floor is 0.7 time of the benchmark interest rate. For households with one residential property loans that have been fully paid, banking financial institutions may take them as first home buyers when they apply for loans to buy another commercial house for upgrading purpose. In cities where home purchase restrictions have been lifted or have not been imposed, banking financial institutions shall prudentially determine the proportion of the down payment and loan rate based on such factors as the solvency and credit status of the borrowers who have two or more houses but are applying for mortgage loans after their previous mortgage loans have been fully paid;

- The Notice of the CBRC and the NDRC on Circulating the Guidance on Energy Efficiency Loans (《中國銀監會、國家發展和改革委員會關於印發能效信貸指引的通知》), issued on January 13, 2015, encourages banking financial institutions to provide credit financing to energy efficiency entities. According to the Notice, banking financial institutions can extend credit to energy efficiency projects invested by energy consumption entities or energy performance contracting projects established by energy-saving companies. Banking financial institutions shall further improve their risk management capability for energy efficiency credit through multiple approaches, including (1) setting access requirements for energy efficiency projects, energy consumption entities and energy-saving service companies; (2) reinforcing due diligence on energy efficiency credit extension and obtaining overall understanding on the risk evaluation of borrowers; (3) improving credit and post-loan management on energy performance contracting; and (4) establishing credit supervision and risk warning mechanism;

- On February 10, 2015, the CBRC issued the revised Guidelines for Commercial Banks on the Risk Management of M&A Loans (《商業銀行併購貸款風險管理指引》), under which commercial banks are required to observe the principles of compliance, prudent operation, risk containment and sustainable operation when carrying out M&A loan business. Before starting their M&A loan business, commercial banks shall formulate procedures and internal control system for M&A loan business, and report to the regulatory authorities. Commercial banks must meet the following requirements when conducting M&A loan business: (1) there are sound risk management and effective internal control system; (2) the capital adequacy ratio shall not be below 10%; (3) other regulatory indicators shall meet the regulatory requirements; (4) there is a professional team to carry out due diligence investigation and risk assessment for M&A loans. The Guidelines also stipulate the assessment and management of M&A-related risks, covering overall strategic risks, legal and compliance risks, integration risks, operation risks and financial risks;

- On March 30, 2015, the PBoC, the Ministry of Housing and Urban-Rural Development, and the CBRC published the Notice on Issues Related to Residential Mortgage Loan Policies (《中國人民銀行、住房城鄉建設部、中國銀監會關於個人住房貸款政策有關問題的通知》), requiring that the minimum down payment shall be adjusted to no less than 40% for households possessing one house with outstanding loans but applying for more personal commercial housing loans to purchase ordinary housing for upgrading purpose. The proportion of the down payment and loan rate shall be prudently determined by banking financial institutions based on such factors as the credit status and solvency of the borrowers. All agencies of the PBoC and the CBRC shall communicate effectively with local governments in the principles of implementing policies according to local conditions and providing guidance on different classifications, to reinforce the supervision on the implementation of differentiated housing loan policies by banking financial institutions; on the basis of unified credit policy in China, such agencies should guide banking financial institutions on reasonably determining the minimum down payment and interest rate for personal commercial housing loans, closely track and evaluate the implementation and effects of housing credit policies, prevent risks effectively and promote healthy and stable development of the local real estate markets;

- On September 24, 2015, the PBoC and the CBRC jointly issued the Notice on Issues Concerning the Further Improvement of Differential Housing Credit Policies (《中國人民銀行、中國銀監會關於進一步完善差別化住房信貸政策有關問題的通知》), which states that for personal commercial housing loans provided to families for first purchase of ordinary housing, the minimum down payment ratio shall be adjusted to not less than 25% in cities that have not imposed the restriction policy for property purchasing. Each of the agency assigned by the PBoC and the CBRC shall strengthen communication with local governments based on the principle of "giving targeted guidance, and implementing policies suitable to local conditions" and, according to different situations in different cities under its governance, guide local governments to self-determine the minimum down payment for personal commercial housing loans by integrating self-regulatory pricing mechanism for provincial market interest rate with local situations based on the unified national credit policies;

- On February 1, 2016, the PBoC and the CBRC jointly issued the PBoC and the CBRC Notice on Issues Related to Adjusting Residential Mortgage Loan Policies (《中國人民銀行、中國銀監會關於調整個人住房貸款政策有關問題的通知》), requiring that in cities that have not imposed home purchasing restrictions, the minimum down payment ratio for personal commercial housing loans provided to families for first purchase of ordinary housing shall be 25% in principle, and the ratio over various regions could be floated downwards for 5%; the minimum down payment ratio shall be adjusted to no less than 30% for households possessing one house with outstanding loans but applying for more personal commercial housing loans to purchase ordinary housing for upgrading purpose. In cities that have imposed home purchasing restrictions, the residential mortgage loan policies shall be carried out according to the previous stipulations. The banking financial institutions shall prudentially determine the minimum down payment ratio and loan rate, integrating the requirements of the minimum down payment ratio determined by the provincial self-regulatory market ratio pricing mechanism, the internal policy of the banking financial institutions on personal commercial housing loans and risk prevention and control, and based on factors such as the solvency and credit status of the borrowers;

- On August 31, 2016, the NDRC, CIRC, CBRC, CSRC, Ministry of Environmental Protection, PBoC and MOF jointly issued the Notice on Guiding Opinions on Building a Green Financial System (《關於構建綠色金融體系的指導意見》), requiring that projects supported by green credit can apply for financial discount support according to relevant provisions and to form green business (green credit, etc.) incentive mechanism and loan restraint mechanisms in the sectors such as high pollution, high energy consumption and the industries with overcapacity by exploring incorporating green credit into the macro-prudential assessment framework, using the key indicator evaluation results of provision of green credit and green evaluation results of banks as an important reference and incorporating them into relevant index system;

- On December 1, 2017, the Office of the Leading Group for Special Rectification of Internet Financial Risks and the Office of the Leading Group for Special Rectification of P2P Lending Risks jointly issued the Notice on Regulating and Cleaning up the Cash Loan Business (《關於規範整頓"現金貸"業務的通知》), stating that the cash loan business featuring no specific scenarios, no designated purposes, no limitation of customer groups and no collaterals has relatively big hidden financial and social risks. The relevant institutions shall adhere to the correct principle in carrying out the cash loan business. Loans shall not be made to borrowers who have no source of income, an upper limit of overall debt burden combining the principle and interest shall be set for each loan, and the maximum number of times a loan can be extended is generally not more than twice. Moreover, it further regulates the participation of banking financial institutions in the cash loan business. When conducting the loan business in cooperation with a third party, banking financial institutions shall not outsource their core business such as credit examination or risk control. The "assistant loan" business shall return to its ultimate source. Banking financial institutions shall not accept the credit enhancement service provided, or loss-bearing commitment or other credit enhancement service provided in a disguised form by any unqualified third party, and shall ensure that the third party with which it cooperates will not charge any interest from borrowers; and

- On January 5, 2018, the CBRC issued the Measures for the Administration of Entrusted Loans of Commercial Banks (《商業銀行委託貸款管理辦法》), which specifies: (1) entrusted loan business is an agency service of a commercial bank. As a trustee, a commercial bank shall provide services following the principle of legality, compliance, matched responsibilities and interests, etc. and shall not determine the borrowers on behalf of the clients, not participate in loan decisions, not issue entrusted loans on behalf of the trustee, not provide guarantee in any form, not determine the guarantors for the borrowers or advance funds to repay the entrusted loan for the borrowers, or directly or indirectly undertake entrusted loans with credit funds or wealth management funds; (2) a commercial bank shall not accept others' funds under entrusted management, banks' credit funds, various special funds for specific purposes, other debt funds and funds whose sources cannot be proven, to grant entrusted loans, except for funds raised from issuance of bonds by a business group and used in the group; (3) the funds shall not be used for production, operation or investment in fields and for purposes prohibited by the State, not be used for investments in bonds, futures, financial derivatives or asset management products, etc., not be used as registered capital or for registration and capital verification and not be used for equity capital investment or capital and share increase (unless otherwise required by regulators); (4) commercial banks shall strictly separate entrusted loan business from their self-operated business and enhance risk isolation and business management. Commercial banks shall set up a sound entrusted loan management information system to ensure the business information is complete, continuous, accurate and traceable; (5) a commercial bank shall not accept any entrusted loan application from a client which is a financial assets management company or an institution engaging in loan business; (6) a commercial bank shall not divert the funds of one client to another.

Foreign Exchange Business

Commercial banks shall obtain approvals from the PBoC, the CBIRC and the SAFE or their respective local branches to conduct foreign exchange business.

Securities and Asset Custodian Business

Commercial banks in the PRC are generally prohibited from trading and underwriting equity securities. However, they are allowed to: (1) underwrite, buy and sell government bonds, financial bonds and commercial bonds issued by qualified non-financial institutions; (2) act as an agent for securities trading, including bonds issued by the PRC Government, financial institutions and other corporate entities; (3) provide comprehensive asset management and consultancy service to institutional and individual investors; (4) act as a financial advisor to large infrastructure projects, mergers and acquisitions and bankruptcy reorganizations; and (5) act as the trustee for funds such as securities investment funds and enterprise annuity funds.

According to Management Measures for Custody of Securities Investment Funds (《證券投資基金託管業務管理辦法》) published by the CSRC and the CBRC on April 2, 2013, a commercial bank is permitted to apply for the right to engage in custodian business for securities investment funds, if, amongst other requirements, such commercial bank has year-end net assets of no less than RMB2 billion at the end of each of the most recent three fiscal years and if its capital adequacy ratio and other risk control indexes meets the relevant regulatory requirements. The fund custodian must make sure to separate fund custody business from other businesses and isolate the fund assets. The CSRC and the CBRC will jointly examine and approve the qualifications of custody of commercial banks for fund custody and supervise them.

According to the Management Measures for Enterprise Annuity Fund (《企業年金基金管理辦法》) jointly issued by the Ministry of Human Resources and Social Security, the CBRC, the CSRC and the CIRC on February 12, 2011 and amended by the Ministry of Human Resources and Social Security on April 30, 2015, commercial banks shall establish independent custody and investment department when acting as the custodian of enterprise annuity plans. In addition, the office area, operation management process and business system must be separated strictly. The senior management members directly in charge and general staff in the custody business and investment department shall not hold concurrent posts mutually.

Insurance Agency Business

On August 23, 2019, the General Office of the CBIRC published the Administrative Measures on Insurance Agency Business of Commercial Banks (《商業銀行代理保險業務管理辦法》) (the “Insurance Agency Business Measures”), which became effective from October 1, 2019 and repeals several rules promulgated by the CBRC and/or CIRC regulating the insurance agency business of commercial banks. According to this Insurance Agency Business Measures, commercial banks operating insurance agency business shall obtain license from the CBIRC or its local offices and shall strictly abide by the prudent operation rules. The sum of premiums for accident insurance, health insurance, term insurance, whole life insurance, annuity insurance with a period of no less than 10 years, endowment insurance with a period of no less than 10 years, property insurance (excluding investment linked insurance of property insurance companies) shall not be less than 20% of the total premiums of insurance agency business. Commercial banks engaging in insurance agency business shall comply with the rules and regulations in relation to the retrospective administration of insurance sales.

Wealth Management Business

On April 27, 2018, the PBoC, CBIRC, CSRC and SAFE jointly issued the Guiding Opinions on Regulating the Asset Management Business of Financial Institutions (《關於規範金融機構資產管理業務的指導意見》) (the "April 27 Guideline"). Purposes of the April 27 Guideline including, among other things, to achieve comprehensive and unified regulation of the asset management business of various financial institutions, ensure fair market access and regulation, minimize regulatory arbitrage space, and effectively protect the legitimate rights and interests of financial consumers. It is worth noting that the April 27 Guideline has clear provisions on the following: (1) The core elements of standard credit assets. Standard credit assets are characterized by equipartition, tradability, adequate information disclosure, centralized registration, independent trusteeship, fair pricing, perfect liquidity mechanism, and are traded at interbank market, securities exchange market and other trading markets established with the approval of the State Council. The specific rules for defining standard credit assets shall be formulated by the PBoC and the financial regulatory authorities. Credit assets other than standard credit assets are non-standard credit assets. (2) The scopes of investment for public offered products. It is specified in the April 27 Guideline that public offering products are mainly invested in standard credit assets and publicly traded stocks and shall not be invested in the equity of unlisted enterprises except as otherwise stipulated by laws, regulations and financial management departments. If permitted by laws, regulations and financial management departments, public offering products can be invested in commodities and financial derivatives. (3) Identification of rigid payment. The following behaviors are regarded as rigid payment: (i) the issuer or manager of asset management products guarantees the principal and return of products in violation of the principle of determining net value based on real fair value, (ii) the principal and return of products are guaranteed through rolling issuance so that the principal, return and risks of asset management products are transferred from one investor to another; (iii) when the asset management products cannot be redeemed as scheduled or it is difficult for them to be redeemed, the financial institution issuing or managing the products raises funds by itself for redemption or entrusts other institutions with redemption; and (iv) other behaviors specified by the financial management departments. If rigid redemption is identified to be constituted, a deposit financial institution and a non-deposit licensed financial institution may be punished. (4) Net asset value measurement. Financial institutions shall measure asset management products on net asset value basis. Generation of net asset value shall comply with the Accounting Standards for Business Enterprises, timely reflect the return and risks of the underlying financial assets, be accounted by the trustee agency which then provides a report regularly, and be audited and confirmed by an external audit agency. The audited financial institution should disclose the audit results and submit them to the financial management departments. The principle of fair value measurement should be followed for financial assets and market value measurement is also encouraged. (5) Limitations on multi-layer product structure. It is specified in the April 27 Guideline that asset management products can be further invested in asset management products, but the asset management products they invest cannot be reinvested in asset management products other than public offering securities investment funds. (6) Leverage ratio. The leverage of asset management products falls into two categories: debt leverage and graded leverage; regarding debt leverage, the April 27 Guideline sets a maximum debt ratio (total assets/net assets) of 140%, 200%, 140%, and 200% respectively for asset management products of open public offering, closed public offering, graded private offering and other private offerings, and prohibited financial institutions from using shares of products under entrusted management for collateral financing. Regarding graded leverage, the April 27 Guideline prohibited share grading of public offering products and open private offering products. For closed private offering products that can be graded, the grading ratio (priority shares/inferior shares) must not exceed 3:1 for fixed income products, 1:1 for equity products, and 2:1 for commodity and financial derivative products and mixed products.

On September 26, 2018, the CBIRC promulgated Measures for the Supervision and Administration of the Wealth Management Business of Commercial Banks (《商業銀行理財業務監督管理辦法》) (the "Wealth Management Business Measures"), which provides that (1) a commercial bank that sells wealth management products shall not publicize or promise the guarantee of principal and proceeds; (2) a commercial bank shall conduct the wealth management business through a subsidiary company with the independent legal person status. If the conditions are not met for the time being, the head office of the commercial bank shall set up a specialized department for the wealth management business to exercise centralized and unified management of the wealth management business; (3) the balance of investment of all wealth management products of a commercial bank in non-standardized debt assets shall not exceed 35% of net assets of the wealth management product at any time, and shall not exceed 4% of the total assets disclosed in the audit report of the bank in the previous year; (4) there is a transitional period which lasts from the date when this Wealth Management Business Measures comes into force to the end of 2020. During the transitional period, the new wealth management products issued by a commercial bank shall comply with the provisions of Wealth Management Business Measures, and for existing wealth management products, the commercial bank may issue former products for transition with immature assets invested by existing wealth management products, but it shall strictly restrict the products to the overall size of existing products and reduce them in an orderly manner.

On December 2, 2018, the CBIRC promulgated Measures for the Administration of Wealth Management Subsidiary Companies of Commercial Banks (《商業銀行理財子公司管理辦法》), according to which approval of the banking regulatory authority is required for setting up a wealth management subsidiary company by a commercial bank, and a wealth management subsidiary company of a bank shall meet the following conditions: (1) it has the articles of association in comply with the PRC Company Law and the rules of the banking regulatory authority of the State Council; (2) it has shareholders that meet the prescribed conditions; (3) it has the minimal registered capital prescribed in Measures for the Administration of Wealth Management Subsidiary Companies of Commercial Banks; (4) it has directors and senior executives meeting the conditions of qualifications, and has sufficient qualified practitioners holding positions of research, investment, valuation, risk management and other wealth management business positions; (5) it has established effective corporate governance, internal control and risk management systems, has an information system supporting separate management, establishment of separate accounts, separate accounting, and other business management of wealth management products, and has the technologies and measures ensuring the effective and safe operation of the information system; (6) it has the business premises, safety protection measures and other facilities suitable for the business operation; and (7) it meets other prudential conditions prescribed in the rules of the banking regulatory authority of the State Council.

Interbank Business

On April 24, 2014, the PBoC, the CBRC, the CSRC, the CIRC and the SAFE jointly issued the Notice on Standardizing Interbank Business of Financial Institutions (《關於規範金融機構同業業務的通知》) ("**Interbank Business Notice 127**"), which sets out certain requirements in connection with regulating interbank business operations: (1) the Interbank

Business Notice 127 has defined and standardized interbank financing and investment businesses such as interbank borrowing, interbank deposits, interbank lending, interbank payment, financial assets purchased for resale (sold under repurchase agreements), requiring financial institutions to conduct interbank business centering on investment and financing, which shall be clarified into aforesaid basic types based on the nature of each transaction, and manage different interbank business by category; (2) financial assets purchased for resale (sold under repurchase agreements) shall be bank acceptance bill, bond, central bank bill and other highly liquid financial assets traded on the interbank market and the stock exchanges at reasonable fair value; (3) financial institutions that deal in businesses of purchase for resale (sales under repurchase agreements) and interbank investment shall not accept or offer any direct or indirect, explicit or implicit credit guarantee from or to third-party financial institutions, unless otherwise stipulated by the government; (4) financial institutions shall determine the financing maturity reasonably and prudently for their interbank business. The maximum financing maturity shall not exceed three years for interbank loans and one year for other interbank financing business; with no renewal upon expiry; (5) the net value of interbank lending (excluding interbank deposits for settlement purposes) from a commercial bank to a single financial institution legal person shall not exceed 50% of the tier-one capital of that bank after deducting assets with a risk weighting of zero, and the balance of interbank borrowings in a commercial bank shall not exceed 1/3 of its total debt; and (6) financial institutions shall establish and improve corresponding risk management and internal control system for interbank business and adopt proper accounting measures.

On May 8, 2014, the General Office of the CBRC issued the Notice on Standardizing the Governance of Interbank Business of Commercial Banks (《關於規範商業銀行同業業務治理的通知》) (“**Interbank Business Notice 140**”), requiring commercial banks to establish a governance system based on the scale and the complexity of their interbank business, to establish a system under which special departments shall be designated to manage the interbank business by the end of September 2014 and to submit the reform plan and the implementation details to the CBRC and its local branches. For the interbank business such as interbank lending, purchase for resale, sales under repurchase agreements and interbank deposit in an electronic form on the financial trading market, the designated department shall not entrust other departments or branches. In case of the interbank business that cannot be developed in an electronic manner through financial trade market, the designated department for interbank business of commercial banks may entrust other departments or branches to act as an agent for such operational matters as marketing and quotation, project origination and client relationship maintenance. However, the designated department for interbank business shall examine and approve the counterparties, amounts, terms, pricing and contracts one by one and shall be responsible for centralized accounting and undertake all risks and liabilities. Commercial banks shall establish and improve interbank business authorization management system, credit extension management policy and counterparty access mechanism.

According to the Interbank Business Notice 127, investment of financial institutions through purchasing or entrusting other financial institutions to purchase special purpose vehicles shall be classified as interbank investments. It further stipulates that special purpose vehicles include, but not be limited to, commercial bank financial products, trust investment plans, securities investment funds, asset management plans of the securities companies, asset management plans of the fund management companies and their subsidiaries and asset management products of insurance asset management institutions. In respect of the interbank investments, it requires that (1) financial institutions that carried out interbank investment shall not accept or offer any direct or indirect, explicit or implicit credit guarantee from or to any third-party financial institutions, unless otherwise stipulated by the authorities; (2) financial institutions shall strictly examine risks and the compliance of fund investment, and accurately evaluate risks and appropriate corresponding capital and provisions following the principle of substance over form based on the nature of underlying assets invested. Furthermore, the interbank business between special purpose vehicles and that between special purpose vehicles and financial institutions shall also abide by the Interbank Business Notice 127.

In addition, according to the Interbank Business Notice 140, the interbank business between special purpose vehicles with a commercial bank as the manager and the very commercial bank shall be strictly kept independent of each other in systems, personnel or rules under the principle of separating the business for clients from the self-operated business so as to avoid tunneling and other illegal internal transactions.

Business between Banks and Trust Companies

On August 5, 2010, the CBRC issued the Notice of the CBRC on the Regulation of Relevant Matters on the Wealth Management Cooperation Business between Banks and Trust Companies (《中國銀監會關於規範銀信理財合作業務有關事項的通知》), which requires commercial banks and trust companies to comply with the following principles in conducting the financing-oriented wealth management cooperation business between banks and trust companies: (1) the term of a trust product of a trust company which works with banks in wealth management shall not be less than one year; (2) headroom management shall be implemented on trust companies for their financing-oriented wealth management cooperation business between banks and trust companies, i.e., the balance of the financing-oriented business as a percentage of the balance of the wealth management cooperation business between banks and trust companies shall not exceed 30%; (3) trust products under trust companies shall not be designed as open-ended; (4) funds for the investment-oriented wealth management cooperation business between banks and trust companies shall, in principle, not be invested in shares of non-listed companies.

On January 13, 2011, the CBRC promulgated the Notice on Further Regulating the Wealth Management Cooperation between Banks and Trust Companies (《關於進一步規範銀信理財合作業務的通知》), according to which, the commercial banks shall transfer the off-balance-sheet assets concerning bank-trust wealth management cooperation into their balance sheets by the end of 2011. Detailed transfer plans should be submitted to the CBRC or its provincial offices before January 31, 2011. In principle, the bank-trust cooperation loan balances should be reduced by at least 25% quarterly. Trust companies should not draw dividends if the trust compensation reserves fall below 150% of the non-performing bank-trust loans from cooperation between banks and trust companies or 2.5% of the total balance of bank-trust loans from cooperation between banks and trust companies.

On November 22, 2017, the CBRC issued the Notice of the CBRC on Regulating the Bank-Trust Business (《中國銀監會關於規範銀信類業務的通知》), according to which, (1) commercial banks shall, in the bank-trust business, include the business with credit risks actually assumed by commercial banks in uniform credit management and carry out the regulatory requirements for the credit concentration ratio under the principle of substance over form; (2) commercial banks shall categorize the bank-trust business of which the credit risks are actually assumed by them, categorize risks according to the risk status of underlying assets under the penetration management requirements, and accurately calculate and withdraw capital and make provision in light of the nature of underlying assets; (3) with respect to bank-trust channel business, commercial banks shall (i) monitor risk based on business substance, (ii) not use trust channels to conceal risks or to circumvent prohibitive regulations on use of funds, classification of assets, reserve provisions and capital occupation, and (iii) not falsely take advantage of channels to place assets off-balance sheet; (4) regarding bank-trust business, commercial banks shall manage trust companies based on a name-list system and prudently select counterparties after fully considering the risk management level and professional investment capacity of trust companies; (5) when conducting bank-trust business, commercial banks shall not illegally invest the trust funds in real estate, LGFVs, stock market, overcapacity and other restricted or prohibited fields.

Bills Business

According to the PRC Commercial Banking Law, when commercial banks engage in the settlement business, including bills acceptance, foreign exchange conversion and entrusted fund collection, they shall honor the payments and credit receipts to accounts according to the specified timeline and shall not accumulate the bills or cheques or dishonor the cheques in violation of the requirements. Announcement on the prescribed timeline for honoring payments and crediting receipts into the account shall be made.

E-banking Business

The CBRC issued the Management Measures on E-banking Business (《電子銀行業務管理辦法》) on January 26, 2006, and the Guidelines on E-banking Security Evaluation (《電子銀行安全評估指引》) on December 6, 2006, requiring that all banking financial institutions applying for e-banking business shall establish sound internal control and risk management system. Banking institutions' main information management system and business processing system shall meet no material breakdown within one year prior to the application for E-banking services. Moreover, all banking financial institutions engaged in e-banking business shall adopt security measures to ensure the confidentiality of information.

On August 9, 2011, the CBRC issued the Notice on Enhancing the Management of E-banking Client Information (《關於加強電子銀行客戶信息管理工作的通知》), requiring commercial banks to attach great importance to security and confidentiality of client information. Without the client's authorization, commercial banks shall not provide the names, types of certificates, certificate numbers, mobile phone numbers, fixed-line telephone numbers, correspondence addresses and other sensitive information of clients to a third-party institution directly or indirectly. Moreover, a unified e-banking business department shall be clearly designated for electronic fund transfer and payment business.

Credit Card Business

On January 5, 1999 the PBoC issued the Measures for the Administration of Bank Card Business (《銀行卡業務管理辦法》), stipulating that a card-issuing bank shall check and verify the credit status of an applicant for credit card seriously and determine the applicant credit status and any effective method for guarantee of security of the applicant. Moreover, a card-issuing bank shall check the credit status of a credit cardholder regularly and adjust the credit limit of the cardholder which is subject to alterations on the cardholder credit status. According to the Administration of Bank Card Business, a card-issuing bank shall comply with a series of risk control indicators for the credit card business.

On January 13, 2011, the CBRC issued the Supervision and Management Measures on Credit Card Business of Commercial Banks (《商業銀行信用卡業務監督管理辦法》), stipulating that commercial banks must meet requirements for conducting credit card business, including prior approval from the CBRC. Commercial banks shall have effective internal control and risk management system to supervise the operation of its credit card business and protect legal rights and security of personal information of the clients. Commercial banks shall also fully disclose to clients the risks related to the use of credit cards and establish corresponding complaint handling mechanism.

On April 12, 2016, the PBoC issued the Notice on Matters Relating to Credit Card Business (《中國人民銀行關於信用卡業務有關事項的通知》), to improve upon a market-oriented credit card business mechanism, raise the credit card service standard, protect the legitimate rights and interests of cardholders and promote healthy development of the credit card market, which stipulates that, among others, (1) the daily interest rate of overdraft interest shall not be more than 0.05% and not be less than 0.035%; (2) the overdue fine, and fees charged for services provided to the cardholder exceeding the credit limit shall be canceled; and (3) cash withdrawal by cardholders through self-service machines such as ATM etc. shall not exceed RMB10,000 cumulatively per card per day.

Proprietary Investment

In general, commercial banks in China shall not make domestic investment, other than in debt instruments issued by the PRC Government and financial institutions, short-term financing bills, medium-term notes, bonds issued by corporations and certain derivative products issued by qualified non-financial institutions. Unless otherwise approved by the PRC Government, commercial banks shall not engage in trust investment and securities business or invest in real estate other than for own use and non-banking financial institutions and enterprises within the PRC.

Derivatives

According to the Interim Measures on the Management of Derivatives Trading by Banking Financial Institutions (《銀行業金融機構衍生產品交易業務管理暫行辦法》) revised and issued on January 5, 2011 by the CBRC, banking financial institutions conducting derivative product transactions shall be subject to the approval, supervision and inspection of the CBRC. The Measures stipulate that banking financial institutions engaging in derivative product transactions relating to foreign exchange, commodities, energies and stock right as well as in derivative product transactions in the field shall have derivative trading qualifications issued by the CBRC, and shall comply with the State's regulations on the administration of foreign exchange and other regulations.

Financing to Small and Micro enterprises

On July 23, 2014, the CBRC issued the Notice of Improving and Innovating Loan Services to Small and Micro Enterprises and Improving Financial Service Level to Small and Micro enterprises (《關於完善和創新小微企業貸款服務 提高小微企業金融服務水平的通知》), which proposes certain requirements on banking financial institutions to rationally resolve the loan term of small and micro enterprises, to diversify the products of loan, to innovate service pattern, to scientifically and accurately classify the credit risks, to improve risk management, and to improve the financial service level.

On October 31, 2014, the State Council issued the Opinions on Supporting the Healthy Development of Small and Micro Enterprises (《國務院關於扶持小型微型企業健康發展的意見》), to encourage and guide banks to focus on supporting small and micro enterprises and regional economic development, and requiring each banking financial institution to separately list small and micro enterprise credit schemes on the basis that such business is sustainable and risks are effectively controlled.

On June 22, 2015, the CBRC issued the Notice from CBRC to Further Implement Financial Service Supervising Policy of Small and Micro enterprises (《中國銀監會關於進一步落實小微企業金融服務監管政策的通知》), which proposes certain requirements on insisting problem-oriented strategy, ensuring the implementation of policies, clarifying the emphasis of supports, increasing the input of credit and loan, advancing the innovation of loan services, enlarging the scope of autonomously renewing loans, improving the tolerance indicator of non-performing assets, strengthening differentiated assessment, optimizing the internal resources allocation, improving the service ability, and standardizing service charge for the purpose of implementing each supporting policy and continually improving and deepening financial service to small and micro enterprises.

On May 23, 2017, the CIRC, CBRC, CSRC, NDRC, NAO, MOF, Ministry of Agriculture, MIIT, SAT, SAIC and PBoC issued the Circular on Issuing the Implementing Plan for Setting up Business Units of Inclusive Finance in All Large-and Medium-sized Commercial Banks (《關於印發大中型商業銀行設立普惠金融事業部實施方案的通知》), stipulating that the head offices of a bank shall set up business units of inclusive finance, and reasonably define the responsibility boundaries between business units of inclusive finance and other internally-set departments according to the relevant requirements for risk management. The business units of inclusive finance will undertake the study on policies, development of rules, R&D of products, risk management and other responsibilities with regard to the financial business of inclusive finance in the whole bank. The branches shall set up front desk business departments and professional operating organizations of the business units of inclusive finance scientifically and reasonably under the principles of convenience of management and reflection of features, define the scope of responsibilities reasonably, expand the focus of operations adhering to the principles of getting close to the market and customers, and sub-delegating the power of approval.

On March 4, 2019, the CBIRC issued the Notice of the General Office of the China Banking and Insurance Regulatory Commission on Further Improving the Quality and Efficiency of Financial Services Offered to Micro and Small Enterprises in 2019 (《中國銀保監會辦公廳關於2019年進一步提升小微企業金融服務質效的通知》), stipulating that banking financial institutions should always maintain strategic focus, strengthen support for key areas of inclusive finance, focus on relatively disadvantaged groups among micro and small enterprises and effective credit demands and strive to achieve the objectives of "two growths and two controls". Meanwhile, they should continue to monitor full-caliber statistic data on loans offered to micro and small enterprise, further increase the proportion of banking loans in the total amount of financing received by micro and small enterprises and help with the overall reduction of financing costs for micro and small enterprises.

Certificates of Deposit

On June 2, 2015, the PBoC promulgated the Provisional Measures on Management of Certificates of Deposit (《大額存單管理暫行辦法》) to standardize and regulate the development of the business of certificates of deposit, expand the scope of market-based pricing of debt-based products issued by deposit-taking financial institutions and promote the orderly reform of the liberalization of interest rates in an orderly manner. A self-regulated pricing system shall be developed by banks to determine the interest rates and the interest calculation rules of certificates of deposit based on market conditions. The PBoC also promulgated the Implementation Provisions of Management of Certificates of Deposit (《大額存單管理實施細則》) on June 2, 2015.

The measures and implementation provisions above mentioned require deposit-taking financial institutions (the "Issuer") to fulfill the following conditions: (1) the Issuer is a member of the national self-regulating pricing system; (2) the Issuer has formulated the administrative measures for certificates of deposit and established a management system for certificates of deposit business; (3) such other requirements as promulgated by the PBoC. Deposit-taking financial institutions shall submit an annual issuance plan to the PBoC before the issuance of the first certificates of deposit every year. If there is any change to the issuance plan, the deposit-taking financial institutions shall file the same with the PBoC. Before the issuance of the first certificate of deposit every year, the Issuer shall register with the National Interbank Funding Center in respect of the issuance amount of the year, which shall be consistent with the amount stated in the annual issuance plan submitted to the PBoC. The proposed issuance amount for each term shall not exceed the annual approved amount. Certificates of deposit can be used for pledging, including but not limited to loans secured by pledges and financing secured by pledges. Interest rates on certificates of deposit shall be determined by the market. Fixed interest rate is calculated by using the annualized return rate while floating interest rate is calculated based on SHIBOR.

Financial Marketing and Publicity

On December 20, 2019, the PBoC, CBIRC, CSRC, and SAFE issued the Notice on Further Regulating Financial Marketing and Publicity Activities (《關於進一步規範金融營銷宣傳行為的通知》), which requires that market entities which have not obtained the corresponding financial business qualification shall not carry out marketing and publicity activities relating to the said financial business. The financial marketing and publicity activities shall comply with the following requirements: (1) the internal control system and management mechanism for financial marketing and publicity shall be established and improved; (2) the work mechanism for monitoring financial marketing and publicity activities shall be established and improved; (3) the supervision of financial marketing and publicity activities of business partners shall be strengthened; (4) it is not allowed to carry out illegal financial marketing and publicity activities or such activities beyond the scopes; (5) the marketing and publicity of financial products or financial services shall not be conducted in a fraudulent or misleading manner; (6) it is not allowed to carry out financial marketing and publicity activities in a manner which compromises fair competition; (7) government credibility shall not be used to conduct financial marketing and publicity; (8) the right to know of financial consumers shall not be damaged; (9) it is not allowed to carry out improper financial marketing via the Internet; (10) it is not allowed to send any financial marketing and publicity information to financial consumers in violation of regulations; and (11) business operators of financial products or financial services shall not carry out other financial marketing and publicity activities in violation of laws and regulations or as recognized by the financial administrative authorities of the State Council.

PRICING OF PRODUCTS AND SERVICES

Interest Rates for Loans and Deposits

According to the PRC Commercial Banking Law, banks shall determine the interest rates for RMB-denominated loans and deposits based on the range of benchmark interest rates stipulated by the PBoC. In recent years, the PBoC has gradually relaxed its regulations on interest rates and granted more flexibility to banks in determining the interest rates for RMB-denominated loans and deposits.

Since October 29, 2004, PRC commercial banks were allowed to set their own interest rates of RMB-denominated deposits so long as such interest rates were not higher than the relevant PBoC benchmark rates. Since then, the upper cap of RMB deposit rate of PRC commercial banks continued to lift.

In accordance with the Notice of the PBoC on Further Promoting the Interest Rate Liberalization Reform (《中國人民銀行關於進一步推進利率市場化改革的通知》) issued by the PBoC, commercial banks may set their own bill discounting rates, except for residential mortgage loans, with effect from July 20, 2013.

Effective on October 24, 2015, the PBoC removed the cap on interest rates on deposits and allowed PRC commercial banks to set interest rates on deposits based on commercial considerations.

On August 16, 2019, the PBoC published the Announcement of the PBoC [2019] No. 15 (《中國人民銀行公告[2019]第15號》). Effective on August 20, 2019, the National Interbank Funding Center (the "NIFC") is authorized by the PBoC to announce the Loan Prime Rate (the "LPR") on the 20th day of each month, based on the rates of open market operations. Commercial banks shall set interest rates on new loans by mainly referring to the LPR and use the LPR as the benchmark for setting interest rates on floating rate loans.

Pricing of Products and Services based on Fees and Commissions

The CBRC, the PBoC and the NDRC jointly issued the Notice on the Exemption of Certain Service Charges by Banking Financial Institutions (《關於銀行業金融機構免除部分服務收費的通知》) on March 9, 2011, requiring banking financial institutions to exempt some charges collectable for personal RMB accounts from July 1, 2011. In order to further standardize the charges collectable by banking financial institutions, the CBRC issued the Notice on Rectifying Non-standard Operations of Banking Financial Institutions (《關於整治銀行業金融機構不規範經營的通知》) on January 20, 2012, expressly prohibiting banking financial institutions from certain behaviors in charges collectable in the credit business and requiring banking financial institutions to make pricing more transparent. According to the Management Measures on Service Prices of Commercial Banks (《商業銀行服務價格管理辦法》) issued jointly by the CBRC and the NDRC on February 14, 2014, services of commercial banks shall be subject to market-regulated prices except for the services with government guided prices and government-determined prices. Commercial banks shall publish at least three months in advance according to the Measures when increasing or setting new market-adjusted prices. According to the Circular of the NDRC and the CBRC on Canceling and Suspending the Charge for Some Basic Financial Services Provided by Commercial Banks (《國家發展改

革委、中國銀監會關於取消和暫停商業銀行部分基礎金融服務收費的通知》) issued jointly by the NDRC and the CBRC on June 30, 2017, commissions have been cancelled, when an individual withdraws cash from counters of the same bank but not located in the city where the individual opens his account. And the commercial banks shall suspend to charge for the commissions, loss reporting fees and costs of production for promissory note and bank drafts.

SUPERVISION OVER CAPITAL ADEQUACY

The Standard over Capital Adequacy Level

On June 7, 2012, the CBRC promulgated the Capital Administrative Measures (Provisional), which became effective on January 1, 2013. According to the Capital Administrative Measures (Provisional), the calculation formula of the capital adequacy ratio is as follows:

(1) Capital adequacy ratio = (Total capital – corresponding capital deductions)/risk-weighted assets × 100%;

(2) Tier-one capital adequacy ratio = (Tier-one capital – corresponding capital deductions)/risk-weighted assets × 100%;

(3) Core tier-one capital adequacy ratio = (Core Tier-one capital – corresponding capital deductions)/risk-weighted assets × 100%.

Regulatory Requirements on Capital Adequacy Ratio

In commercial banks, regulatory requirements on capital adequacy ratio include minimum capital requirements, reserve capital and counter-cyclical capital requirements, additional capital requirements of systemically important banks and capital requirements of the second pillar.

The commercial banks' Capital adequacy ratio at each level should meet the following minimum requirements: (1) capital adequacy ratio shall not be less than 8%; (2) tier-one capital adequacy ratio shall not be less than 6%; and (3) core tier-one capital adequacy ratio shall not be less than 5%.

Commercial banks should provision reserve capital on the basis of minimum capital requirement. Capital reserve requirements should be 2.5% of the risk-weighted assets, which is satisfied by core tier-one capital. Under special circumstances, commercial banks should provision counter-cyclical capital based on the requirements of minimum capital and minimum reserve capital. The requirement of counter-cyclical capital is 0% to 2.5% of risk-weighted assets, which should be satisfied by core tier-one capital.

In addition, systemically important banks in China should also provision additional capital. The requirement of additional capital is 1% of risk-weighted assets, which should be satisfied by core tier-one capital. If a domestic bank is identified as a systemically important bank worldwide, the requirement of applicable additional capital shall be no lower than the unified regulations of the Basel Committee.

Meanwhile, the CBIRC has the authority to put forward more prudent capital requirement under the framework of the second pillar, so as to ensure full coverage of risks by capital, including: (1) specific capital requirements in respect of certain asset portfolios on the basis of risk assessment; and (2) specific capital requirements on an individual bank according to the results of supervisory inspections.

Time Limit for Meeting the Requirements

The Capital Administrative Measures (Provisional) stipulates that commercial banks should meet the given regulatory requirement on capital adequacy ratio by the end of 2018, and where conditions permit, commercial banks are encouraged to meet the requirements ahead of schedule.

In order to ensure the successful implementation of the Capital Administrative Measures (Provisional), the CBRC issued the Notice on Arranging Related Matters in the Transitional Period of Carrying out Capital Administrative Measures (Provisional) (《關於實施<資本管理辦法(試行)>過渡期安排相關事項的通知》) on November 30, 2012. According to the Notice, it was stipulated that commercial banks should reach the minimum capital requirement before January 1, 2013. Meanwhile, systemically important banks in China should also meet the requirement of additional capital. During the transitional period, reserve capital requirement (2.5%) should be applied gradually, and commercial banks should meet the schedule of annual capital adequacy requirement as follows:

Type of banks	Item	By the end of 2013	By the end of 2014	By the end of 2015	By the end of 2016	By the end of 2017	By the end of 2018
Systemically important banks	Core tier-one capital adequacy ratio	6.5%	6.9%	7.3%	7.7%	8.1%	8.5%
	Tier-one 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-one capital adequacy ratio	5.5%	5.9%	6.3%	6.7%	7.1%	7.5%
	Tier-one 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%

Issuance of Capital Instruments to Increase the Capital

According to the Management Measures on the Issuance of Subordinated Bonds by Commercial Banks (《商業銀行次級債券發行管理辦法》) issued jointly by the PBoC and the CBRC on June 17, 2004, the liquidation order of the principal and interest of subordinated bonds issued by commercial banks is subordinated to the banks' other liabilities but are senior to the banks' equity capital. Approved by the CBRC, commercial banks in China are allowed to include such subordinated bonds into their supplementary capital. Commercial banks in China are not allowed to hold subordinated bonds issued by other banks with an aggregate amount over 20% of their core capital. The issuance of subordinated bonds is subject to the regulation of the PBoC and CBRC in accordance with law. The CBRC is responsible for examining the qualifications of commercial banks to issue subordinated bonds and the way to include the bond into supplementary capital. Meanwhile, the PBoC is responsible for the issuance and transaction of subordinated bonds in the interbank bond market.

The Capital Administrative Measures (Provisional) stipulated that unqualified tier-two capital instruments issued by a commercial bank before September 12, 2010 may be included in regulatory capital before January 1, 2013, but from January 1, 2013, such instruments are to be decreased by 10% each year and, from January 1, 2022, such instruments are no longer allowed to be included in regulatory capital. For a tier-two capital instrument issued by a commercial bank between September 12, 2010 and January 1, 2013, if the instrument has no write-down or share conversion clause but meets other eligibility criteria for inclusion of the tier-two capital instruments, it may be included in regulatory capital before January 1, 2013, but, from January 1, 2013, such instruments are to be decreased by 10% each year and, from January 1, 2022, such instruments are no longer allowed to be included in regulatory capital.

According to the Guiding Opinions on the Issuance of Corporate Bonds by Commercial Banks to Increase Their Capital (《關於商業銀行發行公司債券補充資本的指導意見》) issued by the CSRC and CBRC on October 30, 2013, commercial banks listed on Shanghai Stock Exchange and Shenzhen Stock Exchange or domestic commercial banks issuing overseas listed foreign shares, or commercial banks whose applications for domestic initial public offerings are under examination may increase their capital by issuing corporate bonds that include write-down articles in accordance with the PRC Securities Law, the PRC Company Law and the administrative measures of the CSRC for the issuance of corporate bonds.

According to the Circular of the CBIRC on Issuing the Guiding Opinions on the Innovation of Capital Instruments of Commercial Banks (Revised) (《中國銀保監會關於印發<關於商業銀行資本工具創新的指導意見(修訂)>的通知》) issued by the CBIRC on November 22, 2019, additional tier 1 capital instruments and tier 2 capital instruments issued by commercial banks shall conform to the relevant provisions of the Capital Administrative Measures (Provisional) and meet the relevant standards set forth in the Guiding Opinions in the ways agreed in contracts. Moreover, commercial banks shall submit their schemes for capital instrument issuance to the CBIRC or its local offices, which will confirm the capital attribute of the capital instruments to be issued to the extent of regulatory duties and perform the examination and approval procedures in accordance with pertinent laws and regulations.

Supervision over Capital Adequacy Level

The CBIRC is responsible for supervision over the capital adequacy level of banking financial institutions in China. Through on-site inspection and off-site supervision, the CBIRC and its local offices monitors and evaluates the capital adequacy situation of banking financial institutions in China.

According to the Capital Administrative Measures (Provisional), commercial banks are classified into the following four types in accordance with the capital adequacy situation and corresponding measures are adopted, details of which are as follows:

Type	Capital adequacy situation	Measures of the CBRC
Type one	Capital adequacy ratio, tier-one capital adequacy ratio and core tier-one capital adequacy ratio all meet the capital requirements at all levels	• To require banks to enhance analysis and forecast of the reasons for the decline in the level of capital adequacy ratio; • To require banks to develop practical management plan for capital adequacy ratio; and • To require banks to improve their abilities of risk control.
Type two	Capital adequacy ratio, tier-one capital adequacy ratio and core tier-one capital adequacy ratio do not meet capital requirements of the second pillar, but not less than other capital requirements at all levels	• Regulatory measures taken by the first type of banks; • To carry out prudent discussion with the bank's board of directors and senior management; • To issue supervision position paper, with the content including: the existing problems of bank capital management, the corrective measures to be taken and the advice on deadline for meeting the standards; • To require banks to develop practical plans for capital replenishment and the plan of deadline meeting the compliance; • To increase the frequency of supervision and inspection over bank capital adequacy; and • To require banks to take risk mitigation measures with respect to specific risks.
Type three	Capital adequacy ratio, tier-one capital adequacy ratio and core tier-one capital adequacy ratio are all not less than the minimum capital requirement, but do not meet capital requirements at other levels	• Regulatory measures for type one and type two banks; • To restrict banks to dividend and other income; • To restrict banks to award any form of incentives to director and senior management; • To restrict banks to invest in stocks or repurchase capital tools; • To limit important capital expenditure of banks; and • To require banks to control the growth of risk assets.

Type	Capital adequacy situation	Measures of the CBRC
Type four	Any of capital adequacy ratio, tier-one capital adequacy ratio and core tier-one capital adequacy ratio doesn't reach the minimum capital requirement	• Regulatory measures for type one, type two and type three banks; • To require banks to significantly reduce the scale of the risk assets; • To instruct commercial banks to stop conducting all high-risk asset business; • To limit or prohibit the development of new institutions and new businesses; • To require banks to write down tier-two capital tools or convert to share ordinary; • To instruct the banks to adjust the directors, senior management or restrict their rights; • To lawfully take over or facilitate the reorganization of the bank, until such measures are revoked; and • To consider other external factors and take other necessary measures in order to solve the problems faced by Type four banks.

Introduction of New Leverage Requirements

In order to further meet the goals of supervision over capital adequacy ratio, the CBRC issued the Administrative Measures on the Leverage Ratio of Commercial Banks (Revised) (《商業銀行槓桿率管理辦法(修訂)》) (the "Leverage Ratio Measures") on January 30, 2015, effective from April 1, 2015.

Pursuant to the Leverage Ratio Measures, both consolidated and unconsolidated leverage ratios of commercial banks shall be no less than 4%, and leverage ratio shall be calculated according to the following formula:

$$\text{Leverage ratio} = \frac{\text{Tier-one capital} - \text{deduction of tier-one capital}}{\text{Balance of adjusted on-balance sheet and off-balance sheet asset}} \times 100\%$$

For the commercial banks with leverage ratio less than the minimum supervision requirements, the CBRC and its local offices may take remedial actions, including requiring the commercial bank to: (1) replenish tier-one capital within a certain time limit; (2) control the growth rate of its on- and off-balance sheet asset; (3) reduce the size of its on- and off-balance sheet asset. If the commercial bank fails to remediate its non-compliance within the specified period, or its behavior has seriously endangered its sound operation or damaged the legitimate interests of depositors or other clients, the CBRC and its local offices may take relevant regulatory measures, as the case may be, according to the PRC Banking Supervision and Regulatory Law. In addition to the regulatory measures, administrative punishment can also be given to commercial banks according to the law.

The Leverage Ratio Measures also requires that systemically important banks shall meet the minimum regulatory requirements therein since April 1, 2015, and other commercial banks shall meet such requirements by the end of 2016.

Basel Accords

Basel Capital Accords (also known as Basel I) is composed of a series of documents, including the metering system of bank capital made in 1988 by Basel Committee on Banking Supervision and supplemental provisions of market risk issued in 1996. Basel I requires banks to carry out the framework of credit risk measurement, and stipulates the minimum capital adequacy ratio as 8%.

Since 1998, Basel Committee has released a number of bills in succession, which completed the composition of the Basel II. The Basel II retains some elements of Basel I, which includes the general provision that banks should maintain total capital at least 8% of the risk weighted assets. However, it attempts to improve the capital framework from the principal aspects, including (1) the establishment of the "three-pillar" framework, namely "minimum capital standard" as the first pillar, "regulation and oversight of regulators" as the second pillar and "information disclosure" as the third pillar; and (2) substantially revised the calculation method of capital adequacy ratio.

In December 2010, Basel Committee officially released the latest capital accord (also known as Basel III), which established a new financial regulatory pattern combining micro prudential and macro prudential supervision, substantially increased the requirement of capital supervision of commercial banks, and established global unanimous quantitative liquidity supervision standards. In summary, Basel III (1) 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; (2) 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 (3) introduces two new global liquidity standards, which aim to ensure that adequate funding is maintained in case of crisis.

In order to be consistent with the reform spirit of Basel Accords and promote the implementation of Basel III, Instruction of the CBRC on Carrying out Supervision 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》) was issued on April 27, 2011 by the CBRC. It included the main objectives and principles of regulatory framework reform in China. On June 1, 2011, the CBRC issued the Administrative Measures on Leverage Ratio of Commercial Banks. On June 7, 2012, The Capital Administrative Measures (Provisional) was issued and it was put into effect on January 1, 2013 and superseded the Capital Adequacy Measures and the related guidelines.

In order to enhance the effectiveness of capital supervision, as well as improving the risk management ability of commercial banks and strengthen the function of market discipline, on July 19, 2013, the CBRC further set out four policy documents, including the Central Counterparty Risk Exposure Capital Measurement Rules (《中央交易對手風險暴露資本計量規則》), the Regulatory Requirement on Information Disclosure of Capital Composition in Commercial Banks (《關於商業銀行資本構成信息披露的監管要求》), the Supplementary

Regulatory Requirements on Carrying out Internal Rating Based Approach in 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 on Capital Regulatory Policy (《資本監管政策問答》).

In January 2013, Basel Committee published the Third Edition of Monitoring Standards on Liquidity Coverage Ratio and Liquidity Risk of Basel Accords (《第三版巴塞爾協議流動性覆蓋率和流動性風險監測標準》). In January 2014, Basel Committee issued the Third Version of Framework and Disclosure Requirements of Leverage Ratio of Basel Accords (《第三版巴塞爾協議槓桿率框架和披露要求》), further revising the international rules of leverage ratio. Based on the new rules of Basel Committee on leverage ratio, in 2015, the CBRC revised the Management Measures on the Leverage Ratio of Commercial Banks (《商業銀行槓桿率管理辦法》) which was promulgated on June 1, 2011, putting forward clearer and stricter requirements on leverage ratio disclosure by commercial banks.

LOAN CLASSIFICATION, ALLOWANCE AND WRITE OFFS

Loan Classification

According to the Guidelines of Risk-based Classification of Loans (《貸款風險分類指引》) issued on July 3, 2007, banks in China should classify the loans by judging the possibility that the debtors could repay in full the loan principals and interests timely in accordance with the five-category loan classification system. The five-category loan classification refers to "normal", "special mention", "substandard", "doubtful" and "loss". The main factors of evaluating the possibility of repayment include the cash flow, financial condition, and other non-financial factors that affect the loan repayment ability of borrowers.

Loan Loss Provision

According to the Guidelines of Risk-based Classification of Loans, loans categorized as subordinated, doubtful or loss would be regarded as non-performing loan. Commercial banks shall, on the basis of loan classification, set aside full provisions for loan losses in a timely manner and write off loan losses in accordance with relevant provisions.

According to the Guidelines on Loan Loss Provisioning of Banks (《銀行貸款損失準備計提指引》) promulgated by the PBoC on April 2, 2002, commercial banks shall set aside general provision for loan loss every quarter. In addition, the balance of general provision at the end of year shall be no less than 1% of total outstanding loans at the same time. The Guidelines also guides the proportion of specific provision for each loan category as follows: 2% for special mentioned loan; 25% for substandard loan; 50% for doubtful loan; and 100% for loss loan. For the loss provisions for substandard and doubtful loans, the proportion can fluctuate up or down in a range of 20%. Commercial banks may, on a quarterly basis, make special provision on their own in accordance with special risk factors, probability of losses and historical experience of loans of different types (such as industries and countries).

According to the Administrative Measures on Loan Loss Provision of Commercial Banks (《商業銀行貸款損失準備管理辦法》) issued on July 27, 2011 by the CBRC and became effective on January 1, 2012, the adequacy ratio of commercial banks' loan loss provision is evaluated by two indicators, loan loss allowance to total loans and loan loss allowance to non-performing loans, of which the basic standards are 2.5% and 150% respectively. The higher of the two is the supervision standard. The board of directors of commercial banks is ultimately responsible for management of loan loss provision. Systematically important banks shall reach the standards by the end of 2013. Non-systematically important banks shall reach the standards by the end of 2016, and if they fail to meet the standard, they shall formulate plans of reaching the standard and report to the CBRC, and the standards shall be reached by the end of 2018 at the latest.

Supervision of Loan Classification and Loan Loss Provision

Commercial banks shall formulate detailed internal procedures and clearly specify relevant departments' responsibilities in works including loan classification, examination and approval and review, etc. In addition, commercial banks shall regularly submit quarterly report and annual report of loan classification and loan loss provision to the CBIRC. Based on examination on the above-mentioned reports, the CBIRC can require commercial banks to explain any major changes of their loan classification and loan loss provision level, or conduct further investigation. According to the Administrative Measures on Loan Loss Provision of Commercial Banks that took effect on January 1, 2012, for commercial banks failing to reach regulatory standards of loan loss provision for continuous three consecutive months, the CBRC may give them risk warning and propose request rectification. For commercial banks fail to meet regulatory standards for six consecutive months, the CBRC can apply certain supervision measures based on the PRC Banking Supervision and Regulatory Law.

Loan Write-offs

Under the regulations issued by the CBRC, the PBoC and the MOF, commercial banks are required to establish a strict approval and audit process to write off loan losses. In accordance with the Administrative Measures for the Write-off of Bad Debts of Financial Enterprises (2017 Edition) (《金融企業呆賬核銷管理辦法(2017年版)》) promulgated by the MOF on August 31, 2017, after the financial institution adopts necessary measures and procedures, loans in compliance with the recognition standards promulgated by the MOF are allowed to be written off following the internal review process of the financial institution.

Bulk Transfer of Non-performing Assets

On January 18, 2012, the MOF and the CBRC issued the Management Measures on the Bulk Transfer of Non-performing Assets of Financial Enterprises (《金融企業不良資產批量轉讓管理辦法》). It stipulates that financial enterprises can bulk transfer non-performing credit assets and non-credit assets formed in operations to asset management companies, and such negotiable assets mainly include: loans identified as substandard, doubtful and loss according to prescribed procedures and standards; written-off back assets, repossessed assets and other non-performing assets. The nonperforming assets that may not be bulk transferred include the assets whose debtors or guarantors are state organs, the assets listed in the national enterprise policy-mandated bankruptcy plan upon approval by the State Council, the assets concerning state security and sensitive information in national defense and military industry, personal loans (including various loans with individual as borrowing principal, such as housing loans, car loans, educational loans, credit card overdraft and other consumption loans extended to individuals), the assets subject to transfer restriction terms in borrowing contracts or guarantee contracts, and other assets restricted to transfer by national laws and regulations.

Reserves for Impairment Loss and Statutory General Reserve

On March 30, 2012, the MOF issued the Management Measures on the Provisioning by Financial Institutions (《金融企業準備金計提管理辦法》), which came into force on July 1, 2012. The MOF also abolished the Management Measures on the Withdrawal of Reserves for Non-performing Loans of Financial Enterprises (《金融企業呆賬準備提取管理辦法》). Based on the Management Measures on the Provisioning by Financial Institutions, the statutory general reserve shall be no less than 1.5% of the closing balance of risk assets. If the financial enterprise's proportion of general reserve balance to the closing balance of risk assets is difficult to reach 1.5% at one-time, the financial enterprise is allowed to achieve the requirement within a certain period of time, but in principle the time needed should be no longer than 5 years.

DEPOSIT INSURANCE SYSTEM

According to the Deposit Insurance Regulation (《存款保險條例》) issued by the State Council on February 17, 2015 and effective on May 1, 2015, all Chinese financial institutions that accept deposit are subject to the newly established deposit insurance system and the deposit insurance is subject to the reimbursement under a certain limit, with the maximum reimbursement limit set at RMB500,000. Where the total amount of the principal and interest of the deposits in all the insured deposit accounts opened by the same depositor in the same insured institution calculated on a consolidated basis is within the maximum reimbursement limit, such total amount will be reimbursed in full amount; and, any portion in excess of the maximum reimbursement limit shall be paid with the liquidation property of the insured institution.

The financial institution which accepts deposit shall pay premiums, including unit premiums and risk premiums. Premium structures shall be determined by deposit insurance agencies approved by the State Council. The premium should be paid every six months. Deposit insurance funds shall be kept at the PBoC or invest in PRC Government bonds, the PBoC notes or high-rating bonds, etc.

REQUIRED DEPOSIT RESERVE

The deposit reserve funds deposited by commercial banks to the PBoC in accordance with the deposit caliber and proportion specified in the regulations are used to meet customers' withdrawal needs under extreme circumstances and are also an important tool for the monetary control of the PBoC.

OTHER RISK MANAGEMENT RATIOS

The Core Indicators (Provisional) issued by the CBRC has come into force since January 1, 2006. The table below sets forth for the periods indicated and as of dates indicated, the ratios of the Bank calculated in accordance with the required ratios as provided in the Core Indicators (Provisional), other relevant regulatory requirements and applicable accounting standards.

				Rate of the Bank (%)		
				As of December 31		
Risk level	First grade indicator	Secondary indicator	Requirement	2017	2018	2019
			(%)			
Risk level						
Liquidity risk	Liquidity ratio		≥25	42.62	56.37	63.85
	Liquidity coverage ratio		≥100	103.03	135.34	139.86
	Net stable funding ratio		≥100	93.60(1)	112.33	112.99
Credit risk		Non-performing loan ratio	≤5	1.74	1.84	1.78
	Single group client credit concentration		≤15	10.88	10.09	N/A(2)
		Loan concentration of Single client	≤10	7.86	9.09	N/A(2)
Risk compensation						
Profitability	Cost-to-income ratio		≤45	34.22	35.40	29.50
	Return on assets		≥0.6	0.73	0.70	0.76
	Return of equity		≥11	15.12	13.59	13.71
Capital adequacy	Capital adequacy ratio		≥10.5	11.43	11.77	13.07
		Tier-one capital adequacy ratio	≥8.5	8.12(3)	8.61	10.63
		Core tier-one capital adequacy ratio	≥7.5	8.12	8.61	8.06

Notes:

(1) According to regulatory requirements, the net stable funding ratio should reach 100% from July 1, 2018.

(2) According to regulatory requirements, since the first quarter of 2019, the Bank has stopped submitting the indicator to the regulatory authorities.

(3) As of December 31, 2017, the Bank's tier-one capital adequacy ratio was 8.12%, which met the requirements under the Notice on Arranging Related Matters in the Transitional Period of Carrying out Capital Management Measures of Commercial Banks (trial) issued by the CBRC on November 30, 2012.

According to the Core Indicators (Provisional), the CBRC may carry out analysis based on data submitted by commercial banks and give risk warning to the banks. The Core Indicators (Provisional) defines several other ratios, including risk sensitivity of relevant interest rate, ratios of operating risk and loan migration rate. The CBRC may formulate regulatory requirements regarding to operational risk in the future.

CORPORATE GOVERNANCE AND INTERNAL CONTROL

Corporate Governance

The PRC Company Law, the PRC Commercial Banking Law, and other laws, regulations and policy documents have made clear requirements for corporate governance. Among them, the Corporate Governance Guidelines issued by the CBRC on July 19, 2013 requires that commercial banks shall establish comprehensive corporate governance system and have clear governance structures. The management and supervision powers, functions and responsibilities of the board of directors, the board of supervisors and the senior managers shall be clarified. The guidelines also require commercial banks to abide by the principles of independent operation, effective checks and balances, mutual cooperation and coordinated operation and establish reasonable incentive and restraint mechanisms in order to achieve rationality and efficiency in decision-making, execution and supervision.

On November 25, 2019, the CBIRC issued the Supervision and Assessment Measures on the Corporate Governance of Banks and Insurance Institutions (Provisional) (《銀行保險機構公司治理監管評估辦法(試行)》). It stipulates that the CBIRC and its local offices will categorize commercial banks into five grades based on the outcome of their judgement and assessment on the corporate governance and risk management and will impose differential regulatory measures accordingly.

Internal Control

In accordance with the Corporate Governance Guidelines, commercial banks must set up and improve internal control responsibility systems. The board of directors and senior management shall take responsibilities of different levels for the effectiveness of internal control and be responsible for heavy losses caused by failures of internal control. Besides, the board of supervisors is in charge of supervising directors and senior management, improving internal control systems and rules and performing supervision duty of internal control. Commercial banks should establish relatively independent monitoring and evaluating departments for internal control, which shall effectively supervise and evaluate the establishment and implementation of internal control. Such departments can report directly to the board of directors, the board of supervisors and senior management about the establishment and implementation of internal control.

The Guidelines for the Internal Audit of Commercial Bank (《商業銀行內部審計指引》) issued by the CBRC on April 16, 2016, which requires commercial banks to establish an audit committee of the board with at least three members, a majority of whom must be independent directors. Commercial banks are also required to establish independent internal audit departments consisting of sufficient internal auditors, who shall in principle represent 1% or more of the bank's total number of employees.

Information Disclosure Requirements

According to the Corporate Governance Guidelines and the Measures on the Information Disclosure of Commercial Banks (《商業銀行信息披露辦法》) issued by the CBRC on July 3, 2007, a Chinese commercial bank shall disclose its annual reports (including audited financial report) within four months after the end of each fiscal year to disclose its financial conditions and operation results. The board of directors is responsible for the information disclosure of the commercial bank. Information disclosure documents include periodic reports, interim reports and other relevant materials. A commercial bank shall disclose its information by means of annual report and Internet, etc. to enable shareholders and other stakeholders to obtain the disclosed information in a convenient and timely matter. The information disclosure of listed banks shall at the same time meet relevant requirements of the securities regulators.

Periodic Reporting Requirements

In accordance with Notice on the Official Operation of Off-site Supervision Information System from the Year of 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 on October 20, 2006, banking financial institutions shall submit relevant statements to banking regulators in accordance with regulations. Currently, off-site supervision statements include basic financial information, capital adequacy ratio, credit risks, liquidity risks, market risks, country and regional risks and business reports and support development reports. Among the statements required to be submitted by the Bank, the balance sheet, liquidity ratio monitoring statement and other similar information should be submitted monthly; the income statement, leverage statement, summary statement of capital adequacy ratio, loan quality migration statement and other similar information should be submitted quarterly; the statement of the largest ten depository customers shall be submitted semiannually; and the statement of shareholders and other similar information shall be submitted annually.

Although the Bank will continue to submit relevant periodic reports to relevant regulatory institutions, the Bank does not have any plan to disclose the data contained in those reports by means of public announcement after the Global Offering due to (1) financial information contained in relevant reports will not be disclosed to the public; and (2) such financial information will not be audited.

Related Party Transactions

On April 2, 2004, the CBRC issued the Administrative Measures for Related Party Transactions between Commercial Banks and their Insiders and Shareholders (《商業銀行與內部人和股東關聯交易管理辦法》), which strictly stipulates the requirements on related party transactions of Chinese commercial banks. Such Measures require Chinese commercial banks to observe the principles of honesty and fairness in the process of related party transactions. Chinese commercial banks are not allowed to provide unsecured loans to related parties. Based on PRC laws and regulations, commercial banks shall conduct related party transactions following business principles, and the terms of the transactions shall not be superior to similar transactions of non-related parties. Such measures also make detailed stipulations for the identification standard of related party, form and content of related party transactions, procedures and principles which should be observed in related party transactions. According to the Measures, commercial banks should report to the CBRC each quarter about the status of transactions with related parties and disclose relevant related parties and related party transactions in the notes of financial statement. In addition, the board of directors of a commercial bank shall make special report to the shareholder's general meeting every year in terms of the implementation of the related party transaction management system and the status of related party transaction. The CBRC is entitled to take corresponding measures against relevant banks and/or related parties, including making orders for correction of irregularities, restricting shareholder rights, ordering shareholders to transfer equity, requiring adjustment of directors or senior management and fines.

RISK MANAGEMENT

Since its inception, the then CBRC has published, in addition to guidelines concerning granting 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 operational risk management, market risk management, compliance risk management, liquidity risk management, information technology risk management and a supervisory rating system. As for relevant guidelines for loans and credit of several specified industries and clients and relevant measures for the implementation of Basel Accord, see "– Regulation on Principal Commercial Banking Activities – Loans", and "– Supervision Over Capital Adequacy – Basel Accords". The CBRC also issued the Core Indicators (Provisional) as the basis for the supervision of risk management of Chinese commercial banks. The CBRC has set up several risk level categories and risk reserve simulation ratios in the Core Indicators (Provisional), and it is expected to formulate several ratios related to the reduction of risk in order to evaluate and supervise the risk of Chinese commercial banks. See "– Other Risk Management Ratios". By means of off-site supervision, the CBIRC regularly collects data to analyze such indicators for timely evaluation and make risk warning in advance.

Recent Regulatory Requirements of the Banking Regulatory Authorities in PRC on the Operations and Risk Management of Commercial Banks

On March 28, 2017, the CBRC issued the Notice of the General Office of the CBRC on the Special Governing of Behaviors of Illegal, Irregularity and Unlawful Conduct in the Banking Industry (《中國銀監會辦公廳關於開展銀行業"違法、違規、違章"行為專項治理工作的通知》) and the Notice of the General Office of the CBRC on the Special Governance against Regulatory Arbitrage, Spinning Arbitrage and Related Arbitrage in the Banking Industry (《中國銀監會辦公廳關於開展銀行業"監管套利、空轉套利、關聯套利"專項治理工作的通知》), on April 6, 2017, it issued the Notice of the General Office of the CBRC on Special Administration on Improper Innovation, Improper Trading, Improper Incentives and Improper Fees in the Banking Industry (《中國銀監會辦公廳關於開展銀行業"不當創新、不當交易、不當激勵、不當收費"專項治理工作的通知》), and on April 7, 2017, it issued the Notice of the CBRC on Centralizing the Work of the Rectification of Market Chaos in the Banking Industry (《中國銀監會關於集中開展銀行業市場亂象整治工作的通知》). These documents, based on the objective of further preventing and controlling financial risks, managing financial chaos, urging banking institutions to strengthen compliance management, standardizing business operations, effectively preventing and controlling risks, steadily regulating development and better serving the real economy, comprehensively carried out special governing of behaviors that violate financial laws, regulatory rules and internal regulations, special administration on supervisory arbitrage, spinning arbitrage and related arbitrage and special administration on improper innovation, improper trading, improper incentives and improper fees in banking institutions, and requested banks to perform fully self-examination in respect of the above and regulatory authorities to supervise and inspect banks.

On January 12, 2018, the CBRC issued the Notice of the CBRC on Further Deepening the Rectification of Market Chaos in the Banking Industry (《中國銀監會關於進一步深化整治銀行業市場亂象的通知》), which marks the following as the key aspects of market rectification in the banking industry for 2018:

(1) Corporate governance: shareholders and equity; performance and assessment of the Shareholders' general meetings, the board of directors, the board of supervisors and the senior management; performance of duties by directors and the senior management without approval from regulators of their qualifications; performance of duties by the chief risk officer, the chief compliance officer, the internal audit and financial officer and other personnel without obtaining relevant qualifications that are required to be approved;

(2) Behaviors in violation of macro-control policies, with a focus on rectification of violation of credit policies and violation of real estate regulatory policies;

(3) Shadow banking and cross-financial product risks, with a focus on the governance reform of inter-bank business, wealth management business, off-balance sheet business and cooperative business;

(4) Infringement of financial consumer's rights, such as improper selling and improper charges;

(5) Benefit transfer: transferring benefits to Shareholders and related persons;

(6) Illegally carrying out businesses: carrying out deposit and loan business, and bills business illegally, and concealing or disposing of non-performing assets illegally;

(7) Cases and operational risks: out of place of the employee management and internal controls.

On May 8, 2019, the CBIRC issued the Notice of Carrying Out the Campaign of "Consolidating the Achievements in Chaos Control and Promoting Compliance Development" (《中國銀保監會關於開展"鞏固治亂象成果促進合規建設"工作的通知》), which stipulates that with a view to comprehensively implementing the decisions and arrangements of the CPC Central Committee and the State Council in respect of financial work, effectively endeavoring to prevent and eliminate financial risks, and promoting the achievement of high-quality development of the banking industry and the insurance industry, the CBIRC has decided to launch a campaign of "Consolidating the Achievements in Chaos Control and Promoting Compliance Development" in banking and insurance institutions. On the basis of the previous irregularity rectification work, it requires to continue to carry out rectification for key risks in key fields, strictly inspect policy implementation, strictly examine potential risks, and strictly investigate violations of the laws and regulations. Banking institutions shall carry out the rectification work from five such aspects as ownership and corporate governance, macro-policy implementation, credit management, risks of shadow banks and cross-financial business, and disposal of key risks.

Risk Management and Prevention

In September 2016, the CBRC issued the Notice of the CBRC on Further Strengthening Credit Risk Management (《中國銀監會關於進一步加強信用風險管理的通知》), which requires banking financial institutions shall incorporate loans (including trade financing), acceptance and discount of negotiable instruments, overdraft, bond investment, investment in special purpose vehicles, issuance of letters of credit, factoring, guarantee, loan commitments, and other business whose credit risks are substantially assumed by banking financial institutions into unified credit management, in which investment in special purpose vehicles shall correspond to the ultimate debtors under the penetration principle.

On April 7, 2017, the CBRC issued the Guidelines of the CBRC in relation to Risk Management Prevention and Control (《中國銀監會關於銀行業風險防控工作的指導意見》), which requires the banks to enhance management on credit risks and liquidity risks, regulate their investment in debt securities, interbank business, cross financing, asset management and agency business, prevent risks in real estate industry and LGFV, and mitigate financial risk associated with internet finance and private finance.

On April 26, 2017, the CBRC issued the Notice of the CBRC to Distribute Guidance on Management of Commercial Bank's Collaterals and Pledges (《中國銀監會關於印發商業銀行押品管理指引的通知》), which requires commercial banks to include its management on collaterals and pledges into its overall risk management system and implement measures to improve relevant governance structure, management systems, business operation procedures and information system accordingly.

On May 23, 2018, the CBIRC promulgated the Administrative Measures on Liquidity Risk Management of Commercial Banks (《商業銀行流動性風險管理辦法》), which requires the commercial banks to establish and optimize their liquidity risk management system, including effective risk management and governance structure for liquidity risks, comprehensive risk management strategies, policies and procedures for liquidity risks, effective management information system to identify, measure, monitor and control liquidity risks, to promote commercial banks to improve the level of liquidity risk management and maintain the safe and stable operation of the banking system.

Large Risk Exposure Management

On April 24, 2018, the CBIRC promulgated the Measures for the Administration of the Large Risk Exposures of Commercial Banks (《商業銀行大額風險暴露管理辦法》) ("the Administrative Measures"), which came into effect on July 1, 2018. The Administrative Measures defines the meaning of large risk exposures, stipulates the regulatory standards and methods for measurement of such exposures, and proposes a set of arrangements and requirements for commercial banks to strengthen large risk exposures management, hence helping promote commercial banks to enhance their centralized risk management, reduce their customer credit concentration and prevent and control systemic risks effectively.

The Administrative Measures have clarified that the balance of commercial bank's loans to non-interbank single customers shall not exceed 10% of net capital, the risk exposures to non-interbank single customers shall not exceed 15% of net tier-one capital, the risk exposures to a group of non-interbank related customers shall not exceed 20% of net tier-one capital and the risk exposures to interbank single customers or group customers shall not exceed 25% of net tier-one capital. The Administrative Measures also put forward four requirements for large risk exposure management of commercial banks: (1) establishing and improving organizational structure for large risk exposure management, making the management responsibilities of the board, senior management and relevant departments clear, building a working mechanism that connects with each other and checks and balances effectively; (2) formulating management system for large risk exposure and promptly filing to the regulatory authorities; (3) setting internal limits for large risk exposure and continuously monitoring, early warning and controlling according to large risk exposure regulatory requirements as well as with reference to the actual situation of the Bank; and (4) strengthening information system construction and continuously collecting relevant data information to effectively support large risk exposure management.

Enhancing Overall Management Capacity

The CBIRC issued Notice of the CBIRC to Distribute Measures for the Administration of Joint Credit Granting by Banking Financial Institutions (Provision) (《中國銀保監會關於印發銀行業金融機構聯合授信管理辦法(試行)的通知》) on May 22, 2018. This notice requires banking institutions to sufficiently recognize the importance of the joint credit grant mechanism for enhancing the banking institution's overall credit risk management and controlcapacity. According to this notice, banking institutions shall implement the joint credit grant mechanism to work jointly on the prevention and control, risk warning and risk disposal on the corporate borrowers, including jointly monitoring the key aspects in relation to the credit risks of relevant borrowers, covering their business operation, financial results, key investment projects, guarantee obligations to external parties, related party transactions and cross-default status, so as to effectively reduce major credit risks.

Supervisory Rating System

All commercial banks (not including newly-established commercial banks) are subject to the evaluation conducted by the CBRC based on Internal Guidelines for the Supervision of Commercial Banks (《商業銀行監管評級內部指引》) issued on June 19, 2014. Under these guidelines, the capital adequacy, asset quality, management quality, profitability and liquidity of commercial banks and market risk exposure faced by commercial banks are subject to continuous assessment and scoring of the CBRC. Each bank will be classified as one of the six regulatory rating categories according to its score. The rating results will be used as the basis for regulatory institutions to carry out special supervision and to take legal regulatory measures. Such supervisory ratings are currently not publicly available.

ANTI-MONEY LAUNDERING REGULATIONS

Law of the PRC on Anti-money Laundering (《中華人民共和國反洗錢法》) issued on October 31, 2006 and came into effect since January 1, 2007 stipulates the responsibilities of relevant financial regulatory authorities in terms of anti-money laundering, including participating in the formulation of the anti-money laundering rules and regulations for financial institutions and requiring financial institutions to establish sound internal control systems regarding anti-money laundering.

In accordance with the Anti-money Laundering Regulations for Financial Institutions (《金融機構反洗錢規定》) promulgated by the PBoC on November 14, 2006, PRC commercial banks are required to establish specific departments for anti-money laundering or designate internal departments to be responsible for anti-money laundering work.

In accordance with the Management Measures on Large Transactions and Doubtful Transactions Reporting of Financial Institutions (《金融機構大額交易和可疑交易報告管理辦法》) issued by the PBoC on November 14, 2006 (amended on December 28, 2016 and July 26, 2018, respectively), once doubtful transactions or large transactions are discovered, Chinese commercial banks shall report relevant transactions to the Anti-money Laundering Information Center in a timely manner. Based on the Law of the PRC on Anti-money Laundering and provisions on Anti-Money Laundering Regulations for Financial Institutions, 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.

Based on the Management Measures on Client Identification and Client Identity Information and Transaction Records 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》) jointed issued by the PBoC, the CBRC, the CIRC and the CSRC on June 21, 2007, commercial banks shall establish and implement a customer identification system, they shall, under the principle of security, accuracy, completeness and confidentiality, properly keep their clients' identity information and transaction records, establish and perfect their internal operation rules for identifying their clients and keeping the identity information and transaction records thereof, etc..

On December 9, 2014, the PBoC promulgated the Measures for the Supervision and Administration of the Anti-money Laundering Operations by Financial Institutions (Provisional) (《金融機構反洗錢監督管理辦法(試行)》). Pursuant to the measures, the PBoC is required to establish a regular anti-money laundering information reporting system for financial institutions, and financial institutions are required to report anti-money laundering work related information to PBoC and actively cooperate with PBoC and its branches in supervisory inspections.

On September 29, 2018, the PBoC promulgated the Circular on Issuing the Money Laundering and Terrorist Financing Risk Management Guidelines for Corporate Financial Institutions (for Trial Implementation) (《關於印發<法人金融機構洗錢和恐怖融資風險管理指引(試行)>的通知》), stipulating that a corporate financial institution shall establish a money laundering risk management structure with sound organizations, complete structure and clear duties, standardize the division of duties in money laundering risk management among the board of directors, the board of supervisors, the senior management, business departments, the anti-money laundering management department, the internal audit department, the human resources department, the information technology department, domestic and overseas branches and related affiliates, and establish an operational mechanism with clear layers, coordination and effective cooperation.

On January 29, 2019, the CBIRC promulgated the Measures for the Administration of Anti-money Laundering and Anti-terrorist Financing by Banking Financial Institutions (《銀行業金融機構反洗錢和反恐怖融資管理辦法》), stipulating that local offices of the banking regulatory authorities under the State Council are responsible for the supervision and administration of anti-money laundering and anti-terrorist financing by banking financial institutions within their respective jurisdiction according to laws, administrative regulations and the Measures. Banking financial institutions are required to establish and improve a risk management system for money laundering and terrorist financing, comprehensively identify and evaluate the money laundering and terrorist financing risk they face and adopt policies and procedures corresponding to the risks. Besides, banking financial institutions are required to incorporate the management of the risks of money laundering and terrorist financing into a comprehensive risk management system, and embed the requirements for anti-money laundering and anti-terrorist financing into the compliance management and internal control system to ensure that the risk management system for money laundering and terrorist financing may completely cover various products and services.

REGULATORY AND SHAREHOLDERS' APPROVALS

The Bank has obtained the approval from shareholders for preparation of the listing. See "Appendix VII – Statutory and General Information – 1. Further Information about our Bank – D. Resolution of our Shareholders". The Bank has also obtained all necessary Chinese regulatory approvals for the Listing, including the approvals from the CBIRC on January 23, 2020 and February 5, 2020 and the approval from the CSRC on June 2, 2020.

OUR HISTORY

Overview

With the approval from the CBRC, our Bank was established on December 30, 2005 as a joint stock commercial bank. Our Bank was jointly promoted by seven promoters, namely TEDA Holding, SCB, China Ocean Shipping (Group) Company (中國遠洋運輸(集團)總公司), SDIC, Shanghai Baosteel Group Corporation (上海寶鋼集團公司, currently known as China Baowu Steel Group Corporation Limited (中國寶武鋼鐵集團有限公司)), Tianjin Shanghui Investment Holding Company Limited (天津商匯投資(控股)有限公司) and Tianjin Trust and Investment Company Limited (天津信託投資有限責任公司, currently known as Tianjin Trust Co., Ltd. 天津信託有限責任公司, "**Tianjin Trust**"), which owned 25%, 19.99%, 13.67%, 11.67%, 11.67%, 8% and 10% of our then issued shares, respectively, at the time of our establishment. At the time of our establishment, our registered capital was RMB5,000,000,000, divided into 4,000,500,000 Domestic Shares with a nominal value of RMB1.00 each and 999,500,000 unlisted Foreign Shares with a nominal value of RMB1.00 each.

Upon establishment, we became one of the twelve Nationwide Joint-stock Commercial Banks approved by CBRC. Our Bank is headquartered in Tianjin, the PRC.

The principal businesses of the Bank include corporate banking, retail banking and financial market business. We provide comprehensive financial products and services to our corporate customers, ranging from corporate loans (including bill discounting), corporate deposits, transaction banking services, investment banking services, and other fee- and commission-based products and services. We provide our retail customers with a wide range of products and services, including personal loans, personal deposits, card services, and other fee- and commission-based products and services. Our financial market business primarily consists of interbank market transactions, investment management, wealth management, and bill discounting and rediscounting.

Milestones

Key milestones of our establishment and development are as follows:

Time	Events
December 2005	We were officially established in the PRC. We are the first Nationwide Joint-stock Commercial Bank to introduce a foreign strategic investor at the stage of establishment since 2000.
February 2006	We officially commenced our business.
August 2006	Our Binhai New District branch, being our first branch, officially commenced business.
March 2007	We obtained approval from SAFE and became the first commercial bank to implement the positive-negative interval management mode for synthetic positions in foreign exchange settlement and sale (結售匯綜合頭寸正負區間管理模式) in the PRC.

Time	Events
September 2007	Our Beijing branch, being the first branch outside Tianjin, officially commenced business.
May 2009	Our Shanghai branch officially commenced business, marking our presence out of the Bohai Bay Economic Rim, and our efforts to take root in the Yangtze River Delta Economic Rim.
July 2009	Our Shenzhen branch officially commenced business. Since then, our operation has extended to cover the three major economic rims, namely the Bohai Bay Economic Rim, the Yangtze River Delta Economic Rim and the Pearl River Delta Economic Rim.
September 2009	We issued our first subordinated debt with principal amount of RMB1.2 billion.
May 2011	We obtained the qualification to provide custodian services for insurance funds as a commercial bank and became the twelfth custodian bank for insurance funds in the PRC.
October 2013	Our operating income from principal business operations reached RMB10 billion.
May 2014	We launched Tian Jin Bao (添金寶), a personal cash management product.
June 2014	We obtained the approval from Interbank Market Clearing House Co., Ltd. (銀行間市場清算所股份有限公司) to become one of the 42 ordinary clearing members for centralized clearing business of interest rate swaps. We are the only financial institution in Tianjin to obtain this qualification.
October 2014	We issued our first financial bond and raised RMB10.0 billion. We were rated AAA in terms of long-term credit rating by a PRC-based credit rating agency.
April 2015	Our Hong Kong representative office was established.
January 2016	We launched our credit card business.
April 2016	Further to the development strategic plans of our Bank for 2006 - 2010 and for 2011-2015, the Board of Directors passed the resolution regarding the development strategic plan for 2016 - 2020, and targeted to become a modern wealth and treasury manager offering the best customer experience.
July 2016	Our first outlet to offer intelligent trial experience commenced business. The outlet is our Tongzhou sub-branch in Beijing.

Time	Events
June 2017	We were ranked third nationally as a custodian bank for asset management operation outsourcing services.
August 2017	We obtained the qualification as an offering bank in the over-the-counter (OTC) market for loan benchmark rate (貸款基礎利率) (currently known as loan prime rate (貸款市場報價利率)).
January 2018	Our Bank's total assets reached RMB1.0 trillion.
October 2018	We obtained the qualification by PBoC as a direct payment agent bank for central finance.
June 2019	We ranked 178th globally in the "2019 Top 1000 World Banks" released by the *The Banker* magazine. We were first rated 299th by the same magazine.
September 2019	We issued the 2019 Undated Capital Bonds in an aggregate principal amount of RMB20.0 billion. We were the first non-listed PRC bank to obtain approval for issuance of undated capital bonds.

Changes in the Registered Capital of our Bank

At the time of establishment, the registered capital of our Bank was RMB5,000,000,000, divided into 5,000,000,000 Shares, including 4,000,500,000 Domestic Shares and 999,500,000 unlisted Foreign Shares, with a nominal value of RMB1.00 each. Since the establishment of our Bank, there have been two increases of registered capital of our Bank.

On April 20, 2010, the registered capital of our Bank was increased from RMB5,000,000,000 to RMB8,500,000,000 (the "**First Capital Increase**"). During the First Capital Increase, we issued and allotted 3,500,000,000 new Shares, including 2,800,350,000 Domestic Shares and 699,650,000 unlisted Foreign Shares, with a nominal value of RMB1.00 each to the seven promoters of our Bank on a basis of seven Shares for every ten existing Shares according to their then shareholding ratio.

On November 1, 2019, the registered capital of our Bank was increased from RMB8,500,000,000 to RMB14,450,000,000 (the "**Second Capital Increase**"). During the Second Capital Increase, we issued and allotted 5,950,000,000 new Shares, including 4,760,595,000 Domestic Shares and 1,189,405,000 unlisted Foreign Shares, to all the then Shareholders of our Bank on a basis of seven Shares for every ten existing Shares according to their then shareholding ratio.

As of the Latest Practicable Date, the registered capital of our Bank was RMB14,450,000,000, divided into 11,561,445,000 Domestic Shares with a nominal value of RMB1.00 each and 2,888,555,000 unlisted Foreign Shares with a nominal value of RMB1.00 each.

ISSUANCE OF BONDS

Financial Bonds

During the Track Record Period and as of the Latest Practicable Date, we issued financial bonds in an principal amount of RMB63.0 billion in inter-bank bond market.

In December 2017, we issued 2017 China Bohai Bank Financial Bond in an aggregate principal amount of RMB10.0 billion with a term of two years and a coupon rate of 5.40%.

In March 2018, we issued 2018 China Bohai Bank Financial Bond Tranche 1 in an aggregate principal amount of RMB5.0 billion with a term of two years and a coupon rate of 5.15%.

In October 2018, we issued 2018 China Bohai Bank Financial Bond Tranche 2 in an aggregate principal amount of RMB20.0 billion with a term of three years and a coupon rate of 4.09%.

In November 2018, we issued 2018 China Bohai Bank Financial Bond Tranche 3 in an aggregate principal amount of RMB10.0 billion with a term of three years and a coupon rate of 4.07%.

In January 2020, we issued 2020 China Bohai Bank Financial Bond Tranche 1 in an aggregate principal amount of RMB10.0 billion with a term of three years and a coupon rate of 3.47%.

In February 2020, we issued 2020 China Bohai Bank Financial Bond Tranche 2 in an aggregate principal amount of RMB8.0 billion with a term of three years and a coupon rate of 3.24%.

Undated Capital Bonds

In September 2019, we issued undated capital bonds in a principal amount of RMB20.0 billion. We were the first non-listed PRC bank to obtain approval for the issuance of undated capital bonds.

PROMOTERS' RIGHTS

Pursuant to the promoters' agreement dated August 16, 2005 (the "**Promoters' Agreement**"), our promoters have been granted various special rights, including director, supervisor and senior management nomination rights, anti-dilution rights, pre-emptive rights, right of first refusal and veto rights on certain corporate transactions and transfers. These rights shall be terminated on or before the Listing Date.

As a strategic investor, SCB's right to business co-operation with our Bank under the Promoters' Agreement will survive after Listing. If our Bank carries on business cooperation with a specific entity in the PRC in respect of a given business, under identical conditions and at the request of SCB, our Bank shall consider and decide within a reasonable time whether to carry on the same business cooperation with SCB, subject to the following pre-conditions: (i) it is in compliance with the requirements of applicable laws and regulations, as well as the Listing Rules; and (ii) Directors have the right to reject the relevant business cooperation request on the basis of their fiduciary duty to act in the best interests of our Bank and our Shareholders.

MAJOR CHANGES TO SHAREHOLDING STRUCTURE

COSCO share transfer

On December 30, 2016, China Ocean Shipping (Group) Company obtained approval from CBRC to transfer all its 13.67% Shares in our Bank to China Shipping Investment Co., Ltd. at the consideration of RMB5,448,048,000, which was determined with reference to appraised value of our Bank as of September 30, 2015 pursuant to an asset valuation report. The relevant transfer was part of the reorganization of China Ocean Shipping (Group) Company and China Shipping Investment Co., Ltd. approved by the SASAC.

Upon completion of the transfer and as of the Latest Practicable Date, China Shipping Investment Co., Ltd. has become our Shareholder holding 13.67% of the total number of our issued Shares.

Termination of trust plan by Tianjin Trust and subsequent capital increase

At the time of establishment of our Bank, Tianjin Trust was one of our promoters holding 10% of our Shares through a trust plan, namely Bohai Bank Equity Investment Collective Fund Trust Plan ("**Trust Plan**", 渤海銀行股權投資集合資金信託計劃). Subsequently, Tianjin Trust participated in the First Capital Increase through the Trust Plan, and held 850,000,000 Shares representing 10% of our Shares immediately after the First Capital Increase.

On August 25, 2016, Oceanwide Industry proposed to acquire all the beneficial rights under the Trust Plan (i.e. 850,000,000 trust units held by the Trust Plan, and each unit is entitled to beneficial rights of one Share) held by the beneficiaries at an offer price of RMB5 for each trust unit.

On February 20, 2017, a meeting of beneficiaries of the Trust Plan was held and it was resolved that the Trust Plan would be terminated on the same date.

The 850,000,000 Shares held by the Trust Plan were assigned by way of, among others, distribution of the trust assets. Among the 850,000,000 Shares, 806,298,082 Shares were assigned to Oceanwide Industry(1); and 17,308,430 Shares, 8,654,215 Shares, 8,654,215 Shares, 5,623,372 Shares and 3,461,686 Shares were assigned to Shine Enterprise (Tianjin) Co., Ltd. ("**Shine Enterprise**", 聖恩納實業(天津)有限公司), Tianjin Xianghe Enterprise Management Consulting Co., Ltd. ("**Tianjin Xianghe**", 天津象合企業管理諮詢有限公司), Tianjin Firstwood Co., Ltd. ("**Tianjin Firstwood**", 天津渤海弗斯特木業有限公司), Tianjin Shuaishan Enterprise Management Consulting Co., Ltd. ("**Tianjin Shuaishan**", 天津帥杉企業管理諮詢有限公司) and Tianjin Shanren Enterprise Management Consulting Co., Ltd. ("**Tianjin Shanren**", 天津山人企業管理諮詢有限公司), respectively, being the original trust beneficiaries.

During the Second Capital Increase, Oceanwide Industry, Shine Enterprise, Tianjin Xianghe, Tianjin Firstwood, Tianjin Shuaishan and Tianjin Shanren agreed to subscribe at par value 564,408,657 new Shares, 12,115,901 new Shares, 6,057,951 new Shares, 6,057,951 new Shares, 3,936,360 new Shares and 2,423,180 new Shares, respectively, being a total of 595,000,000 Shares.

Immediately after completion of the aforesaid transactions and as of the Latest Practicable Date, Oceanwide Industry, Shine Enterprise, Tianjin Xianghe, Tianjin Firstwood, Tianjin Shuaishan and Tianjin Shanren held approximately 9.49%, 0.20%, 0.10%, 0.10%, 0.07% and 0.04% of the total number of our issued Shares, respectively.

Our PRC Legal Advisors, Commerce & Finance Law Offices, have confirmed that the necessary approvals from the relevant authorities for the aforesaid major changes in our shareholding had been obtained as of the Latest Practicable Date.

Note:

(1) For details, please see note 1 and note 2 of "– Principal Terms of the Investment by Oceanwide Industry".

Principal Terms of the Investment by Oceanwide Industry

The following table sets out the principal terms of investment by Oceanwide Industry in our Bank.

	Oceanwide Industry
Date of investment	March 27, 2017 and November 8, 2017 *(dates of agreements entered into with Tianjin Trust for trust assets distribution of an aggregate of 797,836,396 Shares)*[(1)] June 23, 2017[(2)] *(date of agreement entered into with Tianjin Trust for acquisition of 8,461,686 Shares)* November 22, 2017 *(date of the share subscription undertaking entered into by Oceanwide Industry for the Second Capital Increase)*
Number of Shares involved	An aggregate of 806,298,082 Shares distributed and assigned by Tianjin Trust 564,408,657 Shares subscribed under the Second Capital Increase
Purchase/subscription price	An aggregate of RMB4,031,490,410 *(for acquisition of trust units under the Trust Plan and acquisition of the Shares)* RMB564,408,657 *(for share subscription)*

	Oceanwide Industry
Payment date of consideration	November 7, 2017, being the last settlement date of the consideration *(for acquiring 797,836,396 trust units under the Trust Plan)* January 12, 2018 *(for acquisition of 8,461,686 Shares from Tianjin Trust)* November 22, 2017 *(for subscription shares under the Second Capital Increase)*
Closing date	November 17, 2017[3] *(for acquisition of trust units under the Trust Plan and acquisition of the Shares from Tianjin Trust)* November 1, 2019[4] *(for subscription in the Second Capital Increase)*
Basis of consideration	The offer price for acquisition proposed by Oceanwide Industry to the trust units beneficiaries *(for acquisition of trust units under the Trust Plan and acquisition of the Shares)* Nominal value of RMB1 per Share *(for subscription in the Second Capital Increase)*
Price per Share	RMB5 *(for the 806,298,082 Shares distributed and assigned by Tianjin Trust)* RMB1 *(for the 564,408,657 Shares subscribed in the Second Capital Increase)*
Discount to the initial public offering price[5]	24.76%
Use of proceeds	The proceeds from the Second Capital Increase have been used to replenish the capital funds of our Bank in full.
Shareholding in our Bank prior to the Global Offering	9.49%
Shareholding in our Bank after the Global Offering (assuming that the Over-allotment Option is not exercised)[6]	7.91%

	Oceanwide Industry
Strategic effect on the Company	Replenishing the capital funds of our Bank
Lock-up period	From December 25, 2019 to the Listing Date(7) Within 5 years from November 17, 2017(8) Within one year from the Listing Date(9)

Notes:

(1) On March 27, 2017 and November 8, 2017, Tianjin Trust and Oceanwide Industry entered into agreements pursuant to which Tianjin Trust agreed to assign 786,151,338 Shares and 11,685,058 Shares, respectively, to Oceanwide Industry by way of trust assets distribution.

(2) On June 23, 2017, Oceanwide Industry entered into an agreement with Tianjin Trust to acquire 8,461,686 Shares from Tianjin Trust at the consideration of RMB42,408,430.

(3) This is the date on which Oceanwide Industry became one of our Shareholders.

(4) This is the date of completion for registration of the Second Capital Increase at Tianjin Administration for Market Regulation (天津市市場監督管理委員會).

(5) The discount is based on the indicative price of HK$4.87 per H Share (being the mid-point of the range of the Offer Price as stated in this prospectus), the indicative exchange rate of HK$1=RMB0.9150 and the weighted average price of the aggregated 1,370,706,739 Shares purchased by Oceanwide Industry.

(6) As Oceanwide Industry will hold less than 10% of the total issued Shares of our Bank immediately following the completion of the Global Offering (assuming that the Over-allotment Option is not exercised), Oceanwide Industry will not be a substantial shareholder of our Bank upon Listing, and consequently will not be a connected person of our Bank upon Listing. However, all the Shares held by Oceanwide Industry are Domestic Shares, and such Shares will not be counted towards the public float for the purposes of Rule 8.08 of the Listing Rules.

(7) Oceanwide Industry undertook to our Bank not to transfer and/or sell the Shares held by it from December 25, 2019 to the Listing Date without our Bank's written consent.

(8) Oceanwide Industry undertook to our Bank not to transfer the Shares of the Bank held by it within 5 years from the closing date of the distribution and transfer of the Shares. The closing date is November 17, 2017.

(9) Pursuant to Article 141 of the PRC Company Law, shares issued prior to any public offering of shares by a company cannot be transferred within one year from the date on which such shares are listed and traded on the relevant stock exchange.

Oceanwide Industry is primarily engaged in investment in infrastructure projects and industries, capital management and asset management, project investment and investment management, and hotel and property management. For details of the beneficiaries owners of Oceanwide Industry, please see note 6 of "– Shareholding Structure" in this section.

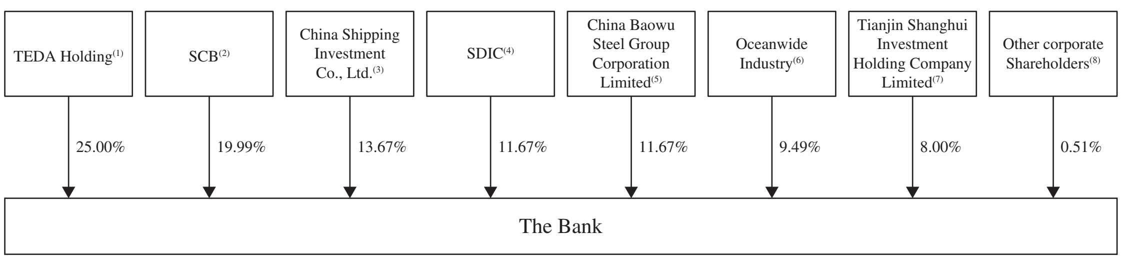
According to our Articles of Association currently effective before Listing, Oceanwide Industry was entitled to nominate one director to the Board of Directors of our Bank. Such director nomination right shall terminate upon Listing.

Pursuant to the Promoters' Agreement and shareholder joining confirmation (股東加入確認函), Oceanwide Industry was entitled to anti-dilution right of maintaining its shareholding proportion in our Bank. Such anti-dilution right will be terminated upon Listing. No special rights were granted to Oceanwide Industry that will survive the Listing.

On the basis that (i) the consideration for the investment by Oceanwide Industry was settled more than 28 clear days before the date of our first submission of the listing application form to the Stock Exchange in relation to the Listing; and (ii) the special rights granted to Oceanwide Industry will terminate prior to the Listing, the Joint Sponsors have confirmed that the investment by Oceanwide Industry is in compliance with the Guidance Letter HKEx-GL29-12 issued by the Stock Exchange in January 2012 and as updated in March 2017, the Guidance Letter HKEx-GL43-12 issued by the Stock Exchange in October 2012 and as updated in July 2013 and March 2017 and the Guidance Letter HKEx-GL44-12 issued by the Stock Exchange in October 2012 and as updated in March 2017.

SHAREHOLDING STRUCTURE

The following chart sets out the shareholding of our Bank as of the Latest Practicable Date and immediately prior to the Global Offering:



Notes:

(1) TEDA Holding was jointly-held by State-owned Assets Supervision and Administration Commission of Tianjin Municipal People's Government (天津市人民政府國有資產監督管理委員會), Tianjin Fiscal Investment Management Center (天津市財政投資管理中心) and Tianjin State-owned Assets Operation Co., Ltd. (天津市國有資產經營有限責任公司) as to 93.34%, 6.21% and 0.45%, respectively, and primarily engaged in financial industry, regional development, ecological and environmental protection industry, and manufacturing and modern industry. TEDA Holding pledged 1,000,000,000 Shares to China Construction Bank Corp., Ltd., Tianjin Development Zone branch (中國建設銀行股份有限公司天津開發分行) on May 23, 2018, as the collateral of financing in the amount of RMB2.5 billion for funding the business operation of TEDA Holding and its subsidiaries. The pledged Shares accounted for approximately 6.92% of the total number of our Shares as of the Latest Practicable Date. The aforesaid financing will become due on October 29, 2020.

(2) SCB was wholly-owned by Standard Chartered PLC (a company listed on the London Stock Exchange with stock code STAN, the Hong Kong Stock Exchange with stock code 2888, the Bombay Stock Exchange with stock code 580001, and National Stock Exchange of India with stock code STAN), and primarily engaged in provision of banking and related financial services.

(3) China Shipping Investment Co., Ltd. was wholly-owned by COSCO SHIPPING Development Co., Ltd. (a company listed on the Shanghai Stock Exchange with stock code: 601866 and the Hong Kong Stock Exchange with stock code: 2866) and in turn owned by China Shipping Group Company Limited as to approximately 39.28%. China Shipping Group Company Limited is wholly-owned by China COSCO Shipping Corporation Limited, and in turn jointly held by SASAC and National Council for Social Security Fund as to 90% and 10%, respectively. China Shipping Investment Co., Ltd. was primarily engaged in industrial investment and equity investment.

(4) SDIC was a state-owned company and jointly held by SASAC and National Council for Social Security Fund as to 90% and 10%, respectively, and primarily engaged in infrastructure, burgeoning strategic industry, financial and other services, and international business.

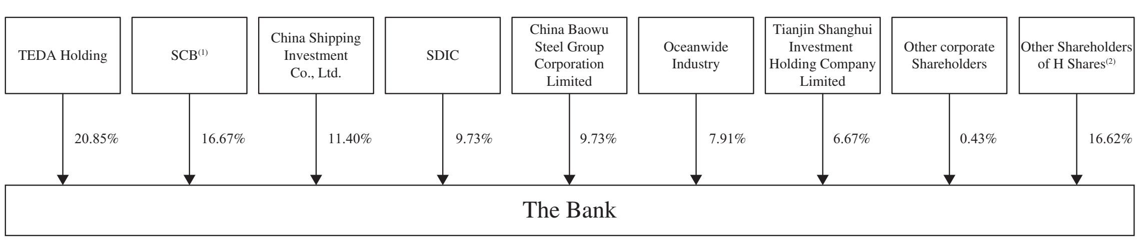
(5) China Baowu Steel Group Corporation Limited was a state-owned company and wholly-owned by SASAC, and primarily engaged in steel production.

(6) Oceanwide Industry was ultimately owned by LU Zhiqiang (盧志強), HUANG Qiongzi (黃瓊姿) and LU Xiaoyun (盧曉雲) as to 77.14%, 11.43% and 11.43%, respectively, and primarily engaged in investment in infrastructure projects and industries, capital management and asset management, project investment and investment management, and hotel and property management. To the best knowledge of our Bank, each of Oceanwide Industry and its ultimate beneficial owners is an independent third party.

(7) Tianjin Shanghui Investment Holding Company Limited was jointly held by Tianjin Rongsheng Xinye Investment and Development Co., Ltd. (天津融昇鑫業投資發展有限公司), Tasly Pharmaceutical Group Co., Ltd. (天士力醫藥集團股份有限公司, a company listed on the Shanghai Stock Exchange with stock code: 600535), Tianjin Jinlan Group Company (天津市津蘭集團公司) ("**Tianjin Jinlan**"), Tianjin Binhai Wealth and Equity Investment Fund Co., Ltd. (天津濱海財富股權投資基金有限公司), Khorgos Haotian Shibo Equity Investment and Management Co., Ltd. (霍爾果斯昊天世博股權投資管理有限公司), Tianjin Hangxin Investment Co., Ltd. (天津市行信投資有限公司), Tianjin Hengchi Zhitong Business Information Consulting Co., Ltd. (天津市恒馳智通商務信息諮詢有限公司), and Tianjin Shanghui Industrial Development Co., Ltd. (天津商匯實業發展有限公司), as to 43.90%, 24.99%, 17.00%, 7.33%, 4.35%, 1.22%, 0.73% and 0.49%, respectively, and primarily engaged in investment in industry, agriculture, commerce, financial and service sectors, and management and financial consulting. To the best knowledge of our Bank, each of Tianjin Shanghui Investment Holding Company Limited and its ultimate beneficial owners is an independent third party.

(8) As of the Latest Practicable Date, five other corporate Shareholders, namely, Shine Enterprise, Tianjin Xianghe, Tianjin Firstwood, Tianjin Shuaishan and Tianjin Shanren, held an aggregate of approximately 0.51% equity interests in our Bank. To the best knowledge of our Bank, each of these Shareholders and their respective ultimate beneficial owners is an independent third party.

The following chart sets out the shareholding of our Bank immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised):



Note:

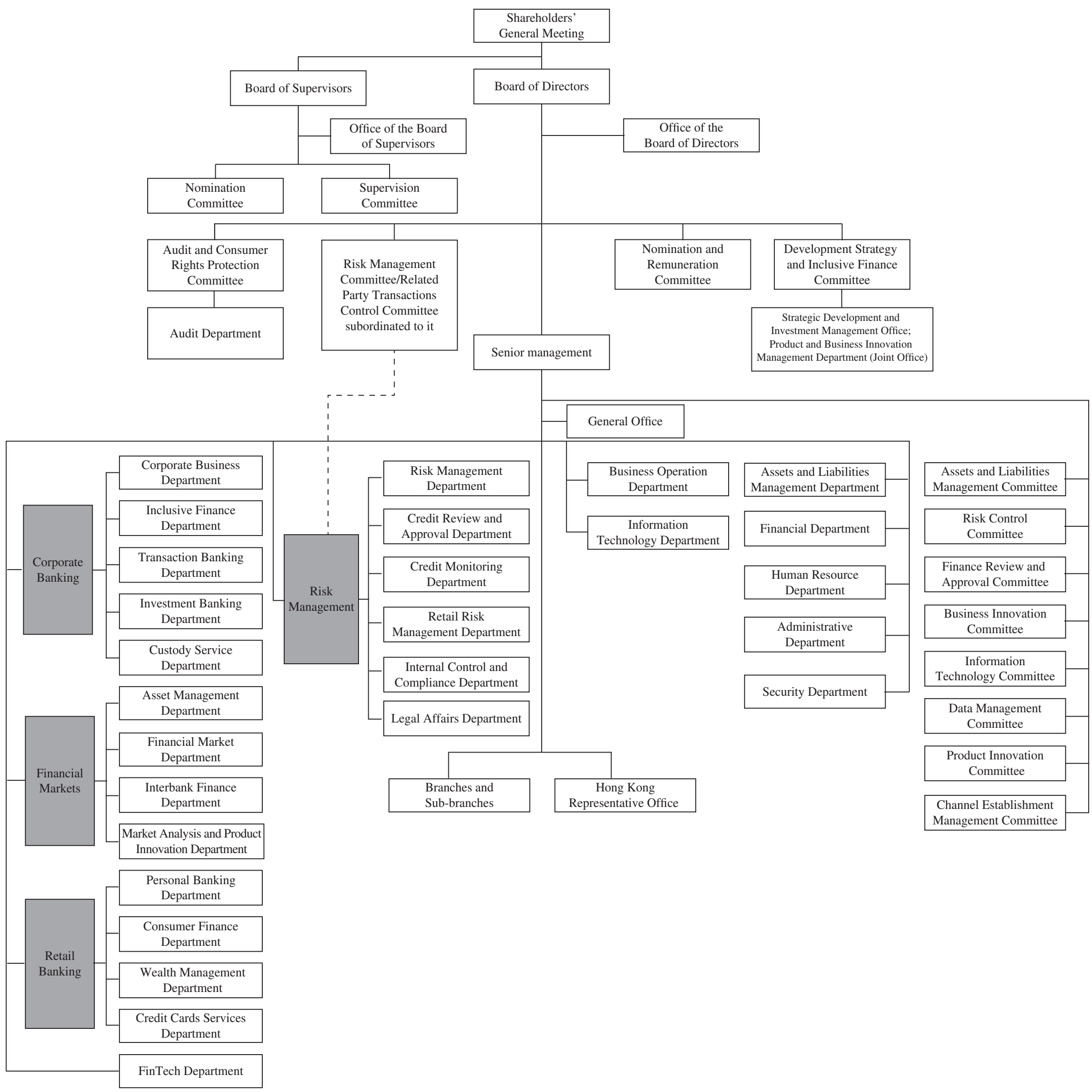
(1) The 2,888,555,000 unlisted Foreign Shares held by SCB will be converted into H Shares on an one-for-one basis immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised).

(2) The Shares to be subscribed by Jinlian (Tianjin) Finance Lease Co., Ltd. as a cornerstone investor will not be counted towards public float for the purposes of Rule 8.08 of the Listing Rules. For details of cornerstone investment by Jinlian (Tianjin) Finance Lease Co., Ltd., please see "Cornerstone Investors" section.

OUR ORGANIZATIONAL STRUCTURE

Our Bank operates its business through its branches and sub-branches. As of the Latest Practicable Date, our Bank has no subsidiary.

The following chart sets out our principal organizational and management structure as of the Latest Practicable Date:



Corporate Governance Structure

Our Bank has established a corporate governance structure which comprises the shareholders' general meeting, the Board of Directors, the Board of Supervisors and the senior management.

Shareholders' general meeting

Shareholders' general meeting is the highest organ of authority of our Bank, and its major responsibilities include determining operation strategies and investment plans, approving the annual financial budgets and accounting plans, profit distribution plans and loss recovery plans, electing and replacing Directors, shareholders' Supervisors and external Supervisors, approving the reports of the Board of Directors and Board of Supervisors, and amending the Articles of Association.

Board of Directors

The Board of Directors is accountable to the Shareholders' general meeting, and is responsible for the operation and management of our Bank. Its major responsibilities include convening the Shareholders' meeting and implementing the resolutions of the Shareholders' meeting, determining and implementing the operation and development strategies as well as medium to long term development planning, determining operation and investment plans, approving capital allocation plans, formulating annual financial budget plans, financial accounting plans, risk capital allocation plans, profit distribution plans and loss recovery plans.

The Board delegates certain powers to special committees, including the risk management committee, the related party transaction control committee, the audit and consumer rights protection committee, the nomination and remuneration committee, and the development strategy and inclusive finance committee. Each committee shall report to the Board of Directors. For details of the functions of each committee, please see "Directors, Supervisors and Senior Management – Committees under the Board of Directors".

Board of Supervisors

The Board of Supervisors is the Bank's internal supervisory organization. It is accountable to the Shareholders' general meeting and is responsible for protecting the legal rights of the Shareholders, employees, creditors and other stakeholders. Its major responsibilities include supervising the Board of Directors to establish sound business philosophy, value standards and formulate development strategies in line with the Bank's actual situation; regularly evaluating the scientificity, rationality and effectiveness of the development strategy formulated by the Board of Directors; inspecting and supervising the rectification of the Bank's financial activities, operating decisions, internal control and risk management; supervising the scientificity and reasonability of remuneration management system and policies of the Bank and the remuneration plans of members of senior management; supervising the election and appointment process of Directors; evaluating the performance of Directors, Supervisors and senior management comprehensively; and regularly communicating with the banking regulatory authorities about the Bank's condition. The Board of Supervisors has established a nomination committee and a supervision committee, both of which shall report to the Board of Supervisors.

Senior Management

The senior management is responsible for daily operation of the Bank. The president is accountable to the Board of Directors and is responsible for conducting the operational management of our Bank in accordance with relevant laws and regulations, as well as the Articles of Association. Our Bank has appointed three vice presidents and other members of senior management to work with the president of our Bank and perform their respective management responsibilities.

The Party Committee

Our Bank has established a committee for the Communist Party of China (the "**CPC**"), which shall play a core leadership role and a core political role. This committee primarily assumes the following responsibilities:

- supervising the implementation of the policies of the CPC and the State in our Bank, and implementing major strategic decisions of the CPC Central Committee and the State Council and important decisions of higher CPC organizations;

- strengthening the mechanism for selecting personnel in terms of standard, procedure, assessment, recommendation and supervision, and insisting on the integration of the principles of the supervision on cadre by the CPC, the lawful selection of management by Board of Directors, and the lawful exercise of authority of appointment, promotion and dismissal of personnel by the management;

- discussing "three importance and one greatness" matters; conducting studies and providing advice on major matters concerning the reform and stable development and important business policies of our Bank, and immediate interests of our employees;

- supporting the Shareholders' general meeting, the Board of Directors, the Board of Supervisors, senior management and the worker's congress to perform their respective duties in accordance with relevant laws and regulations;

- implementing the responsibility for strictly administering the CPC and supporting the discipline inspection committee to implement the supervision responsibility for building a clean and honest government;

- strengthening the construction of the CPC organizations and the team of CPC members of our Bank, and enabling CPC branches and members to set good example for the cadre and other employees to actively participate in the reform and development of our Bank; and

- conducting studies and determining other matters that shall be considered and decided by the committee.

OVERVIEW

We are the youngest Nationwide Joint-stock Commercial Bank in China and enjoy significant late-mover advantages. Since our establishment, through capturing opportunities brought by various national strategies in China, we have established an extensive network with national coverage and an international business with strong growth potential.

As a result, we experienced rapid growth during the Track Record Period. In 2019, we ranked 178th among the "Top 1000 World Banks " released by *The Banker*, moving up nine places compared with the previous year and ranking 27th among all PRC banks, in terms of tier-one capital as of December 31, 2018. For the year ended December 31, 2019, we achieved a 15.7% year-on-year growth in net profit and a weighted average return on net assets of 13.71%, which ranked first and third, respectively, compared to all listed Nationwide Joint-stock Commercial Banks.

We identify target customers that fit our strength and competitive advantages by closely following the trends of national strategies and industry development, while conducting multidimensional studies on potential customers. Through years of efforts, we have attracted and retained a large number of loyal customers who have grown with us. We have established advantages in terms of differentiated competition and service quality through optimizing our customer structure and developing innovative tailor-made products and services for specific customer groups. As of December 31, 2017, 2018 and 2019, our corporate loans and advances amounted to RMB343.4 billion, RMB384.4 billion and RMB465.2 billion, respectively, representing a CAGR of 16.4% which ranked first compared to all listed Nationwide Joint-stock Commercial Banks. As of December 31, 2017, 2018 and 2019, our personal loans amounted to RMB118.8 billion, RMB167.8 billion and RMB233.4 billion, respectively, representing a CAGR of 40.2% which ranked second compared to all listed National Joint-stock Commercial Banks; our interest income from personal loans amounted to RMB4.4 billion, RMB8.4 billion and RMB12.5 billion, respectively, for the years ended December 31, 2017, 2018 and 2019, representing a CAGR of 69.3% which ranked first compared to all listed Nationwide Joint-stock Commercial Banks. The rapid growth in our corporate loans and advances and personal loans was attributable both to our competitive product lines and effective marketing efforts, and to the fact that we are the youngest Nationwide Joint-stock Commercial Bank growing from a relatively small scale. For details on the market shares of our total loans and advances among Nationwide Joint-stock Commercial Banks during the Track Record Period, please see "Industry Overview – Competitive Landscape".

Capturing the opportunities brought up by technologies, we endeavor to expand the depth and breadth of our business scenarios. In selecting key cooperating partners, we focus on leading enterprises in industries compatible with both our strengths and the prevailing trends of economic growth. We have formed ecosystems serving three key industry sectors, namely travel and tourism, real estate and lifestyle, and modern logistics, where we bring together platforms and consumers within the ecosystems by offering banking services that can be built into different platforms with open banking characteristics.

OUR COMPETITIVE STRENGTHS

The youngest Nationwide Joint-stock Commercial Bank in the PRC exhibiting strong competitiveness since establishment

A newly established bank benefiting from holding a national banking license. As the only Nationwide Joint-stock Commercial Bank newly established in China after the amendment to the PRC Commercial Banking Law (《中國商業銀行法》) in 2003, we are the youngest among all twelve Nationwide Joint-stock Commercial Banks and enjoy significant late-mover advantages. We are also the only Nationwide Joint-stock Commercial Bank that has a foreign bank as its promoter and founder.

Capitalizing on our competitive advantage of being a Nationwide Joint-stock Commercial Bank, which allows us to expand our business across China, we have captured the historic opportunities brought by China's rapid economic growth and the implementation of national strategies since we commenced business in 2006. Within 14 years, we have established a business network with strategic layout covering the capital cities of major provinces and metropolises that are of key economic value in China, at the average pace of opening more than two tier-one branches per year. As of December 31, 2019, our business network comprised 245 outlets, including 33 tier-one branches (including branches directly administered by our head office), 30 tier-two branches, 127 sub-branches, 54 community and micro sub-branches and one representative office in Hong Kong, which enables us to penetrate into regional markets throughout China and lay a solid foundation for our development.

We set up new outlets based on a cautious implementation of our strategic plan, which enhances our operating efficiency. As of December 31, 2019, our average total assets per outlet and average total loans and advances to customers per outlet amounted to RMB4.6 billion and RMB2.9 billion, respectively, ranking third and second compared to all listed Nationwide Joint-stock Commercial Banks, respectively.

Consistent and strong support from our high-quality and diversified shareholders. Our shareholders consist of leading enterprises in various industries, including: Standard Chartered Bank (Hong Kong) Limited, a member of a leading international banking group; a subsidiary of China COSCO Shipping Corporation Limited, the largest ocean shipping company in the world; China Baowu Steel Group Corporation Limited, the world's second largest steel manufacturing group; SDIC, a prominent state-owned investment holding company in China; TEDA Holding, a leading state-owned enterprise in Tianjin; and competitive private companies such as Oceanwide Industry Co., Ltd. As of December 31, 2019, foreign enterprise, central state-owned enterprises, local state-owned enterprise and private enterprises each held, in aggregate, 19.99%, 37.01%, 25.00% and 18.00%, of our shares, respectively. Our shareholding structure, which features a diversified and balanced shareholder base and a checks-and-balances mechanism, lays a solid foundation for us to effectively leverage our shareholders' strengths in corporate governance.

We have built a virtuous relationship with our shareholders. Our shareholders offered long-term and consistent support in our development and participated in each round of our capital increase and new share issuance. SCB, then acting as one of our promoters, dispatched an expert team with close to 100 members who worked with us closely during our establishment preparation and initial operation stages. As a result, we have forged SCB's inherent values, approach of prudence and standardized operations into our management concept and corporate culture. We have also entered into close strategic cooperation relationships with our other shareholders. For instance, by virtue of a strategic cooperation agreement signed in 2017, we and SDIC are working to strengthen our partnership in areas such as investment, financing and asset management.

We have created strong investment return for our shareholders. For the year ended December 31, 2019, we achieved a 15.7% year-on-year growth in net profit and a weighted average return on net assets of 13.71%, which ranked first and third, respectively, compared to all listed Nationwide Joint-stock Commercial Banks.

Capitalizing on well-established systems to recruit talents from a broad range of backgrounds. With assistance from our promoter, SCB, we have promulgated a series of modern corporate management systems encompassing product management, client relation management, risk management, centralized operation, and talent recruitment, evaluation and incentive plans. These management systems have become the cornerstone of our growth. Meanwhile, we have successfully attracted talent with experienced background at financial institutions from a broad range of overseas countries and regions including the UK, Sweden, Singapore, and Hong Kong, bankers and leaders at large PRC commercial banks, and elites at leading enterprises in China by providing competitive compensation schemes. Each term of our board primarily comprised of experts from financial and business sectors and renowned economists.

Precise customer targeting and outstanding financial services underlying a strong growth potential

Continued focus on strategic corporate banking customers and precise identification of target retail banking customer groups. We identify target customers that fit our strength and competitive advantages by closely following national strategies and industry development trend, while conducting multidimensional studies on potential customers.

In developing our corporate banking business, we primarily focus on customers who have strong track records. Our core customers comprise enterprises with robust operations, steady returns and leading industry positions who confirm to the trends of economic transformation and industry upgrade, including leading real estate developers with solid track record and enterprises operating in advanced manufacturing, innovative technologies, new retail and new consumption industries. In recent years, we have built strong relationships with local fiscal authorities and obtained a growing number of pertinent qualifications, including those allowing us to conduct agency collection of non-tax government revenue.

Capitalizing on our advantages and unique characteristics, we have identified two demographic groups as our core retail banking customers, namely the “pressurized generation (壓力一代)”, the group with strong demand for financial products and services, and “grey-haired group (養老一族)”, the group with a pressing need for wealth management services for their accumulated wealth. We also invest in developing wealth management services for individuals with strong growth potential and high-net-worth families.

A stewardship-style service model to provide customers with comprehensive treasury management solutions. Following our vision of becoming a modern wealth and treasury manager offering the best customer experience (客戶最佳體驗的現代財資管家) and in line with our development concept of "Agility, Openness and Sharing (敏捷、開放、共享)", we leverage advanced financial technology to provide target customers with tailor-made products and services in a stewardship-style model. Through this service model, our customers can access a wide range of wealth and asset management solutions and products covering corporate banking, retail banking and financial market business.

With a focus on our core corporate banking customers, we invested in developing different modules of corporate banking services, based on our study and analysis of customers' demands for financial services. In doing so, we are committed to implementing our business development concept of "developing light-capital value-added services which can work through the ecosystems of corporate banking customers, penetrate through the centralized management of parent entity and subsidiaries within a group, and pass through the corporate financial service market (穿行企業客戶生態體系、穿透集團內母子公司的集約化管理、穿越企業金融服務市場的輕資本增值服務)". Capitalizing on this capability, we managed to offer our customers tailor-made modern stewardship-style wealth and treasury services. In addition, we have an investment banking business with strong innovation capability, where we have successfully acted as the lead underwriter for the interbank market's first merger debt financing instrument, first asset-backed note, and for a project income note with the longest maturity the market has seen. Our ability to offer innovative products and services allows us to continue expanding the coverage of our wealth management solutions.

Our tailor-made stewardship-style wealth and treasury management services merge financial scenarios of retail banking customers with their daily-life scenarios. For instance, we provide comprehensive services to core retail banking customers, both to the "pressurized generation (壓力一代)" and the "grey-haired group (養老一族)", with a focus on addressing their financial needs in relation to housing improvement, consumption, investment and wealth management. Through developing personal wealth management products and services under the brand name of "Bohai Infinite Wealth Management (浩瀚理財)", we allow customers to select different combinations of products. We also launched "Bohai Happy E Loans (渤樂e貸)", our featured series of consumption loan products that utilize credit inquiry data and other data derived from governmental big data platforms, and "Tian Jin Bao + (添金寶+)", a cash management product designed for our core retail banking customer groups. In addition, we have established long-term and stable cooperation with over 20 internet platforms which enables us to expand our retail banking customer base and range of services. Capitalizing on these cooperative relationships, we continue to improve our ability in offering diversified wealth management services, with support from technologies such as big-data analysis capability and cloud computing.

Diversified capital replenishment measures serving as a catalyst for our growth. We have established advantages in terms of differentiated competition and service quality through proactively optimizing our customer base and developing innovative tailor-made products and services for specific customer groups. In the past, primarily relying on retained earnings, we have achieved a strong business growth and earned market reputation among target customer groups.

Our corporate banking customers increased by 43.0% from January 1, 2015 to December 31, 2019. As of December 31, 2017, 2018 and 2019, our corporate loans and advances amounted to RMB343.4 billion, RMB384.4 billion and RMB465.2 billion, respectively, representing a CAGR of 16.4% which ranked first compared to all listed Nationwide Joint-stock Commercial Banks. As of December 31, 2017, 2018 and 2019, our personal loans amounted to RMB118.8 billion, RMB167.8 billion and RMB233.4 billion, respectively, representing a CAGR of 40.2% which ranked second compared to all listed National Joint-stock Commercial Banks; our interest income from personal loans amounted to RMB4.4 billion, RMB8.4 billion and RMB12.5 billion, respectively, for the year ended December 31, 2017, 2018 and 2019, representing a CAGR of 69.3% which ranked first compared to all listed Nationwide Joint-stock Commercial Banks. The rapid growth in our corporate loans and advances and personal loans was attributable both to our competitive product lines and effective marketing efforts, and to the fact that we are the youngest Nationwide Joint-stock Commercial Bank growing from a relatively small scale. For details on the market shares of our total loans and advances among Nationwide Joint-stock Commercial Banks during the Track Record Period, please see "Industry Overview – Competitive Landscape".

As of December 31, 2019, our total assets reached RMB1,116.9 billion, representing a growth rate of 30.5% from January 1, 2017, which ranked third compared to all listed Nationwide Joint-stock Commercial Banks. For the year ended December 31, 2019, our operating income and net profit amounted to RMB28.4 billion and RMB8.2 billion, respectively; the year-on-year increase of our net profit reaching 15.7%, higher than all listed Nationwide Joint-stock Commercial Banks. Going forward, with increasingly diverse capital replenishment channels and expanding capital scale, we expect to enter a new stage of development.

Capitalizing on a prudent risk management concept and comprehensive risk management system to enhance competitiveness in asset quality

Upholding the risk management concept of "comprehensiveness, proactivity and agility (全面、主動、敏捷)". We have built into our business a prudent risk management philosophy that SCB has passed along to us. In addition, we continue to optimize our risk management concept in light of factors such as the characteristics of China's economy. After over one decade of evolution and upgrade, we gradually developed a risk management concept of "comprehensiveness, proactivity and agility (全面、主動、敏捷)", in accordance with international standards and fitting China's national conditions.

We are devoted to enhancing our risk management capacity and effectiveness, and optimizing our risk management system. In particular, we actively identify, measure, evaluate, monitor, report, control and mitigate various risks we are exposed to, and take efforts to study the correlation and interaction between different risks. In addition, we implement a robust risk management strategy and culture compatible with our corporate governance and development strategy. We have also established a comprehensive risk management system that covers credit risk, market risk, liquidity risk, operational risk, country risk, information technology risk, strategy risk and reputation risk. Our key risk indicators were in compliance with the regulatory requirements and our risk preference during the Track Record Period.

Established a risk management system featuring the principles of "consolidation, independence, verticality, balance and integration (集中、獨立、垂直、制衡、融入)". We have set up a Risk Management Department, a Credit Review and Approval Department, a Credit Monitoring Department and a Retail Risk Management Department at our head office, and three regional credit approval centers in Beijing, Shanghai and Guangzhou. In addition, we dispatch risk directors to different business lines, branches and sub-branches. The risk directors can make direct reports to the chief risk officer at the head office regarding risks in different areas. As a result, we managed to effectively prevent the spreading and transfer of different risks. Moreover, we implemented a multi-level risk management system delegating authorization to each level and have built a management system that strikes a balance between operational efficiency and effective risk control. We follow the differentiated authorization principle of "focusing on risk management capability (以風險管理能力為核心)", adopt cautious expansion, timely review and continuous adjustment measures. At the same time, we also take into account a broad range of factors, including specifications of local markets, structure and status of our teams, as well as our product portfolios. We also invested in the integration of risk management into development strategy, business operation procedures, products and scenarios, by closely following advanced international trends in risk management, capturing development opportunities within relevant risks, and making adjustments to our risk management strategies.

Gradual improvement in digitization of risk management capability featuring "precision, automation and promptness (精準、自動、實時)". We continuously improve our risk management capability by utilizing five key advanced technologies, namely big data, artificial intelligence, block-chain, cloud computing and 5G, through which we have enhanced our risk monitoring system, and implemented a comprehensive online risk alert mechanism for our credit assets. During this process, we adopted a case-driven-development process with reference to studies on specific industries and scenarios, so that we were able to integrate offline risk management logic and measures into our risk management system, thereby enhancing our overall risk control capacity. We led the development of an intelligent risk management decision system featuring data-drivenness, mobile connection and cross-sector integration. This system can offer risk management solution to different types of online and offline retail banking business, covering each key sector of business management, including anti-fraud, biometrics recognition, credit evaluation, credit approval and pricing. In doing so, this system adopts various digital and intelligent measures, such as machine learning and cloud computing, utilizes data from different sources including internet big data, industry database and credit data from the PBoC, and takes into account the specification of the relevant business scenarios and customer group involved. In 2019, this system was granted the *China Annual Risk Data Analysis Technology Application Award* (中國年度風險數據與分析技術實施大獎) granted by The Asian Banker (《亞洲銀行家》).

Adequate identification of credit risks and enhanced management of asset quality. We uphold a sound risk appetite and compliance awareness. As of December 31, 2017, 2018 and 2019, our NPL ratio was 1.74%, 1.84% and 1.78%, respectively. In particular, we recorded a decrease in NPL ratio since 2018 amidst China's economic slow-down while the overall NPL ratio for PRC commercial banks decreased from 1.89% as of December 31, 2018 to 1.86% as of December 31, 2019. As of December 31, 2017, 2018 and 2019, our NPL ratio for personal loans, which constituted a growing portion of our total loans and advances during the Track Record Period, was 0.37%, 0.38% and 0.54%, respectively, lower than the average of listed Nationwide Joint-stock Commercial Banks who disclosed NPL ratio for personal loan in the respective years. Our allowance coverage ratio was 185.89%, 186.96% and 187.73%, respectively, as of the same dates, ranking fourth for all three years compared with all listed

Nationwide Joint-stock Commercial Banks. As of December 31, 2017, 2018 and 2019, our allowance to gross loan ratio was 3.24%, 3.44% and 3.34%, respectively, ranking fourth, second, and second, respectively, compared to all listed Nationwide Joint-stock Commercial Banks. We strictly implement the regulatory requirements governing the recognition of NPLs to ensure that our NPL ratio accurately reflect the quality of our credit assets.

A progressive technology bank which enjoys the benefits from open ecosystems

Achieving cooperation through introducing banking services which promote ecosystems open to a broad range of participants. With a vision to reshape our banking business and service model, we have imbedded our core business and services into the work flows run jointly by us and our platform partners, building an open banking system under the brand name of "Online Bohai Bank (線上渤海銀行)", which upholds the value of "collaboration, sharing and win-win (共建、共享、共贏)". Relying on our banking services like account management, payment and settlement, fund deposit and custody, and various financial products, we have invested in the continued development and application of information technology and prepared solutions for a broad range of business scenarios, including industrial e-commerce platforms, e-government platforms, intelligent community platforms, intelligent city platforms, and financial assets exchange and non-banking financial institutions. Our open banking services feature easy integration, high flexibility and strong compatibility, effectively reducing communication costs as well as related R&D expenses. As a result, we managed to create new profit generating channels, while improving loyalty of our platform partners.

We have enriched our user profiling tools by accessing a large amount of data and potential clients through the data-sharing mechanism with platform partners, which laid a data foundation for our digital transformation. As of December 31, 2019, we had established cooperation relationships with over 100 platforms, the aggregate number of online customers we acquired in 2019 through the various established scenarios reached 281.5 thousand, and, in the same year, the total transaction volume through these platforms reached RMB42.0 billion. Benefiting from the interaction within these jointly established ecosystems, we have been able to gradually expand our customer-acquisition channels, increase our fee and commission income, and further enhance the competitiveness and market-recognition of our financial products and services.

In selecting key cooperating partners, we focus on leading enterprises in industries compatible with both our strengths and the prevailing trend of economic growth. We have formed ecosystems serving three key industry sectors, namely travel and tourism, real estate and lifestyle and modern logistics, where we aggregate platforms and consumers within the ecosystems.

We have established cooperation relationship with five leading internet tourism platforms. Connecting the parties within the travel and tourism ecosystems, including individuals, hotels, airlines, travel agencies and tourist attractions, we launched a board range of online financial service solutions, such as payment account, consumer finance, deposits and wealth management. For the year ended December 31, 2019, we acquired approximately 160 thousand new customers through these platforms.

Capturing market opportunities arising from China's urbanization progress and people's needs for improved living standards, we have established an ecosystem for real estate and lifestyle, where we connect various participants such as developers, property owners, property management companies and surrounding business district. In particular, we transform traditional offline banking services like construction loans and residential housing loans to online services, integrating our open-ended financial services into the life cycle of the real estate industry. In particular, we launched the "Sincerity Deposit Service Platform (誠意金服務平台)" which allows customers convenient access to our services through our online platform. We also established a community service cloud platform to promote intelligent community-based service solutions.

We apply advanced technology to modern logistics and supply chain platform, and provide financial solutions surrounding four key scenarios, namely human, vehicle, goods and location, through which we develop our banking services which cater for different transactions and industries. In addition, by assisting customers in the digital consolidation of data derived from the streams of funds, information, goods, commerce and customers, we endeavor to create a complete cycle of financial services for industries within the ecosystems.

Accelerating the Bank's development by utilizing advanced technology. Sticking to the development concept of "driving our services, businesses, risk management, operation management and innovation by technology (科技驅動服務、科技驅動業務、科技驅動風控、科技驅動管理、科技驅動創新)", we see data and technology as the core driving forces underlying our success in accomplishing universal solutions for customers' demands. In particular, we continuously improve the intelligence, convenience and efficiency of our services through reacting and making upgrades for our customers, which lends support for our development into a comprehensive digital and intelligent bank.

We apply advanced technologies to a broad range of business and operational scenarios, creating a driving force for innovation in our business, products and procedures. We established our "online supply chain platform (線上供應鏈平台)" utilizing block chain technology, which won numerous awards, including the 2019 first runner-up in the selection of Outstanding Cases for Financial Services in the Emerging Industries (金融服務新興產業優秀案例二等獎), the 2019 *Best Ten Blockchain Innovative Application Awards* (十佳區塊鏈應用創新獎) at the China's Financial Innovation Award (中國金融創新獎) ceremony hosted by the Chinese Banker Magazine (《銀行家雜誌》), and *2018-2019 Inclusive Finance Outstanding Solution* (普惠金融優秀解決方案) granted by FinTech Innovation Alliance, a leading PRC institution focusing on studying the industry trend of FinTech innovation. We launched a series of micro and small enterprise loan products utilizing technology-driven interaction between banks and tax authorities, where we can offer quick and efficient services based on customer profiles generated by intelligent tools. In addition, we have built a smart data analysis platform designed for retail banking business, which has brought about encouraging results in various fields, including precise marketing and anti-fraud. This platform was granted the "2018 Financial Industry Innovation Award in China (中國金融行業創新獎)" granted by International Data Corporation, a premier global provider of market intelligence and advisory services.

For the year ended December 31, 2019, transactions processed through our electronic channels and self-service banking facilities accounted for approximately 99.5% of the number of total transactions for the same period. As of December 31, 2019, our electronic channel customers reached 3,513.3 thousand; for the year ended December 31, 2019, the aggregate number of our electronic banking transactions amounted to 372.8 million, and the aggregate total transaction volume reached RMB7.4 trillion.

Enhanced technology development through innovation in organization structure. We deploy our R&D capacities across the Bank based on our online and offline business structure, and established "virtual sub-branches" where we offer deposit, wealth management and loan services to potential customers through online platforms. Our Financial Technology Department, who works closely with business departments to serve market demands so that our customer services, marketing, product design, technology, R&D and risk management functions can be aligned within a "centralized middle office (大中台)" setting. In addition, we have established an ecosystem bank lab in Suzhou City, which allows us to grasp the opportunities brought up by development of FinTech. Leveraging our late-mover advantages, we have established a technology infrastructure merging a traditional framework with evolving technologies, and through promoting the digitization and intelligentization of our business and outlets.

Our core technology capability has experienced continuous growth in recent years. Through coordinating the construction of different infrastructure platforms, we have constructed a uniform application platform managing payment, image processing, online accounts, consolidation of fee- and commission-based business management. As a result, we could symphonize our business protocols throughout the Bank and have standardized our system development process and enabled a convenient one-click access to our comprehensive financial products. We relied upon our in-house innovation to construct and launch the "intra-city dual active (同城雙活)" technology structure, where the systems can smoothly support our services without noticeable delay or interruption experienced by customers. We have established a strategic cooperation relationship with a leading global cloud computing service provider, and in 2019 we launched a private cloud system. These bank-wide core technologies' R&D and deployment has laid a solid foundation for our increasing efforts in technological innovation and technology application.

During the Track Record Period, we won various awards in relation to FinTech, including the "China Golden Orange Awards – Best FinTech Services Award (中國金桔獎 – 最佳金融科技服務獎)", "FinTech and Outstanding Service Innovation Awards – Outstanding Contribution Award for Management Innovation (金融科技及服務優秀創新獎評選 – 管理創新突出貢獻獎)" and "China Electronic Banking Gold Rank – Best Personal Online Bank Award (中國電子銀行金榜獎 – 最佳個人網上銀行獎)" in 2018. In 2019, we were named "Annual FinTech Bank (年度金融科技銀行)" by 21st Century Business Herald (《21世紀經濟報道》).

Distinguished management team supported by outstanding employees and a lean and agile management culture.

Our senior management team has an outstanding strategy vision and rich industry experience. Members of our senior management team come from a broad range of backgrounds, including banking, securities, government authorities and financial regulatory institutions. Their rich experience complement each other's advantages, and their leadership constitute a strong support to our development.

Mr. LI Fuan (李伏安) has been our chairman since 2015. Prior to joining us, he has served key leadership positions in the PBoC headquarters and the CBRC. He has over 34 years of experience in the financial and financial regulatory industry. He has a deep understanding and study of regulatory supervision, financial innovation, and financial market in China and overseas, holds acute insight into potential strategic opportunities and risks in the financial industry and possesses outstanding leadership skills and profound strategic foresight. Our president, Mr. QU Hongzhi (屈宏志), has nearly 30 years of working experience in the banking industry. He used to serve in key leadership positions in Tianjin branch and Jiangsu branch of China Construction Bank Co., Ltd. and has rich practical experience and management capability in respect of marketing expansion, business operation, risk control, compliance and daily management of commercial banks. He has a deep understanding of financial theory, keen business sense and strong strategic execution capability. Our chief supervisor, Mr. WANG Chunfeng (王春峰) used to serve as a director, professor and doctoral supervisor at the Institute of Systems Engineering, School of Management, and the director of the Financial Engineering Research Center, at Tianjin University. Mr. Wang is a leader in China's financial engineering studies and possesses solid financial research skills. He also used to hold other important management roles such as deputy director of Tianjin Municipal Development Planning Commission and president of Bohai Securities Co., Ltd. He has nearly 25 years' experience in economic management and the securities industry, and deep insight into corporate governance and management of financial institutions.

Other members of our senior management team have over 27 years of banking industry management experience on average. They have a deep understanding and strong capacity in operations in banking industry, wealth and treasury management and FinTech. Many members among them used to serve key positions in large state-owned commercial banks and holds professional qualifications, such as senior economist and/or doctoral supervisor.

Advanced talent management and development mechanism. We offer competitive compensation packages and continue to improve our market-oriented talent recruitment and evaluation system. We care the career development of our employees. By implementing a dual career development path where an employee can select either managerial sequence (管理序列) or technical sequence (專業技術序列), we offer them a flexible promotion mechanism. By virtue of this system, we managed to attract talent from different large financial institutions and forged a team of employees with rich experience, youth, strong academic background and cohesion. As of December 31, 2019, 96.0% of our employees held bachelor degree or above and 76.6% of our employees were aged 40 or below. For the years ended December 31, 2017, 2018 and 2019, staff turnover rate of our mid-level management team only amounted to 2.8%, 2.6% and 3.1%, respectively.

Our corporate culture values agility and empathy. We plan to establish a consolidated agile operation model by conducting studies on customers' specific demands, based on which, we utilize the agile mechanism that can make prompt responses to enhance communication between different departments and advanced digital technologies. We utilize our financial service capability of being an "agile bank (敏捷銀行)" by offering online services that could cover various work flows. We cooperate with major value network participants, such as leading FinTech companies, to provide enhanced experience under different scenarios. During the cooperation, we integrate both process management and results evaluation, so that we can implement key strategic transformation measures based on agile project management models. We focus on dynamic integration of the culture of an agile bank and a caring bank. In particular, to address specific demands from certain customer groups, we adopt various innovative convenient operation models, including dispatching specific agile teams on a project basis, conducting parallel credit research and risk approval, and carrying out "dual online application approval (雙綫上受理審批)" through utilizing both the internal system of our Bank and mobile software. By setting up fast-track procedures for clients on a case-by-case basis and the principle of high quality and high efficiency, we have achieved improvement in customer satisfaction and loyalty.

We persistently carry out our obligations and responsibilities as a financial institution, strive to develop green finance, provide credit products to environmental-friendly industries and enterprises, and ensure we operate at a low-carbon emission level. As of December 31, 2019, green credit we granted amounted to RMB18.4 billion, and we provided green credit support to 104 enterprises in China, covering renewable energy and clean energy, waste processing and pollution prevention, industrial energy conservation and environmental protection. We actively participate in social welfare events and donate funds and provisions to targetted poverty stricken areas and institutions. We continuously promote inclusive finance, providing financial services to micro and small enterprises, "San Nong (三農)", start-ups and innovators, through which we have contributed to sustainable development of the economy, the society and the environment.

Actively applying a lean management approach and invest in building a bank equipped with optimized procedures that places priority on the customers. We introduced the "lean six sigma (精益六西格瑪)" measures, or LSS, to promote structural reform on the supply side of our Bank and construction of a management structure and corporate culture emphasizing continuous improvement in efficiency and profitability, with a focus on optimizing bank industry operation procedures. Through cultivating a team of employees with expertise in LSS measures, we improved our capability to solve professional problems by adopting lean procedures and enhance our ability to sort, study, consolidate and screen work flow data. As a result, we can steadily improve the agility of work flow to convert advanced management concepts into productivity. We have accomplished various optimization plans for business procedures and resource allocation, such as efficiency improvement of institution settlement account opening, online personal loan disbursement, account balance management for cash reserve of institutions, and employee allocation for centralized operation. As a result, we have continuously improved operational efficiency by reducing the length of time for corporate banking customers to open accounts, downsizing the amount of idle cash and interest-free assets and optimizing the position allocation for employees.

OUR DEVELOPMENT STRATEGIES

Our strategic mission is to become a modern wealth and treasury manager offering the best customer experience (客戶最佳體驗的現代財資管家). We are devoted to offering customers comprehensive financial services in a caring way, creating sustainable and stable value for shareholders and establishing an optimum development platform for employees.

Through continuous developing and improving fields including accurate marketing, precise management, lean cooperation, talents cultivation, and culture sincerity building, we intend to achieve high quality realization of our strategic vision by strengthening our customer oriented financial services capabilities. By integrating assessment on implementation results of our third "five year development strategy" with development trend of the banking industry, we intend to fortify our strategy execution capability from six key perspectives, namely clients, products, channels, risk control, internationalization, and corporate organization structure and cultures. We are determined to transform into a retail bank and transaction bank, and promote high quality development of our Bank.

Continuously improve customer experience and improve the brand recognition of "wealth and treasury manager (財資管家)" with craftsmanship spirit.

Keep optimizing client segmentation and enriching client acquisition measures. Capitalizing on our strategic network layout of key cities and gradually improved online ecosystems, we intend to further optimize methods and algorithms to analyze customer groups. In particular, we plan to make timely studies on changes in financial markets and customer needs for financial services, to further differentiate target customer groups. We plan to keep promoting further development of customer marketing. In addition, we plan to establish data sharing with PRC authorities that are in charge of industry and commerce matters, taxation, and social welfare and insurance matters when building our "Bohai Beidou system (北斗系統)", a customer data modelling and data management system, through which we may further improve the accuracy of profiles of target customer groups, generate a white-list of trust-worthy customers, make accurate promotion of products and services to potential customers and further expand the base of quality customers.

Focus on core customer groups and innovate client acquisition model. We intend to promote the service model that integrates both online and offline services to improve convenience for customers to access our services. We will keep focusing on core retail banking customers groups, being the "pressurized generation (壓力一代)" and "grey-haired group (養老一族)", to build tailor-made personal financial service scenarios based on accurate studies of their specific demands. We plan to focus on key corporate banking customers like multi-national enterprises, large groups and enterprises with strong growth potential, to jointly develop boutique financial service scenarios. We also intend to make a full study of multi dimensional characteristics of inclusive finance to micro and small enterprises, to implement scale-up, standard and online marketing strategy and service model.

Further enhance tailor-made services and expand client acquisition opportunities. We intend to further diversify financial and non-financial services to clients and keep expanding coverage of comprehensive financial solution products. We will further improve the application of advanced technologies, such as big-data and AI to make detailed portrait of customers' financial actions, accurately match customers' demands, carry out precise marketing to target customers, and continuously improve our capability of offering tailor-made treasury management and asset management services. We will keep supplementing the financial service scenario for retail banking customers and construct a service ecosystem that targets to solve the everyday needs of customers, including "clothing, food, household and travel (衣食住行)". We will innovate the service model for corporate banking customers, where we intend to jointly construct and share a financial service ecosystem.

Improve our client retention by serving the entire life cycle. We intend to closely track changes in customers' needs and construct a service model that covers an entire life cycle and offers caring services to clients, so that we could improve communications and interactions between our Bank and customers. We intend to further supplement the retail banking customer financial service ecosystems based on specific demand for financial products and services at different ages of an individual. In addition, we plan to keep improving integrated and stewardship-style treasury management services that cover the full value chain of our corporate banking customers and their upstream and downstream sectors, and cater for our customers' specific demands for financial services at their different development stage, as a result of which, we can establish ecosystems that may "penetrate through (穿透)" different financial markets and service scenarios.

Keep expanding product portfolio and continuously improve comprehensive and stewardship-style financial service capability.

Supplement product system and make a prompt response to market. We intend to further supplement financial products and services portfolio, and improve product structure, standard and digitization. We plan to steadily establish a scientific and efficient full-life cycle management mechanism that has a clear delineation of responsibilities between the front-, middle- and back-end offices where work flow can seamlessly connect, through which, we can make prompt responses to changes in market and customers' demands to ensure over-saturated supply of products.

Continue investing in retail banking business and building distinctive brand images. By closely tracking development of, and changes in, financial conditions and demands for financial products of the "pressurized generation (壓力一代)" and "grey-haired group (養老一族)", our two core retail banking customer groups, we intend to continue expanding different lines of retail banking products, so that customers can have convenient access to our products at any time, and offer more standard, comprehensive and inclusive products. We plan to invest in developing a private banking business with a focus on major cities with ample wealth accumulation and provide a high-net-worth group with exclusive services. We intend to continue enhancing the synergy between corporate banking and retail banking business segments, to build distinguished brand names for our retail banking business.

Keep developing corporate banking business with a focus on industry sphere and chains. We intend to keep innovating our product model and business structure to closely follow national development strategy and market demands brought up by real economy development. In particular, we plan to further improve business transformation into digital, online, light and green business models, and keep enhancing our capability of offering comprehensive corporate banking products and services. We intend to further optimize customer structure, expand industry sectors we could cover and improve our services to clients in industries of national strategic importance, such as advanced manufacturing and high-tech enterprises. We plan to establish specific teams for emerging industries and those that attract high market attention, and continuously enhance our understanding of different industries and capability to design tailor-made financial products and services. We will gradually develop green finance and agriculture related business, and steadily improve inclusive financial business. We will keep advancing the transformation of transaction banking, where we intend to promote industry-, enterprise- and scenario-specific supply chain financial services within relevant industry sphere and chains, by leveraging the application of different advanced technologies, such as block chain and big-data and develop diversified products and services that may optimize the customers' utilization of their funds.

Connect different market segments and enhance comprehensive services. We intend to keep enhancing our wealth management capability and invest in improving the development of high net-worth wealth management products and further diversify product portfolios. We plan to continue enhancing the selection, sales and maintenance of insurance and trust products that we distribute by establishing special committees to make comprehensive studies on changes in the market and effectively prevent relevant risks. We plan to expand further fee- and commission-based business, such as debt securities underwriting and sales, asset transfer, mergers acquisition financing and financial advisory. We plan to invest in expanding the custodian business and take efforts to apply and obtain useful qualifications for custodian services for funds like social welfare and enterprise annuity. We plan to develop products that can connect both capital markets and money markets to create interaction between different product lines, and provide clients with financial services that can "work through (穿行)" different ecosystems and "pass through (穿越)" relevant financial markets.

Continuously enhance multi-channel product offering and introduce banking services through our open ecosystems.

Speed up the expansion of business network and implement our development strategy which focuses on a light-asset business model. We intend to further optimize the layout of our outlets in core cities and will upgrade the technology capacity of our business outlets to improve their capability of offering intelligent, and scenario-based services. We also plan to develop more comprehensive light-asset outlets, to build up an offline service network that stays closer to community customers.

Enriching the ecosystem scenario and build a platform effect. We intend to uphold the banking ecosystem development plan of "consolidation of online and offline business, integration of self-development and jointly-developed ecosystems (線上線下一體化,自建生態與共建生態相結合)" and further promoting all-scenario intelligent layout strategy to realize multi-channel integrated services. We intend to further develop potential opportunities in e-commerce, industrial internet and smart internet of things, to promote the establishment of "virtual sub-branches" and accelerate the construction of a "centralized middle office (大中台)" ecosystem through our ecosystem banking lab. We intend to change traditional credit and lending methods and improve our capability of offering tailor-made, customized and differentiated financial services by working with leading platform enterprises to construct segmented ecosystems, connecting with the information systems of comprehensive smart cities, establishing merchant ecological financial circles, and developing a "smart credit system (智慧信用體系)".

Enhance integration of different channels and promote digitized open-up. We plan to enhance seamless connection between internal channels and customer acquisition scenarios to provide "one-stop wealth and treasury management solutions (一站式財資管理解決方案)". We will keep promoting online and offline integration and consolidation of front-end and back-end channels, continuously improve technological sophistication and value output of technologies, administration and human resources, improving the customer conversion and connection between front-end and back-end functions. With a focus on the five key elements, namely, "sphere and chains, platform, scenario, ecology and system (圈鏈、平台、場景、生態、系統)", we plan to make scenario-based consolidation of industry resources and channels through application of FinTech and supplement "open bank (開放銀行)" service system.

Adhere to a risk management system featuring "integration, vertical, independence, balance and integration (集中、垂直、獨立、制衡、融入)" and further improve risk management capability.

Keep being agile and proactive and enhance smart risk controls. Capitalizing on our risk management concept that emphasizes checks-and-balances and the vertical and independent risk management structure, we plan to speed up construction of a data-driven risk management model, complete risk measurement model, construct a "automatic, real-time, accurate and agile (自動、實時、精准、敏捷)" smart risk control system, build up an agile and proactive comprehensive risk management mechanism and evolve our risk management strategy from "control risks (控制風險)" model into "manage risks (經營風險)" model.

Accurately describe risks and optimize risk appetite management. We plan to keep making thorough analysis of risk appetite and tolerance and establish a risk restriction system that can deal with different types of risk, and risks associated with different business segments and customer groups, through which, we will further enhance the comprehensive risk identification and coverage system and establish a multi-dimensional risk appetite transmission system. In this process, we will strictly follow regulatory requirements to establish: (i) from the horizontal perspective, a comprehensive risk evaluation index; and (ii) at the vertical perspective, a simple and easy-to-use tracking management standard list, so that, we can ensure the prompt and consistent transmission of risk appetite without deviation.

Enhance proactive risk identification and emphasize front-end control. We intend to continue improving value identification and creation of risk management through promptly following the direction of national strategies, taking proactive steps to meet market demands and quickly responding to clients' requests. In key strategic areas such as the establishment of self-developed financial ecosystems and inclusive financial services, we plan to further improve our risk management capability in terms of automatization level, procedure standardization and intelligent operation. In addition, we intend to keep optimizing the risk management structure and achieve steady improvement in asset quality. We intend to let business and risk management departments jointly establish marketing guides for key industries and highlight the the key focus of credit projects including credit scale, potential risks, potential return and liquidity, so that we can accomplish front-end risk management and control.

Continue to develop our international business and steadily promote cross-border financial services ecosystems.

Enhance strategic coordination with SCB. With reference to the experience of our shareholder SCB, member of a relationship leading international bank group, we plan to further improve the international management model by further investing to develop an international vision, building an international team and establishing an international business system. We believe the future development of international business involves the establishment of outlets and service network in China and overseas, promotion of international business in line with national strategies, innovative products in trade financing, global RMB fund and asset management business, as well as cooperation and the relevant licenses. Capitalizing on our comprehensive strategic cooperation relationship with SCB, we plan to steadily promote the development of relevant businesses.

Establish a cross-border financial services ecosystem. We are moving forward to establish our Hong Kong branch. We intend to develop our Hong Kong branch upon its establishment, and our branch in Shanghai Free Trade Zone as our frontier outlets for international business. In addition, together with key outlets offering international business, particularly, branches located in coastal development regions with strong import and export business, we will provide cross-border transaction and investment and financing services. We plan to assess and develop different types of integrated products, such as cross-border dual-direction RMB cash pool services, cross-border investment custodian services, and cross-border RMB clearing services, so that we can continue to improve our international service capability.

Promote participation in international business. We plan to commence strategic cooperation with industry peers that have strong international competitiveness for select oversea projects or fields. In addition, we will keep exploring negative list supervision models for international business expansion, encourage innovation in business model, products and services, which could promote our capability and ability to manage international business, so that we can improve our international influence.

Optimize our lean management model, corporate culture and talents recruitment so that we can offer the best customer experience though a high-quality and efficient management and operation system.

Establishing a lean management model and building a bank equipped with optimized procedures. We plan to improve preparation and implementation of strategic measures, annual plans and specific tasks according to our bank-wide middle to long term business development strategy, with an emphasis on improvement in operational responsiveness and efficiency. We plan to further improve the dynamic integration of the vertical management system within each business lines and the cross-segment coordination mechanism, so that we could optimize authorization systems and carry out agile consolidation of internal resources with a focus on market and clients. In addition, we plan to utilize different procedure management tools, like LSS, to keep promoting lean management. We also intend to promote construction of a digital system with the aim of operate in an "efficient, outstanding and cost-effective (高效、卓越、低成本)" way. We will accelerate agile project development by integrating different work streams, including products, risk management, technology, client service and internal control.

Keep building the culture achieving to promote innovation and cooperation. We will keep treating customers with priority, emphasize execution awareness among employees and strengthen consistency and integration of our value and policy execution. We intend to further improve our ability to adapt to changes and make quick, accurate and efficient innovation. To better support active innovation, we intend to tolerate potential mistakes that may incur from time to time during innovation attempts. We will encourage internal cooperation, promote cooperation within and among strengthen business lines. We plan to continuously improve business and product innovation, create an innovation culture and establish innovation systems.

Further improve incentives and restraint mechanisms. We intend to enhance vertical management of human resources with a close attention to recruit, respect and retain talent that fit our development strategy, particularly for areas like innovative business, risk management, FinTech and asset management. In respect of business management, we intend to enhance scientific evaluation of employee contribution by improving the assessment of their capability of increasing comprehensive contribution and marketing potential, so that we could fully demonstrate the guiding effect of performance evaluation. We plan to complete scientific and market-oriented incentives and restraint mechanisms, enforce a system where an employee's position can be promoted and demoted, as well as being admitted and dismissed. We will keep following applicable policies to explore middle and long term incentive measures for key employees.

OUR PRINCIPAL BUSINESSES

Our principal lines of business comprise corporate banking, retail banking, and financial market business. The following table sets forth our operating income by business segment for the years indicated.

	For the year ended December 31,					
	2017		2018		2019	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except for percentages)					
Corporate banking	13,722.4	54.4%	12,036.5	51.9%	12,455.8	43.9%
Retail banking	2,055.1	8.1%	3,409.1	14.7%	5,478.7	19.3%
Financial markets	9,354.9	37.0%	7,660.4	33.0%	10,361.6	36.5%
Others(1)	117.7	0.5%	104.1	0.4%	82.4	0.3%
Total(2)	**25,250.1**	**100.0%**	**23,210.1**	**100.0%**	**28,378.5**	**100.0%**

Notes:

(1) Consists primarily of income that is not directly attributable to any specific business segment.

(2) Our operating income from these segments represents the net interest income derived solely from the respective lines of business, which is further added/deducted by net fee and commission income/(expense), net gains/(losses) on trading activities, net gains/(losses) arising from investment securities or other operating income/(expense), as applicable, attributable to the respective lines of business.

Corporate Banking

Overview

The majority of our operating income is attributable to our corporate banking business. We provide comprehensive financial products and services to our corporate banking customers, ranging from corporate loans and advances (including discounted bills), corporate deposits, transaction banking services, investment banking services, and other fee- and commission-based products and services. For the years ended December 31, 2017, 2018 and 2019, operating income from our corporate banking business amounted to RMB13,722.4 million, RMB12,036.5 million and RMB12,455.8 million, respectively, accounting for 54.4%, 51.9% and 43.9%, respectively, of our total operating income for the same periods.

We provide differentiated products and services to meet the diverse needs of our corporate customers. See "– Our Principal Businesses – Corporate Banking – Corporate Banking Customer Base" for details on our efforts to establish and maintain long-term client relationships with our key corporate customers.

Corporate Loans and Advances

We provide our customers with corporate loans and advances, which constituted the largest component of our loan portfolio during the Track Record Period. As of December 31, 2017, 2018 and 2019, our corporate loans and advances amounted to RMB343,351.0 million, RMB384,402.6 million and RMB465,224.1 million, respectively, accounting for 73.8%, 68.0% and 65.7%, respectively, of our total loans to customers. During the Track Record Period, we maintained a market-leading position in terms of corporate loans growth. For the years ended December 31, 2017, 2018 and 2019, the CAGR of our corporate loans reached 16.4%, which ranked first compared to all listed Nationwide Joint-stock Commercial Banks.

Distribution of Corporate Loans and Advances by Product Type

We provide our corporate banking customers primarily with working capital loans, which address their daily financing needs, and fixed asset loans, which provide financial support to infrastructure, construction and other fixed asset investment projects. The following table sets forth our corporate loans and advances by product type as of the dates indicated.

	As of December 31,					
	2017		2018		2019	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Working capital loans	204,091.6	59.4%	214,973.9	55.9%	282,656.3	60.8%
Fixed asset loans	134,561.5	39.2%	161,472.4	42.0%	171,084.4	36.8%
Others[(1)]	4,697.9	1.4%	7,956.3	2.1%	11,483.4	2.4%
Total corporate loans and advances	**343,351.0**	**100.0%**	**384,402.6**	**100.0%**	**465,224.1**	**100.0%**

Note:

(1) Consist primarily of merger and acquisition loans.

For a detailed explanation on the fluctuations of each product's share in our total corporate loans, and advances please see "Assets and Liabilities – Assets – Loans and Advances to Customers – Corporate Loans and Advances – Distribution of Corporate Loans and Advances by Product Type".

Distribution of Corporate Loans and Advances by Maturity

Our corporate loans and advances comprise short-term loans and medium- and long-term loans. The following table sets forth our corporate loans and advances by maturity as of the dates indicated.

	As of December 31,					
	2017		2018		2019	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Short-term loans(1)	114,672.9	33.4%	113,921.5	29.6%	155,725.0	33.5%
Medium- and long-term loans(2)	228,678.1	66.6%	270,481.1	70.4%	309,499.1	66.5%
Total corporate loans and advances	**343,351.0**	**100.0%**	**384,402.6**	**100.0%**	**465,224.1**	**100.0%**

Notes:

(1) Short-term loans are loans with a maturity of one year or less.

(2) Medium- and long-term loans are loans which mature in more than one year.

Distribution of Corporate Loans and Advances by Customer Type

We provide different loan products and services to corporate customers of various types. Our corporate loan customers primarily include state-owned and private enterprises that engage in a broad range of industries. For details of the distribution of our corporate loans and advances by industry, please see "Assets and Liabilities – Assets – Loans and Advances to Customers – Corporate Loans and Advances – Distribution of Corporate Loans and Advances by Industry".

The following table sets forth our corporate loans and advances by customer size as of the dates indicated.

	As of December 31,					
	2017		2018		2019	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Large enterprises(1)	123,888.3	36.1%	128,818.4	33.5%	159,251.0	34.2%
Medium enterprises(1)	109,334.0	31.8%	126,708.4	33.0%	176,477.8	37.9%
Subtotal (medium to large enterprises)	233,222.3	67.9%	255,526.8	66.5%	335,728.8	72.1%
Micro and small enterprises(1)	102,951.0	30.0%	119,242.3	31.0%	120,881.5	26.0%
Others(2)	7,177.7	2.1%	9,633.5	2.5%	8,613.8	1.9%
Total corporate loans and advances	**343,351.0**	**100.0%**	**384,402.6**	**100.0%**	**465,224.1**	**100.0%**

Notes:

(1) The classification criteria for micro and small enterprises and medium to large enterprises are based on the number of their employees, operating income and total assets stated in the Classification Standards of Small and Medium Enterprises. Please see "Definitions" section.

(2) Primarily includes loans to public institutions such as schools and hospitals.

Loans to Medium to Large Enterprises

Medium to large enterprises are the cornerstone for our corporate banking business. Capitalizing on our in-depth knowledge of the local market and national economy, we endeavor to design and launch loan products to meet the specific needs of our corporate banking customers, particularly customers with strong creditworthiness who engage in industries with strategic importance. Through implementing a proactive customer development strategy, we have established long-standing relationships with medium to large corporate banking customers, including local governments and their affiliated entities, national and provincial state-owned enterprises, and quality private enterprises. For more details on how we manage our list of key corporate customers, please see subsection headed "– Our Principal Businesses – Corporate Banking – Corporate Banking Customer Base".

As of December 31, 2017, 2018 and 2019, our loans and advances to medium to large enterprises amounted to RMB233,222.3 million, RMB255,526.8 million and RMB335,728.8 million, respectively, accounting for 67.9%, 66.5% and 72.1%, respectively, of our total corporate loans and advances.

Loans to Micro and Small Enterprises

We are committed to offering customized and efficient solutions to meet the diverse financing needs of micro and small enterprises. To better serve these customers, we have established an integrated system to pull together our expertise and resources in this area. We have designated sub-branches which prioritize serving micro and small enterprises. We assign inclusive finance customer managers (普惠客戶經理) to each of these sub-branches, and demand that their supervising branches maintain a special risk management task force to review, approve and monitor loans extended to micro and small enterprises. The Inclusive Finance Department (普惠金融事業部) at our head office takes charge of the overall strategic planning and product design for micro and small enterprises whose credit line does not exceed RMB10.0 million.

In 2017, we received the *Best Inclusive Financial Services Award* (最佳普惠金融服務獎) in The Time Weekly (時代週報)'s selection of the Internet Times Finance Golden Orange Awards (互聯網時代金融金桔獎). We were also granted the *Outstanding Micro and Small Enterprise Financial Services Award* (傑出小微企業金融服務獎) at the Piloting China (領航中國) annual forum hosted by JRJ.com (金融界網站) in 2018.

We also provide credit support to owners of micro and small enterprises or individual businesses, whose financing needs are inextricably connected with the daily operation of their businesses. For more details on our personal business loan segment, please see subsection headed "– Our Principal Businesses – Retail Banking – Personal Loans".

Our customer managers leverage their knowledge in the local market to deliver solutions in a timely manner. Unlike medium to large enterprises, micro and small enterprises often have relatively urgent and frequent financing needs. Accordingly, we have streamlined the loan application and approval process to offer financing solutions tailored for them.

As of December 31, 2017, 2018 and 2019, our loans to micro and small enterprises amounted to RMB102,951.0 million, RMB119,242.3 million and RMB120,881.5 million, respectively, accounting for 30.0%, 31.0% and 26.0% of our total corporate loans and advances, respectively. For a discussion on risks arising from our loans granted to micro and small enterprises, please see "Risk Factors – Risks Relating to Our Business – We are exposed to risks arising from loans granted to micro and small enterprises".

We offer a variety of loan products tailored for the financing needs of micro and small enterprises, including "Small and Swift Loans (小額快捷通)", first launched in June 2012, featuring flexible collateral schemes and a streamlined, template-based application process. As of December 31, 2019, the balance of Small and Swift Loans reached RMB1,169.2 million, compared to RMB521.3 million as of December 31, 2018.

In April 2019, we launched "Mortgage Quick Loans (房抵快貸)" for customers who can offer quality real estate properties as collateral. This product is similarly equipped with a streamlined application and credit review process, coupled with flexible repayment options ranging from equal monthly installments to lump-sum payment of principal upon maturity, designed to meet the urgent and varying needs of the micro and small enterprises. The maximum loan amount of Mortgage Quick Loans generally does not exceed RMB10.0 million, with a term of up to three years.

In 2019, we launched our supply chain finance products series "Bohai Prosperity Loans (渤發貸)" under the "1+N" model, through which we extend credits to micro and small enterprises who are the upstream suppliers or downstream customers of our core corporate customers. For more details on our supply chain finance services, please see subsection headed "– Our Principal Businesses – Corporate Banking – Transaction Banking Services – Supply Chain Finance Services".

In January 2020, we introduced "Bohai Business Loans (渤業貸)", an innovative working capital loan product tailored for micro and small enterprises which features a fully integrated online application, approval, contract execution, and fund disbursement process. Similar to our signature personal loan products, Bohai Business Loans support real-time access to the loan applicant's official data such as tax payment history, business registration and judicial records, which underlie an expedited credit approval process and enhanced risk evaluation on the micro and small enterprises.

Bill Discounting

We purchase from our corporate customers, at discounted rates, bank acceptance bills and commercial acceptance bills. Our bill discounting business facilitates our customers' early acquisition of funds and effectively supplements our corporate loan products.

As of December 31, 2017, 2018 and 2019, our discounted bills amounted to RMB2,737.5 million, RMB13,211.4 million and RMB9,413.5 million, respectively, accounting for 0.6%, 2.3% and 1.3%, respectively, of our total loans and advances to customers. During the Track Record Period, the majority of our discounted bills were bank acceptance bills (which generally carry lower credit risk compared with commercial acceptance bills), accounting for 94.0%, 98.7% and 75.5% of our total discounted bills as of December 31, 2017, 2018 and 2019, respectively. For an explanation on the changes in the composition of our discounted bills, please see "Assets and Liabilities – Assets – Loans and Advances to Customers – Discounted Bills".

We also conduct interbank bill discounting and rediscounting businesses through our financial market business segment. For details, please see subsection headed "– Our Principal Businesses – Financial Markets – Bill Discounting and Rediscounting".

Corporate Deposits

We provide our corporate customers with time deposit and demand deposit products, denominated in both RMB and foreign currencies including US Dollar, Japanese Yen, Hong Kong Dollar, Pound Sterling and Euro. Our corporate deposit customers include government agencies, public institutions, state-owned enterprises and private enterprises. As of December 31, 2017, 2018 and 2019, our total corporate deposits amounted to RMB469,809.2 million, RMB400,535.2 million and RMB414,949.5 million, respectively, accounting for 80.7%, 67.0% and 65.1%, respectively, of our total deposits from customers.

The following table sets forth our corporate deposits by product type as of the dates indicated. Our time deposit products have maturities ranging from three months to five years.

	As of December 31,					
	2017		2018		2019	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Demand deposits	247,640.3	52.7%	168,401.2	42.0%	170,847.2	41.2%
Time deposits	222,168.9	47.3%	232,134.0	58.0%	244,102.3	58.8%
Total corporate deposits	**469,809.2**	**100.0%**	**400,535.2**	**100.0%**	**414,949.5**	**100.0%**

We are dedicated to developing diversified corporate deposit products and services to meet the various financial needs of corporate banking customers. For example, since launching our first tranche of institutional certificates of deposits (單位大額存單) in March 2017, we have endeavored to diversify this product line by catering to our institutional customers' varying demand for liquidity and interest calculation options. As of December 31, 2019, total deposits from our institutional certificates of deposits reached RMB39.7 billion, a significant increase compared to RMB11.7 billion and RMB19.0 billion as of December 31, 2017 and 2018, respectively.

Transaction Banking Services

We provide our corporate banking customers with a broad range of transaction banking services, including cash management, supply chain finance, and trade finance and settlement services. In recent years, transaction banking has played a growingly important role in our corporate banking business and contributed substantially to our fee and commission income. For the years ended December 31, 2017, 2018 and 2019, net fee and commission income derived from our transaction banking products and services amounted to RMB726.2 million, RMB777.0 million and RMB796.9 million, respectively, accounting for 37.8%, 42.5% and 46.1% of our net fee and commission income generated from corporate banking, and 5.3%, 6.6% and 6.5% of our operating income from corporate banking business, for the same periods.

Cash Management Services

We provide integrated cash management services to our corporate customers, including account management, receivable and payment management, liquidity management, bill management, and financing services. We believe these services can help our corporate customers reduce their financial costs, increase capital gains, optimize the structure of assets and liabilities, and achieve a balance between liquidity and profitability.

By thoroughly analyzing the cash management requirements associated with the daily operations of our customers in different industries, we developed compatible product systems and tailor-made our services to better fit their demands. As of December 31, 2017, 2018 and 2019, we maintained 317, 494 and 492 cash management accounts for our corporate customers, respectively, and the balance of deposits we received from cash management customers reached RMB2.6 billion, RMB6.8 billion and RMB9.4 billion, respectively.

In December 2011, we launched our "Bills Pool Financing (票據池融資)" services for corporate customers who maintain a stable, significant amount of bank acceptance bills which can be pooled together and pledged in one batch, enabling us to expand the respective client's credit line in compliance with our credit review and approval policy. We also provide tailored supplemental financial services related to bills financing, including bill information queries, bill custody, and bill collection. In 2019, we upgraded our "Group Assets Pool (集團資金池)" services for the conglomerates we serve, including their subsidiaries and branches, to help them centralize the management of financial resources and financing channels within the group and reduce financing costs across the operation. Through these innovative and customized products, we are able to optimize our customers' overall cash management experience and increase their adherence and loyalty.

Supply Chain Finance Services

We provide supply chain finance services to the upstream suppliers and downstream customers of our core corporate customers, including accounts receivables financing (such as domestic factoring, reverse factoring, and loans pledged by receivables) and prepayment financing. Most of the customers we serve come from mainstream manufacturing factors such as home electronics, chemicals and metals, motor vehicles, and apparels. As of December 31, 2019, the balance of our supply chain finance products exceeded RMB4.5 billion.

As of December 31, 2019, we had developed 37 core supply chain finance customers. When designing our products and services, we focus on the nature of the business transactions among different entities, our customers' specific financial needs at different stages, and the prospects of the relevant industries, based on which we tailor our product specifications. Meanwhile, we conduct rigorous initial and ongoing credit review on both the core customers and their suppliers or customers. Under our "1+N" supply chain finance model, for example, we have adopted a "dual credit review system (雙授信模式)" where we first select core customers with a strong credit profile, who are usually our existing strategic customers or otherwise leaders in the "supported industries" enumerated in our annual credit policy guidelines, and then ensure that the core customer's suppliers or customers also go through our standard, independent credit review and approval procedures before a loan can be granted to them.

To enhance user experience, in November 2018, we began to offer online supply chain financing services through our internet platforms customized for key customers. In particular, leveraging the latest blockchain technology and through collaboration with a third-party developer, we have built a one-stop supply chain financing platform which encompasses all stages of a typical transaction, from contract formation, order placing, to delivery and settlement. We received, in 2019, the *Best Ten Blockchain Innovative Application Awards* (十佳區塊鏈應用創新獎) at the China's Financial Innovation Award (中國金融創新獎) ceremony hosted by the Chinese Banker Magazine (《銀行家雜誌》) for our distinguished performance in this field.

Trade Finance and Settlement Services

We offer domestic and international trade finance and settlement services designed for export trading, import trading, domestic trading, and cross-border transactions. As of December 31, 2019, we had established agency relationships with 579 banks worldwide (including 139 banks in the PRC and 440 banks overseas).

During the Track Record Period, we strived to digitalize traditional trade finance services, particularly bill transactions, in an effort to promote real-time trading, transparency, and enhanced customer experience. For the year ended December 31, 2019, we processed 3,172 applications for electronic bank acceptance bills (34.4% of which were processed online), amounting to a total transaction volume of RMB191.8 billion (27.4% of which was completed online).

- *Domestic settlement*. Our domestic settlement products and services primarily include settlement effected through drafts, promissory notes, bank acceptance bills, commercial acceptance bills, letters of credit, letters of guarantee, and telegraphic transfers.

  Bank acceptance bills, an instrument according to which a bank guarantees to pay a set amount to its holder on a specified date, constitute a significant part of our domestic settlement business. As of December 31, 2017, 2018 and 2019, the balance of our bank acceptance bills was RMB94.1 billion, RMB155.3 billion and RMB167.5 billion, respectively.

- *International settlement*. Our international settlement services primarily include inbound and outbound remittances, import and export collection, import bill advance and export bill purchase, and import and export letters of credit. We are also an active participant in SWIFT's global payment initiative ("GPI"). Leveraging SWIFT's innovative technology, we endeavor to provide our customers with cross-border payment services featuring high speed, transparent fees, and real-time remittance status tracing.

Since our establishment, we have forged a strong cooperative relationship with our shareholder, SCB, across various business sectors including cross-border settlement, trade finance and financial markets services to bring quality services to our customers. In the future, we intend to work closely with SCB to explore other cooperative opportunities arising from RMB internationalization and the "Belt and Road Initiative (一帶一路倡議)".

For the years ended December 31, 2017, 2018 and 2019, transaction volumes processed through our international trade settlement business were USD22.6 billion, USD26.3 billion and USD30.1 billion, respectively, bringing net fee and commission income of RMB242.8 million, RMB256.7 million and RMB208.0 million, respectively.

Investment Banking Services

Besides traditional loans and deposits businesses, we provide corporate customers with comprehensive investment banking services, including debt securities underwriting, financial advisory services, structured financing and asset securitization services.

Debt Securities Underwriting

Our investment banking team actively participates in the underwriting of debt securities to leverage our strong capacity in managing capital market transactions, and to broaden our customer base. Capitalizing on our expertise in debt securities and analytical capabilities on China's economy, we aim to accurately seize market opportunities for security issuance, and to establish and maintain long-term relationships with our investors, all of which enabled us to achieve a strong track record in recent years and enhance our market recognition.

We obtained Class-A qualification for underwriting debt financing instruments issued by non-financial enterprises in 2007. We engage in bonds issuance primarily for prominent state-owned enterprises, as well as leading private companies who have received a credit rating of AA+ or above, from which we receive agency service fees typically stipulated as a percentage of the principal amount of debt securities underwritten by us, taking into account the prevailing market rates and pursuant to commercial negotiations with the issuer. For the years ended December 31, 2017, 2018 and 2019, the aggregate principal amount of debt securities we underwrote amounted to RMB43.8 billion, RMB66.9 billion and RMB77.9 billion (calculated in accordance with our underwriting proportion in the relevant deals), respectively, and the number of issuances reached 140, 161 and 253, respectively, for the same periods. During the Track Record Period, we acted as lead underwriter for 142 corporate bond issuers from 23 provinces (including provincial level municipalities) in the PRC.

Financial Advisory Services

We provide high-quality financial advisory services to corporate customers. Relying on our all-round expertise in project marketing, agency selection, project design, regulatory communication, issuance and sales, we help our clients maximize their capital utilization rate.

Structured Financing and Asset Securitization Services

Our investment banking team also offers structured financing and asset securitization services. With respect to structured financing, we assist customers with devising and setting up transaction structures, utilizing SPVs and other instruments, in compliance with PRC laws and regulations.

We believe that by prudently developing our asset securitization business, we can further diversify our products and services, improve our asset portfolio, while effectively controlling the relevant risks. In June 2016, we were the joint lead underwriter in the public issuance of the first corporate asset-backed note (ABN) product in China's interbank market. During the Track Record Period, we underwrote nine ABN products where the total issuance volume (calculated in accordance with our underwriting proportion in the relevant deals) amounted to RMB7.7 billion. The underlying assets of an ABN are typically illiquid. Therefore, by pooling the assets together and selling them under a new financial product, we are able to convert these illiquid assets into cash, which help our customers enhance their liquidity status.

Our investment banking team also assists corporate customers with the negotiation of syndicated loans and M&A financing and offer related advisory services. Our M&A services, for example, are designed primarily for enterprises with strong earning prospect and solid corporate governance who have a vision to expand, especially those industries encouraged by PRC government.

Other Fee- and Commission-Based Corporate Banking Products and Services

We provide our corporate customers with other fee- and commission-based products and services, primarily corporate wealth management services, custodian and asset management operation outsourcing services, entrusted loan services, and guarantee services.

Corporate Wealth Management Services

We offer differentiated wealth management products with flexible terms and yields based on customers' needs and risk appetites. For the years ended December 31, 2017, 2018 and 2019, wealth management products we issued and sold to corporate customers (including interbank customers) amounted to RMB366,383.7 million, RMB327,742.0 million and RMB45,678.2 million, respectively, and our net fee and commission income generated from the sale of corporate wealth management products (including interbank products) we issued amounted to RMB2,647.1 million, RMB602.3 million and RMB152.5 million, respectively.

For more details on the corporate and retail wealth management products we issued during the Track Record Period, please see subsection headed "– Our Principal Businesses – Financial Markets – Wealth Management".

Custodian and Asset Management Operation Outsourcing Services

We obtained the qualification to provide custodian services for securities investment funds and insurance funds in June 2010 and May 2011, respectively. Our customers for custodian services now include publicly offered funds, private equity funds, insurance companies, securities firms, trust companies, commercial banks, and other financial institutions. We offer a wide range of custodian services, such as account administration, asset value evaluation, transaction settlements, and investment monitoring.

The first publicly offered fund for which we served as the custodian bank was established in July 2011, marking a historical breakthrough of our business development in this area. According to statistics published by the China Banking Association, as of December 31, 2019 and among all 27 qualified custodian banks in the PRC, we ranked 18th in terms of total assets in custody; for the year ended December 31, 2019, we ranked 14th in terms of net fee and commission income derived from custodian services. In 2018, we received the *Best Custodian Institution Award* (最佳託管機構) at the Asset Securitization – Jie Fu Award (資產證券化 – 介甫獎) ceremony, granted by Caishiv.com (財視中國), and were named the *Annual Asset Custodian Business Bank* (年度資產託管業務銀行) at the 21st Century Annual Finance Summit of Asia hosted by 21st Century Business Herald (《21世紀經濟報道》), as a testament to the enhanced market recognition we have gained as a custodian institution.

In April 2018, in collaboration with reputable financial asset exchanges and depository and clearing companies, we developed and introduced a product named "E Depository and Custodian Services (存托E)", which offers systematic business solutions featuring our "4E (excellent, easy, efficient, electronic)" technology and brings about a seamless connection between our online and offline custodian businesses. In particular, this product allows customers to open individual and corporate certified accounts at the same time, and has shown outstanding capacities in terms of fund liquidation efficiency, fund security, and promptness of contract execution. As of December 31, 2019, the balance of funds under E Depository and Custodian Services (存托E) reached RMB12.6 billion.

In November 2015, we became one of the seven commercial banks then qualified to engage in private equity fund business outsourcing services. Since then, we have proactively promoted the development of our asset management operation outsourcing services, including building the "Bohai Bank Golden Steward (渤海銀行金管家)" platform for outsourcing services through which we perform backstage operational duties on behalf of asset management institutions. For the year ended December 31, 2019, income derived from our asset management operation outsourcing services reached RMB18.8 million, and, as of December 31, 2019, total assets under our asset management operation outsourcing business reached RMB117.0 billion, which ranked second and sixth, respectively, among all commercial banks qualified to engage in asset management operation outsourcing services and augmenting our "Custodian + Outsourcing" one-stop service model.

As of December 31, 2017, 2018 and 2019, total assets under our custodian and asset management operation outsourcing services reached RMB3,507.3 billion, RMB2,580.3 billion and RMB2,006.5 billion, respectively. For the years ended December 31, 2017, 2018 and 2019, net fee and commission income we received from custodian and asset management operation outsourcing services amounted to RMB1,284.2 million, RMB1,331.5 million and RMB1,090.4 million, respectively.

Entrusted Loans Services

We extend entrusted loans to borrowers on behalf of our corporate customers according to their lending purpose, amount, term, and interest rate. We monitor the loan utilization status and assist with the collection of loans for corporate customers who, being the principals, assume the default risk of the loans, while we receive agency service fees based on the entrusted loan amounts.

Guarantee Services

We provide various guarantee services to our corporate customers, such as tender guarantees, contract performance guarantees, advance payment guarantees and other non-financing and financing guarantees.

Corporate Banking Customer Base

The rapid growth of our corporate banking business is underpinned by our strong customer base. Catering to the specific financial needs of corporate banking customers, we have launched a broad range of products and services with features targeting selected groups of customers, based on which we are able to offer comprehensive financial services with customized options.

Under our "headquarters to headquarters (總部對總部)" strategy, our head office takes the lead in developing and maintaining our list of key and strategic corporate customers, which comprises large central state-owned enterprises, world-renowned telecommunication and technology companies, leading manufacturers, wholesalers and retailers, nationwide real estate developers, and prominent financial institutions. Meanwhile, our branches in the regional markets are responsible for the implementation of cooperative agreements we have entered into with the strategic customers, including conducting periodic review on the customers' demand for financial services and evaluating the effectiveness of our cooperation with the customers, through an interactive collaboration between our head office and the branches. As of the Latest Practicable Date, we had maintained multi-product business cooperation with 24 strategic corporate customers.

In line with our mission to become a modern wealth and treasury manager offering the best customer experience (客戶最佳體驗的現代財資管家), we seek to explore the potential of existing customers and to develop new customers through collaboration among our corporate banking, retail banking and financial market departments, leveraging our capacity in offering a comprehensive suite of banking solutions through an integrated, increasingly digitalized platform. When cross-department coordination or managerial support is called for, our branches submit such requests to the head office, who will make necessary adjustments and rectifications to the respective cross-segment integrated financial service plan, so that the customers' needs can be timely addressed. For more details on our cross-selling efforts across different business lines and departments, please see subsection headed "– Marketing".

We conduct continuous monitoring and annual re-evaluation on the operational status and financial condition of our key and strategic customers, so that we can timely identify potential risk exposure, capture new business opportunities, and make adjustments to the list accordingly.

To optimize our customer portfolio, we pay particular attention to capturing business opportunities raised by national and regional development policies, such as the "Belt and Road Initiative (一帶一路倡議)", Guangdong-Hong Kong-Macau Greater Bay Area (粵港澳大灣區) development plan, and the Coordinated Development Strategy for the Beijing-Tianjin-Hebei Region (京津冀協同發展戰略). In particular, we invest in cultivating quality customers and seeking business opportunities in industries with strong growth potential and government support, such as information technology, high-end equipment manufacturing, clean energy and new materials, and biomedicine.

To improve our services for micro and small enterprises, we have streamlined the credit application, review and approval procedures tailored for micro and small enterprises. For more details, please see "Risk Management – Credit Risk Management – Credit Risk Management for Corporate Loans and Advances – Credit Review and Approval".

As a testament to our effective customer management, we achieved continued growth in our corporate banking customer base during the Track Record Period. As of December 31, 2017, 2018 and 2019, we had a total of 41,598, 43,958 and 45,796 corporate banking customers, respectively.

Retail Banking

Overview

We provide our retail banking customers with a wide range of products and services, including personal loans, personal deposits, card services, and other fee- and commission-based retail products and services. For the years ended December 31, 2017, 2018 and 2019, operating income from our retail banking business amounted to RMB2,055.1 million, RMB3,409.1 million and RMB5,478.7 million, respectively, accounting for 8.1%, 14.7% and 19.3%, respectively, of our total operating income for the same periods.

Personal Loans

We provide our customers with various personal loan products, including residential and commercial housing loans, personal consumption loans, personal business loans, and credit cards. As of December 31, 2017, 2018 and 2019, our personal loans amounted to RMB118,801.3 million, RMB167,839.7 million and RMB233,419.9 million, respectively, accounting for 25.6%, 29.7% and 33.0%, of our total loans and advances to customers, respectively.

The following table sets forth our personal loans by product type as of the dates indicated.

	As of December 31,					
	2017		2018		2019	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Residential and commercial housing loans	105,846.2	89.1%	113,806.9	67.8%	127,816.2	54.7%
Personal consumption loans	8,754.5	7.4%	48,496.5	28.9%	95,605.8	41.0%
Personal business loans	3,097.0	2.6%	3,751.7	2.2%	6,711.8	2.9%
Credit cards	1,103.6	0.9%	1,784.6	1.1%	3,286.1	1.4%
Total personal loans	**118,801.3**	**100.0%**	**167,839.7**	**100.0%**	**233,419.9**	**100.0%**

Residential and Commercial Housing Loans

We provide our retail banking customers with residential and commercial housing loans to facilitate their purchases of new and second-hand residential and commercial properties.

Residential mortgage loans typically have a term of up to 30 years and are secured by the properties being purchased by the borrower. Generally, our residential mortgage loan amount does not exceed 70% of the appraisal value of the property if the applicant intends to buy the first residential property. Such limit will be reduced to the range of 20% to 60%, and the exact ratio depends largely on the local government's rules and guidelines, if the applicant already owns one residential property. By comparison, our commercial housing loans generally have a term of up to ten years and the loan amount we approve will not exceed 60% of the appraisal price of the property.

As of December 31, 2017, 2018 and 2019, our residential and commercial housing loans amounted to RMB105,846.2 million, RMB113,806.9 million and RMB127,816.2 million, respectively, accounting for 89.1%, 67.8% and 54.7% of our total personal loans, respectively.

Our residential mortgage loans feature flexible repayment options adjustable based on the customers' income, credit history, loan maturity, and the condition of the underlying properties. For example, our "Bohai Happy-Easy Loans (渤樂•輕松貸)" products divide mortgage repayment periods into two phases: borrowers are required to pay interest only during phase I, which often reduces their short-term financial burden, followed by phase II where interest and principal will be repaid together in equal monthly installments.

Please also see "Risk Factors – Risks Relating to Our Business – 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 business, asset quality, financial condition and results of operations".

Personal Business Loans

We provide personal business loans to owners of individual businesses and owners of micro and small enterprises, to serve their business operation needs. Considering that the capital needs of these business owners are often relatively urgent, frequent, and in smaller amounts, we offer tailor-made products to satisfy their requirements. As of December 31, 2017 and 2018, our personal business loans amounted to RMB3,097.0 million and RMB3,751.7 million, respectively, accounting for 2.6% and 2.2% of our total personal loans, respectively. As of December 31, 2019, our personal business loans further increased to RMB6,711.8 million, accounting for 2.9% of our total personal loans.

In 2019, leveraging data analysis technology, we introduced "Bohai Tax-based Business Loans (渤稅經營貸)", a credit loan product built upon our real-time access to the official digital tax payment record of the loan applicants' businesses, which effectively supplements other public information and third-party databases which we routinely consult. As of the Latest Practicable Date, we had entered into cooperative relationships and data-sharing arrangements with 26 local tax bureaus throughout the PRC. Compared to traditional personal loans products, Bohai Tax-based Business Loans and its expeditious user-profiling system have significantly shortened the credit application process and hence further enhanced our customers' overall experience.

Personal Consumption Loans

We provide personal consumption loans to our retail banking customers to help meet their personal and household consumption needs, such as home renovation, education, traveling, medical treatment, and purchases of cars and other durable consumer goods. In line with the rapid development and future trends of internet finance, one of our key development strategies is to enhance our technology innovation capacity and channel digitalization progress within the personal consumption loan segment.

As of December 31, 2017, 2018 and 2019, our personal consumption loans amounted to RMB8,754.5 million, RMB48,496.5 million and RMB95,605.8 million, respectively, representing 7.4%, 28.9% and 41.0% of our total personal loans, respectively. For an explanation on the significant growth of our personal consumption loan business during the Track Record Period, please see "Assets and Liabilities – Assets – Loans and Advances to Customers – Personal Loans".

We adjust the interest rate for these loans in light of the particular customer's credit profile, financial status, and tax payment history, with reference to the benchmark rate set by the PBoC (or the loan prime rate after August 20, 2019). For customers who are able to provide collateral or pledges, we offer revolving credit lines which allow them to make multiple withdrawals, coupled with a negotiable repayment schedule, within the effective period and credit limits.

We see great potential in China's booming internet consumer finance industry. In early 2017, we launched our signature online consumer finance product series "Bohai Happy E Loans (渤樂e貸)", which consisted of eight product lines as of the Latest Practicable Date, including "Online Homeowner Loans (線上拎包貸)" catering to our existing mortgage loan borrowers' consumption needs and providing individual credit lines up to RMB300,000 and terms ranging from one to 36 months, adjustable based on the applicants' credit history and financial condition. As of December 31, 2017, 2018 and 2019, the balance of personal loans we granted under the Bohai Happy E Loans series amounted to RMB629.1 million, RMB1,182.7 million and RMB927.8 million, respectively.

Leveraging a cooperative relationship with local government institutions, our branches and sub-branches have introduced "Bohai Bank Credit Loans (渤銀公信貸)" jointly with the management centers of local housing provident funds, "Bohai Tax Benefit Loans (渤税惠民貸)" with the local tax bureaus, and "Bohai Bank Resident Loans (渤銀市民貸)" with municipal information centers or big-data service departments. These long-term cooperations enable us to fully utilize a legitimate and reliable big data source and efficiently adjust the amount and maturity of unsecured loans granted to a customer based on his housing provident fund information, tax records, credit status, and other basic information. As of December 31, 2019, we had launched these three products in 29 cities across 11 provinces (including centrally-administered municipalities) in China.

In 2018, we introduced "Bohai Bank Dai Dai Loan (渤銀代代貸)"and its accompanying mobile application "Bohai Bank Loan Shop (渤銀貸吧)", where customers can apply for a revolving credit line ranging from RMB1,000 to RMB300,000 and enjoy flexible repayment terms, through a paperless, instant credit approval process enabled by the application's advanced data-processing capability and intelligent risk management features. Meanwhile, we have fostered robust relationships with leading third-party internet consumer finance platforms to enlarge our presence in the market and seize the flourishing opportunities in this field. For more details, please see "– Distribution Network and Electronic Banking Channels – Third-party Internet Finance Platforms".

During the Track Record Period, to enhance our in-house risk control capacity, we led the development of an intelligent risk management decision system designed primarily for our personal consumption loan and credit card business, in an effort to achieve independent risk control. Leveraging intelligent and digitalized technology including cloud computing and machine-learning, and employing flexible risk modeling techniques, this system encompasses key business stages such as customer identity verification, credit evaluation, credit approval and pricing, and contributes to our relatively low NPL ratio for personal loan business compared to all listed Nationwide Joint-stock Commercial Banks. In 2019, this system received the *China Annual Risk Data Analysis Technology Application Award* (中國年度風險數據與分析技術實施大獎) granted by The Asian Banker (《亞洲銀行家》) for its effective risk identification and control capacity.

Personal Deposits

We offer traditional personal deposit products, including basic demand and time deposits denominated in RMB and foreign currencies, as well as signature deposit products, such as "Bohai Time Deposits (渤定存)", where customers may enjoy differentiated interest rates based on the amounts deposited and convenient access to online services. As of December 31, 2017, 2018 and 2019, our total personal deposits amounted to RMB26,177.3 million, RMB34,778.8 million and RMB52,146.7 million, respectively, accounting for 4.5%, 5.8% and 8.2% of our total deposits from customers, respectively. As of December 31, 2017, 2018 and 2019, the number of our personal deposit customers reached 1,557.0 thousand, 1,920.4 thousand and 2,076.5 thousand, respectively.

The following table sets forth our personal deposits by product type as of the dates indicated.

	As of December 31,					
	2017		2018		2019	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Demand deposits	11,909.3	45.5%	17,583.1	50.6%	18,912.4	36.3%
Time deposits	14,268.0	54.5%	17,195.7	49.4%	33,234.3	63.7%
Total personal deposits	**26,177.3**	**100.0%**	**34,778.8**	**100.0%**	**52,146.7**	**100.0%**

Our time deposit products have maturities generally ranging from three months to five years, while deposit products denominated in foreign currencies have maturities ranging from one month to one year. Meanwhile, we design and promote diversified time deposit products which allow customers to enjoy the convenience of demand deposits while tapping into the higher return that time deposit products can offer. For example, we offer notice deposit products which bear higher interest rates than demand deposits but allow customers to make withdrawals pursuant to a stipulated notice period.

In addition, we offer certificate of deposits (大額存單) products with terms ranging from one month to five years and a minimum subscription amount of RMB200,000. These certificates typically offer higher interest rates and more flexible withdrawal options compared to regular time deposits products. As of December 31, 2019, total balance of our certificates of deposits reached RMB9,955.4 million, a significant increase compared to RMB745.4 million and RMB3,181.3 million as of December 31, 2017 and 2018, respectively.

Card Services

Debit Cards

With our regular debit cards, our customers can access basic banking services such as deposits and withdrawals, consumption, bill payment, as well as transfers and remittances. We are a member of China UnionPay, which allows our retail customers to access China UnionPay's network across China and around the globe.

We issue a range of debit cards to capture customers seeking differentiated financial features. In May 2014, we introduced a debit card associated with our personal cash management product "Tian Jin Bao (添金寶)", which automatically transfers new deposits into the customers' Tian Jin Bao accounts, thereby facilitating their daily wealth management needs. For more details on Tian Jin Bao, please see subsection headed "– Our Principal Businesses – Financial Markets – Wealth Management".

For the years ended December 31, 2017, 2018 and 2019, total spending through our debit cards amounted to RMB34,771.0 million, RMB43,847.7 million and RMB47,310.4 million, respectively.

Credit Cards

We launched our credit card business in January 2016 and currently accept applications through online portals and our branches and sub-branches. As of December 31, 2017, 2018 and 2019, the accumulated number of credit cards we issued amounted to 99.5 thousand, 145.8 thousand and 241.2 thousand, respectively, and our credit card balances were RMB1,103.6 million, RMB1,784.6 million and RMB3,286.1 million, respectively. For the years ended December 31, 2017, 2018 and 2019, net fee and commission income derived from our credit card business were RMB34.7 million, RMB67.3 million and RMB132.8 million, respectively.

We offer four types of credit cards, namely ordinary card, gold card, platinum card and diamond card, based on the credit ratings of the applicants. Holders of each type of credit cards can enjoy the corresponding credit lines. In line with our installment-oriented marketing strategy, we offer diversified installment products and convenient installment repayment services so as to increase our installment fee income through various promotional efforts. During the Track Record Period, net fee and commission income we received from installment payment business constituted over 60% of our net fee and commission income derived from the credit card business. This strategy also contributed to the steady growth of our interest-earning assets. As of December 31, 2019, interest-earning assets constituted 86.6% of our credit card balances.

Since 2018, to resonate with the banking industry's growing emphasis on FinTech, we have endeavored to promote our portable sales platforms' substitution for traditional paper-based credit card application procedures, and to establish and continuously enhance a new business service model featuring mobility, intelligence, paperless trading and precision. Adopting advanced technologies which support optical character recognition (OCR), GPRS positioning, digital signatures and image transmission, our portable sales platforms can, at a flexible time and location, process customer applications for credit cards, installment services and other services, while shortening the application process from days to minutes. Utilizing the backstage database, our portable sales platforms are also capable of performing well-rounded and timely data analysis on key indicators such as application rejection and approval rates, thereby adding precision to our marketing campaigns.

Other Fee- and Commission-Based Retail Banking Products and Services

We provide a wide variety of fee- and commission-based retail banking products and services, primarily personal wealth management services, agency services, and settlement services.

Personal Wealth Management Services

We provide our retail banking customers with personal wealth management products and services under the brand name of "Bohai Infinite Wealth Management (浩瀚理財)", offering differentiated non-principal protected products under the product lines of "Bo Sheng (渤盛)", "Bo Xiang (渤祥)", "Bo Tai (渤泰)", and our newly introduced public and private NAV-measured products, each designed to meet liquidity needs, risk appetites and investment return expectations of various target customer groups. We sell personal wealth management products through a variety of channels, including our counters, mobile banking apps, and personal online banking website.

From 2015 to 2019, we were selected *Annual Golden Bull Wealth Management Bank* (年度金牛理財銀行) by The China Securities Journal (《中國證券報》) five years in a row in recognition of our outstanding product design and risk control capacity. Our "Bo Sheng (渤盛)" wealth management series, launched in January 2011, was named the *Annual Wealth Management Product Issued by Banks* (年度金牛銀行理財產品) in 2015 and 2018.

For more details on our corporate and personal wealth management products, please see subsection headed "– Our Principal Businesses – Financial Markets – Wealth Management".

During the Track Record Period, our personal wealth management business witnessed promising developments. For the years ended December 31, 2017, 2018 and 2019, the wealth management products we issued and sold to retail banking customers amounted to RMB428,692.2 million, RMB1,204,644.0 million and RMB1,015,970.4 million, respectively, and our net fee and commission income generated from the sale of personal wealth management products we issued amounted to RMB693.8 million, RMB1,640.3 million and RMB1,697.4 million, respectively. For the years ended December 31, 2017 and 2018, the performance comparison benchmark of our retail wealth management products were 3.45% to 5.60% and 3.45% to 5.70%, respectively. For the year ended December 31, 2019, the performance comparison benchmark of our retail wealth management products ranged from 3.32% to 5.05%. We plan to further diversify our product portfolio by introducing new types of personal wealth management products to satisfy our customers' varying demands.

We pay particular attention to risk management in developing and managing our wealth management products. For more details, please see "Risk Management – Credit Risk Management – Credit Risk Management for Our Financial Market Business".

Agency Services

Our agency services mainly include agency sale of funds, bancassurance, agency sale of trusts, and agency trading of precious metals.

Agency Sale of Funds. We became qualified to conduct fund distribution business in October 2009. Our customers can subscribe to, purchase and redeem fund products over our counters, or through our personal online banking website and mobile banking app. As of December 31, 2019, we had a total of 666 qualified fund sales personnel at our head office, branches and sub-branches. As of the same date, we also maintained business relationships with 38 fund management companies in the PRC and distributed over 1,780 publicly offered funds as an agent. For the years ended December 31, 2017, 2018 and 2019, the total transaction volume of fund products we distributed reached RMB186.1 million, RMB227.2 million and RMB315.1 million, respectively.

Bancassurance. We began to distribute bancassurance products through the bank-insurance link system (銀保通系統) in December 2017. As of December 31, 2019, we had entered into cooperative agreements with five insurance companies and provided 27 types of insurance products as an agent, including traditional personal insurance products (such as health insurance and life insurance) and innovative personal insurance products (such as participating insurance). For the years ended December 31, 2017, 2018 and 2019, the transaction volume of insurance products we distributed reached RMB0.3 million, RMB25.3 million and RMB139.9 million, respectively.

Agency Sale of Trusts. We launched our trust distribution business in November 2009 and have since established business relationships with leading trust companies in the industry. For the years ended December 31, 2017, 2018 and 2019, the transaction volume of trust products we distributed was nil, RMB558.3 million and RMB1,387.1 million, respectively.

Agency Trading of Precious Metals. We began to conduct agency sales of precious metals via our WeChat official account in August 2017. Subsequently, we have entered into agency agreements with over ten manufacturers and distributors of precious metal and currently sell gold and silver coins, gold bullion, handicrafts made in gold and silver, and other precious-metal investment collections. For the years ended December 31, 2017, 2018 and 2019, the transaction volume of precious metals we distributed amounted to RMB25.0 million, RMB55.8 million and RMB72.7 million, respectively. In 2019, we introduced Bohai Bank-branded gold bullion and silver ingots.

Settlement Services

We offer settlement services to our retail banking customers, including RMB denominated money transfer, deposit and withdrawal, and remittance, as well as remittances in major foreign currencies such as US Dollar, HKD, Japanese Yen, and Euro.

Retail Banking Customer Base

Capitalizing on the synergy between corporate and retail banking segments and our capacity to design and promote new products, we managed to steadily expand our retail banking customer base during the Track Record Period. We had approximately 3,721.4 thousand and 4,128.1 thousand retail banking customers as of December 31, 2017 and 2018, respectively, and the total number of retail banking customers further increased to 4,459.4 thousand as of December 31, 2019.

We have identified the "pressurized generation (壓力一代)" and the "grey-haired group (養老一族)" as our key retail customer groups: the former largely referring to middle-aged and younger mortgage borrowers with a variety of consumption needs and progressive wealth management plans, and the latter generally comprising the elderly, who typically prefer more conservative investment options and may have unique desire for financial assistance in times of medical care. To capture the growing needs of our pressurized generation customers, we offer flexible, convenient and diversified consumption loan services centered around home mortgage loans, which cater to young and middle-aged customers' typical consumption scenarios such as home innovation, purchases of parking spaces and education. In addition, we offer a range of NAV-measured wealth management products tailored to different risk appetites and our signature cash management product "Tian Jin Bao + (添金寶+)".

Meanwhile, we undertake to fulfill the grey-haired group's distinctive needs in relation to daily consumption, tourism and transit, medical care and wealth management, by offering comprehensive and high-quality services through in-depth collaboration with business partners including travel agencies, car rental platforms, hospitals and retirement home project developers. Considering that the grey-haired group rely mostly on offline channels, we provide face-to-face consultation and typically recommend "Bohai Time Deposits (渤定存)" and other safer investment options.

In line with our marketing strategy, we have designed promotional activities specifically targeting the pressurized generation and the grey-haired group, such as "Little Bankers (小小銀行家)" experience camps where we offer parents and children the opportunity to attend our interactive money management tutorials, and "Healthy Walk (健步行)" programs where we invite our elderly customers to engage in community and recreational events.

To increase our market presence and customer loyalty, we have endeavored to promote our "Bohai Infinite Wealth Management (浩瀚理財)" brand name, under which we not only issue our own wealth management products, but also carry out agency sales of trusts, funds and insurance products issued by other financial institutions, in order to capture the growingly diversified investment needs of our retail customers. In particular, we classify our retail banking customers into four categories based on the value of their assets (including deposits and investments in wealth management products, insurance and funds) under our management, or AUM, namely: ordinary customers (大眾客戶) (with AUM less than RMB100,000), Infinite-Gold (浩瀚•金) (with AUM between RMB100,000 and RMB1.0 million), Infinite-Platinum (浩瀚•白金) (with AUM between RMB1.0 million and RMB5.0 million), and Infinite-Diamond (浩瀚•鑽石) (with AUM above RMB5.0 million). Our digital customer database and strong data analysis capability have enabled us to constantly review the composition of our client base and direct differentiated marketing efforts to each segment.

Financial Markets

Overview

Our financial market business primarily consists of interbank market transactions, investment management, wealth management, and bill discounting and rediscounting. For the years ended December 31, 2017, 2018 and 2019, operating income generated from our financial market business amounted to RMB9,354.9 million, RMB7,660.4 million and RMB10,361.6 million, respectively, accounting for 37.0%, 33.0% and 36.5%, respectively, of our total operating income for the same periods.

Interbank Market Transactions

Our interbank market transactions business primarily consists of: (i) interbank deposits; (ii) interbank placements; and (iii) purchase under resale agreements and sale under repurchase agreements, which mainly involves bonds and bills.

For a detailed explanation on the fluctuations in our interbank market transactions, please see "Assets and Liabilities – Liabilities and Sources of Funds – Other Components of Our Liabilities" and "Assets and Liabilities – Assets – Other Components of Our Assets".

Interbank Deposits

As of December 31, 2017, 2018 and 2019, our deposits with banks and other financial institutions were RMB8,722.8 million, RMB25,923.1 million and RMB14,051.6 million, respectively, and our deposits from banks and other financial institutions were RMB151,789.2 million, RMB69,587.9 million and RMB78,547.4 million, respectively.

Interbank Placement

As of December 31, 2017, 2018 and 2019, our placements with banks and other financial institutions were RMB10,168.0 million, RMB2,059.1 million and RMB4,410.8 million, respectively, and our placements from banks and other financial institutions were RMB37,837.2 million, RMB19,535.0 million and RMB21,500.2 million, respectively.

Purchase under Resale Agreement and Sale under Repurchase Agreement

As part of our interbank business, we purchase financial assets under resale agreements at certain prices from counterparties (including banks and other financial institutions) with the commitment to resell these assets to the original sellers in the future at predetermined prices. The payments (including accrued interest) receivable by us under these resale agreements are reported as assets on our balance sheet. We also sell financial assets under repurchase agreements to counterparties with the commitment to buy back these assets in the future at predetermined prices. The proceeds (including accrued interest) payable by us under these repurchase agreements are reported as liabilities on our balance sheet.

For further details on the relevant accounting treatments involved, the underlying financial assets held and sold, and the background of our counterparties, please see Notes 2(12), 18 and 29 to our historical financial information included in the Accountants' Report in Appendix I to this prospectus.

As of December 31, 2017, 2018 and 2019, our financial assets held under resale agreements were nil, RMB10,571.0 million and RMB1,850.3 million, respectively, and our financial assets sold under repurchase agreements were RMB2,213.8 million, RMB22,363.8 million and RMB23,069.1 million, respectively. The underlying financial assets in these transactions primarily comprised debt securities issued by PRC Government, commercial banks and other financial institutions, as well as bank acceptance bills.

Interest we earned on financial assets held under resale agreements and interest we incurred on financial assets sold under repurchase agreements are recognized as interest income and interest expense, respectively. For the year ended December 31, 2017, 2018 and 2019, the average yield we received on our financial assets held under resale agreements was 3.21%, 2.41% and 2.13%, respectively. For the same periods, the average costs we incurred on our financial assets sold under repurchase agreements was 2.97%, 2.93% and 2.59%, respectively.

For a detailed explanation on the fluctuations in our interest income and expenses recognized due to these transactions, see "Financial Information – Results of Operations for the Years Ended December 31, 2017 and 2018" and "Financial Information – Results of Operations for the Years Ended December 31, 2018 and 2019".

Investment Management

Our investment management business mainly consists of debt securities investment and SPV investment. Debt securities in which we invest include debt securities issued by PRC Government, policy banks, commercial banks and other financial institutions, and enterprises. SPV investment primarily consists of our investments in trust plans, asset management plans, wealth management products, and investment funds.

When making debt securities investment and SPV investment, we take into account a broad range of factors and strive to achieve a better balance between risks and returns. Factors that we consider include, but not limited to, our risk appetite, capital consumption level, tax impact, and expected yields of relevant products, as well as overall economic conditions and relevant regulatory requirements. Based on the result of our analysis on these factors, we from time to time adjust our investment portfolio to enhance profitability while properly managing risk. Please also see "Risk Management – Credit Risk Management – Credit Risk Management for Our Financial Market Business – Credit Risk Management for Debt Securities Investment and SPV Investment".

As of December 31, 2017, 2018 and 2019, our total financial investments amounted to RMB417,691.5 million, RMB313,258.3 million and RMB299,892.4 million, respectively, accounting for 41.7%, 30.3% and 26.8%, respectively, of our total assets. The following table sets forth a breakdown of the total balance of our debt securities investment, SPV investment and equity investment as of the dates indicated.

	As of December 31,					
	2017		2018		2019	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Debt securities	124,430.2	29.8%	150,039.7	48.0%	167,465.9	55.9%
SPV investment	292,956.7	70.1%	162,586.2	51.8%	130,385.2	43.4%
Equity investment	304.6	0.1%	632.4	0.2%	2,041.3	0.7%
Gross financial investments	**417,691.5**	**100.0%**	**313,258.3**	**100.0%**	**299,892.4**	**100.0%**

Debt Securities Investment

Our debt securities investment comprises investment in debt securities issued by PRC Government, policy banks, commercial banks and other financial institutions, and corporate issuers. The following table sets forth the breakdown of our debt securities investment as of the dates indicated.

	As of December 31,					
	2017		2018		2019	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Debt securities issued by PRC Government	83,163.3	66.8%	96,311.7	64.2%	98,743.4	58.9%
Debt securities issued by policy banks	39,766.5	32.0%	48,066.2	32.0%	59,371.6	35.5%
Debt securities issued by commercial banks and other financial institutions	248.5	0.2%	3,570.3	2.4%	1,500.8	0.9%
Debt securities issued by corporate issuers	1,251.9	1.0%	2,091.5	1.4%	7,850.1	4.7%
Total debt securities investment	**124,430.2**	**100.0%**	**150,039.7**	**100.0%**	**167,465.9**	**100.0%**

As of December 31, 2017, 2018 and 2019, our debt securities investment amounted to RMB124,430.2 million, RMB150,039.7 million and RMB167,465.9 million, respectively, accounting for 12.4%, 14.5% and 15.0%, respectively, of our total assets. For the years ended December 31, 2017, 2018 and 2019, interest income generated from our debt securities investment amounted to RMB3,731.9 million, RMB4,509.5 million and RMB5,541.2 million, respectively, accounting for 9.1%, 10.1% and 10.8%, of our total interest income, respectively, for the same periods. For details on the interest income from debt securities investment and the relevant average yield, see "Financial Information – Results of Operations For the Years Ended December 31, 2017 and 2018 – Interest Income – Interest Income from Financial Investments" and "Financial Information – Results of Operations for the Years Ended December 31, 2018 and 2019 – Interest Income – Interest Income from Financial Investments".

We have a professional in-house debt securities investment team. When investing in debt securities, we conduct scenario analysis through various analytical tools on market risks, such as adverse movements of asset prices and fluctuations of benchmark rates in the market, formulate corresponding contingency plans, and adjust our investment strategies in a timely manner. For details, please see "Risk Management – Market Risk Management – Interest Rate Risk".

Our debt securities were classified in accordance with the applicable accounting rules to financial investments measured at fair value through profit or loss, available-for-sale financial assets and held-to-maturity investments prior to January 1, 2018 and financial investments measured at fair value through other comprehensive income, financial investments measured at fair value through profit or loss, or financial assets measured at amortised cost after January 1, 2018. For details of the classification of financial assets, please see "Assets and Liabilities – Assets – Financial Investments – Classification of Financial Investments by Business Model and Cashflow Characteristics".

SPV Investment

Our SPV investment mainly includes investment in trust plans, asset management plans, wealth management products, and investment funds.

As of December 31, 2017, 2018 and 2019, our SPV investment amounted to RMB292,956.7 million, RMB162,586.2 million and RMB130,385.2 million, respectively, accounting for 29.2%, 15.7% and 11.7%, respectively, of our total assets. For the years ended December 31, 2017, 2018 and 2019, interest income generated from our SPV investment amounted to RMB16,153.2 million, RMB10,536.2 million and RMB6,745.6 million, respectively, accounting for 39.5%, 23.6% and 13.1% of our total interest income, respectively, for the same periods. For details on the interest income from SPV investment and the relevant average yield, see "Financial Information – Results of Operations for the Years Ended December 31, 2017 and 2018 – Interest Income – Interest Income from Financial Investments" and "Financial Information – Results of Operations for the Years Ended December 31, 2018 and 2019 – Interest Income – Interest Income from Financial Investments".

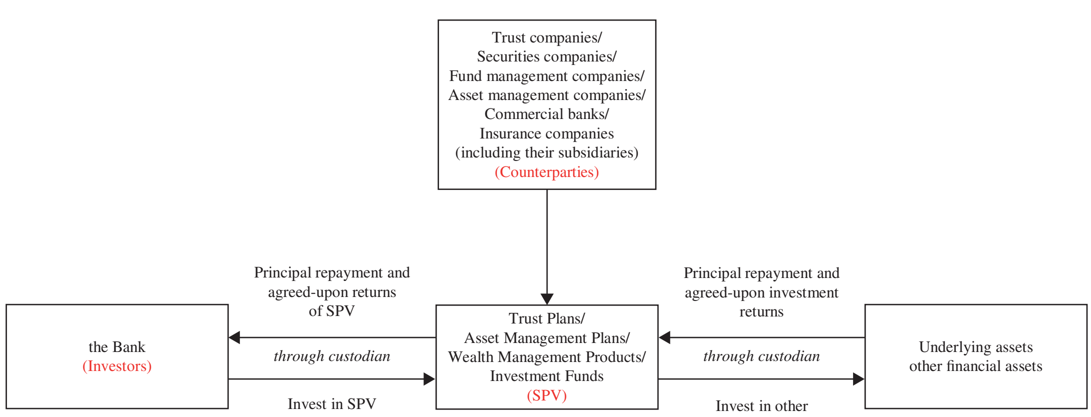
The following table sets forth the breakdown of our SPV investment by the underlying assets as of the dates indicated.

	As of December 31,					
	2017		2018		2019	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Trust plans	119,090.1	40.7%	79,838.6	49.1%	61,586.6	47.3%
Asset management plans	121,939.2	41.6%	65,428.2	40.2%	43,317.8	33.2%
Wealth management products	39,552.5	13.5%	3,039.0	1.9%	–	–
Investment funds	12,374.9	4.2%	14,280.4	8.8%	25,480.8	19.5%
Total SPV investment	**292,956.7**	**100.0%**	**162,586.2**	**100.0%**	**130,385.2**	**100.0%**

We assess our SPV investment regularly to determine whether there is any objective evidence for impairments, and, if so, the amount of impairment losses. Counterparties are obliged to manage our funds according to pre-determined terms including investment period, underlying assets and performance benchmarks. During the Track Record Period and up to the Latest Practicable Date, all counterparties for our SPV investment were permitted to conduct their business under applicable laws and regulations. For details on the measures we have taken to manage credit risks arising from our SPV investments, please see "Risk Management – Credit Risk Management – Credit Risk Management for Our Financial Market Business – Credit Risk Management for Debt Securities Investment and SPV Investment – SPV Investment".

For more information relating to our SPV investment, please see "Assets and Liabilities – Assets – Financial Investments". For details on risks arising from our SPV investment, please see "Risk Factors – Risks Relating to Our Business – We are subject to risks relating to SPV investment and any adverse development in relation to our SPV investment may materially and adversely affect our profitability and liquidity".

The following chart illustrates the relationship among the parties involved in our SPV investment.



Our SPV investments was classified in accordance with the applicable accounting rules to financial investments measured at fair value through profit or loss and investments classified as receivables prior to January 1, 2018, and financial investments measured at fair value through other comprehensive income, financial investments measured at fair value through profit or loss or financial assets measured at amortised cost after January 1, 2018. For details on the classification of our financial assets, please see "Assets and Liabilities – Assets – Financial Investments – Classification of Financial Investments by Business Model and Cashflow Characteristics".

Wealth Management

During the Track Record Period, we issued both principal-protected and non-principal protected wealth management products to our corporate customers (including interbank customers) and retail customers. We set varying maturity terms and expected rates of return for different tranches of wealth management products in order to capture a broader range of customers with different wealth management needs and risk tolerance levels and have steadily expanded our online distribution channels. For the years ended December 31, 2017, 2018 and 2019, personal wealth management products we issued and sold through electronic channels accounted for 86.9%, 97.4% and 99.1% of the wealth management products we issued and sold to retail banking customers.

In recent years, PRC regulatory authorities, including the CBIRC, has promulgated various rules and regulations to strengthen the supervision and administration on wealth management businesses of commercial banks as well as restricting the issuance of principal-protected wealth management products during and after a transitional period ending on December 31, 2020. As a result, we experienced a significant decrease in the sales volume of wealth management products since 2018. For details on the relevant rules and regulations, please see "Supervision and Regulation – Regulation on Principal Commercial Banking Activities – Wealth Management Business". Please also see "Risk Factors – Risks Relating to Our Business – We face risks and uncertainties associated with the PRC regulations governing the wealth management business of financial institutions".

In response to these regulatory requirements, we took active measures to reduce the offering of the restricted products, while exploring a steady transition into non-principal protected, NAV-measured categories. In July 2018, we introduced fixed-income NAV-measured wealth management products targeting experienced corporate investors, where the customers entrust their assets to us based on investment plans we had proposed in light of their risk appetite, from conservative to relatively aggressive. By signing up for these investment plans, our customers agree to bear the investment risks thereof while we leverage our expertise to maximize returns on their accounts. For more details on our corporate wealth management business, see subsection headed "– Our Principal Businesses – Corporate Banking – Other Fee- and Commission-Based Corporate Banking Products and Services – Corporate Wealth Management Services".

For our retail banking customers, we introduced and promoted non-principal protected wealth management series including (i) "Bo Xiang (渤祥)", a T+0 product by which customers may conduct same-day subscription and redemption of their units and hence enjoy the enhanced liquidity and transparency, (ii) "Bo Tai (渤泰)", an open-ended product offering accumulative returns and flexible redemption options, and (iii) public and private NAV-measured wealth management products, where the minimum investment amount ranges from RMB10,000 (for all customers with a matching risk appetite) to RMB1.0 million (for experienced, qualified investors) and we adjust our investment strategies in light of the target customers' risk tolerance and expected returns. For more details on our personal wealth management business, see subsection headed "– Our Principal Businesses – Retail Banking – Other Fee- and Commission-Based Retail Banking Products and Services – Personal Wealth Management Services".

The table below sets forth a breakdown of the volume of wealth management products we issued into principal protected and non-principal protected products during the years indicated.

	For the year ended December 31,					
	2017		2018		2019	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except for percentages)					
Principal protected products	130,484.5	16.4%	231,662.5	15.1%	–	–
Non-principal protected products	664,591.4	83.6%	1,300,723.5	84.9%	1,061,648.6	100.0%
Total wealth management products issued	**795,075.9**	**100.0%**	**1,532,386.0**	**100.0%**	**1,061,648.6**	**100.0%**

For the years ended December 31, 2017, 2018 and 2019, fee and commission income derived from the sale of our wealth management products reached RMB3,340.9 million, RMB2,242.6 million and RMB1,849.9 million, respectively, representing 78.5%, 76.4% and 75.4%, respectively, of our agency service fees recognized during the same periods. The types of fees we typically receive include a transaction fee upon purchase and a fixed or floating management fee we charge based on the terms of the purchase agreements. As of December 31, 2019, we had 414,499 wealth management customers, among whom 414,386 were retail customers.

The following table sets forth a breakdown, by size of each tranche, of the cumulative total amount of the wealth management products we issued during the years indicated.

	For the year ended December 31,					
	2017		2018		2019	
	Number of tranches issued	Amount of proceeds	Number of tranches issued	Amount of proceeds	Number of tranches issued	Amount of proceeds
	(in millions of RMB, except for tranches)					
Up to RMB50 million	1,023	29,183.0	1,797	49,602.9	547	14,283.6
Over RMB50 million to RMB100 million	701	57,586.2	1,013	82,686.9	375	28,914.3
Over RMB100 million	1,451	708,306.8	1,704	1,400,096.3	889	1,018,450.7
Total wealth management products issued	**3,175**	**795,075.9**	**4,514**	**1,532,386.0**	**1,811**	**1,061,648.6**

In compliance with the CBIRC's requirements, we manage all of our wealth management products independently through separate accounts and bookkeeping, with each of our wealth management products earmarked for our underlying investment. Please also see "Supervision and Regulation" for details on the latest regulations governing wealth management products.

In May 2014, we designed and launched a personal cash management product named "Tian Jin Bao (添金寶)". Unlike the wealth management products issued and managed by ourselves, Tian Jin Bao serves as a platform where third-party fund management companies with whom we partner may offer, to our retail customers, money market fund products they have issued. Transactions within these money market funds are administered exclusively by their respective issuers, from whom we charge an agency fee for providing a distribution channel and the related technological support. Among its other features, Tian Jin Bao automatically designates a customer's new deposits to the selected money market funds on a daily basis to minimize potential loss in return due to delay in fund transfers. For the convenience and competitive yield it offers, Tian Jin Bao has been well-received by the retail market since its debut. In July 2019, we upgraded this signature product to "Tian Jin Bao + (添金寶+)" which now provides easy digital access through mobile banking, online banking, and our self-service banking facilities. As of December 31, 2019, total assets under management through "Tian Jin Bao + (添金寶+)" reached RMB6.4 billion.

Bill Discounting and Rediscounting

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. We offer interbank discount services such as bills purchase, bills sale, bills purchased under resale agreements and sold under repurchase agreements. We rediscount bills in accordance with the regulations of the PBoC.

PRICING

In determining the price of our products and services, we take into account various factors, including cost of funds, management costs, risk exposure and expected yield. We also evaluate the overall market conditions as well as prices for similar products and services offered by our competitors. Our pricing strategies and benchmark prices are formulated and determined by our Assets and Liabilities Management Committee (資產負債管理委員會). Our business units determine specific prices for our products and services within their respective authorizations granted by our head office.

Loans

The PBoC regulates the pricing for certain commercial banking products and services such as our RMB-denominated loans. On July 20, 2013, the PBoC removed the interest rate floor on loans from financial institutions and allowed financial institutions to set interest rates based on commercial considerations. In August 2019, the PBoC announced to reform the mechanism used to establish the loan prime rate ("**LPR**"). The new LPR quotations will be based on rates of open market operations and published on a monthly basis. According to the PBoC, commercial banks shall set interest rates on new loans by mainly referring to the LPR and use LPR as the benchmark for setting floating loan interest rates. For more information on the LPR reform, see "Supervision and Regulation – Pricing of Products and Services".

We determine the prices for our loan products based on factors such as the loan applicants' financial condition and credit rating, the nature and value of the collateral, the term of the loan, the intended use of loan proceeds and the prevailing market conditions. We also consider the funding cost, taxes, management expenses and expected rates of return.

Deposits

Since October 24, 2015, the PBoC has removed the interest rates cap on RMB-denominated deposits for financial institutions including commercial banks. We may therefore offer our key corporate banking customers negotiated interest rates for their deposits based on the PBoC prescribed rates as we deem appropriate. The PBoC has also liberalized interest rates on interbank placings, and we determine such rates based primarily on our assets and liabilities management policies and the market interest rate. Our Assets and Liabilities Management Committee (資產負債管理委員會) is responsible for the review and monitoring of our deposit pricing policies.

Fee- and Commission-Based Products and Services

With respect to fee- and commission-based products and services, we price our services pursuant to government-determined prices, government guidance prices and the market conditions. Products and services involving the implementation of government-determined prices, government guidance prices include basic RMB settlement business specified by the CBIRC and the NDRC. We adjust the prices of fee-and commission-based products and services which are subject to market price adjustments based on factors such as the constantly changing market conditions, costs of providing the products and services, and prices for similar products and services offered by our competitors. Please also see "Supervision and Regulation – Pricing of Products and Services – Pricing of Products and Services Based on Fees and Commissions".

AWARDS

During the Track Record Period, we achieved rapid and robust growth. In 2019, we ranked 178th among the "Top 1000 World Banks" released by *The Banker*, moving up nine places compared with the previous year and ranking 27th among all PRC banks, in terms of tier-one capital as of December 31, 2018. Prominent honors and awards we received in recent years include:

- 2015 to 2019, *Annual Golden Bull Wealth Management Bank* (年度金牛理財銀行) selected by The China Securities Journal (《中國證券報》)

- 2019 *Best Ten Blockchain Innovative Application Award* (十佳區塊鏈應用創新獎) at the China's Financial Innovation Award (中國金融創新獎) ceremony hosted by the Chinese Banker Magazine (《銀行家雜誌》)

- 2019 *Outstanding Wealth Management Bank of the Year* (年度卓越財富管理銀行) awarded at the China Golden Tripod Awards (中國金鼎獎) ceremony held by National Business Daily Network (每日經濟新聞網)

- 2019 *Best Wealth Management Bank in China* (中國最佳財富管理銀行), *Best Fixed-income Investment Award* (最佳固定收益投資獎) and *Outstanding Contribution Award* (突出貢獻獎) granted by the China Banking Association

- 2019 *Consumer Finance Bank with Excellent Competitiveness* (卓越競爭力消費金融銀行) awarded at the Eleventh China Financial Summit of Excellent Competitiveness (卓越競爭力金融峰會) held by China Business Journal (《中國經營報》)

- 2019 *Wealth Manager of the Year* (年度財富管理獎) received at the Golden Amber Award (金琥珀獎) ceremony of the Third Summit of China Business Journal on Fortune (中經財富管理高峰論壇) hosted by China Business Journal (《中國經營報》)

- 2019 *China Annual Risk Data Analysis Technology Application Award* (中國年度風險數據與分析技術實施大獎) granted by The Asian Banker (《亞洲銀行家》)

- 2019 *Company Innovation Award, Service Award and Best Cases Award* (公司創新力獎、服務力獎、案例獎) selected to the Tenth Golden Pixiu Award Digital Financial Medal Tally (金貔貅獎數字金融金牌榜)

- 2019 *Frontrunner* named at the Online Banking Service Enterprises Standard Frontrunner List (網上銀行服務企業標準領跑者名單) announced by the China Internet Finance Association (中國互聯網金融協會)

- 2018 *Innovative Business Cooperation Award* (創新業務合作獎) granted by China UnionPay (中國銀聯)

- 2018 *Outstanding Micro and Small Enterprise Financial Services Award* (傑出小微企業金融服務獎) at the Piloting China (領航中國) annual forum hosted by JRJ.com (金融界網站)

- 2018 *Distinguished Financial Debt Securities Issuer Award (*金融債優秀發行人獎) granted by the China Central Depository and Clearing Co., Ltd. (中央國債登記結算有限責任公司)

- 2018 *Annual Asset Custodian Business Bank* (年度資產託管業務銀行) at the 21st Century Annual Finance Summit of Asia hosted by 21st Century Business Herald (《21世紀經濟報道》)

- 2018 *Best Custodian Institution Award* (最佳託管機構獎) received at the Asset Securitization – Jie Fu Award (資產證券化 – 介甫獎) ceremony granted by the Caishiv.com (財視中國)

- 2017 *Best Inclusive Financial Services Award* (最佳普惠金融服務獎) in The Time Weekly (時代週報)'s selection of the Internet Times Finance Golden Orange Awards (互聯網時代金融金桔獎)

- 2017 *Top 50 New Finance Awards* (新金融五十強獎) received at the Hurun New Top 100 Finance Summit (胡潤新金融百強峰會)

MARKETING

We have adopted a customer-centered approach and strive to provide our customers with high-quality, comprehensive banking services. Our head office takes the initiative in formulating bank-wide business plans and marketing strategies, whereas each branch and sub-branch implements such plans and strategies in their respective regions.

In recent years, we have increased our cross-selling efforts across departments and business lines, seeking to explore the potential of existing customers, and develop new customers, through collaboration among our corporate banking, retail banking and financial market teams. As a result of these efforts, we are able to provide payment and settlement, cash management and other comprehensive financial services in a one-stop manner and this increases our customers' revenue contribution and loyalty.

DISTRIBUTION NETWORK AND ELECTRONIC BANKING CHANNELS

We provide banking products and services through our extensive distribution channels, consisting of a branch network, self-service banking facilities, and electronic banking channels. For the years ended December 31, 2017, 2018 and 2019, transactions processed through our electronic banking channels and self-service banking facilities accounted for approximately 92.8%, 95.0% and 99.5%, respectively, of the number of total transactions for the same periods. As of December 31, 2017, 2018 and 2019, our electronic channel customers reached 2,916.0 thousand, 3,238.4 thousand and 3,513.3 thousand, respectively.

Branch Network and Self-service Banking Facilities

Our extensive branch network enables us to effectively deliver our products and services and penetrate into local markets. As of December 31, 2019, we had 33 tier-one branches (including branches directly administered by our head office), 30 tier-two branches, 127 sub-branches and 54 community and micro sub-branches across the PRC, and one representative office in Hong Kong. As of the same date, we had 245 outlets in 24 provinces (including centrally-administered municipalities, autonomous regions and special administrative regions). We are headquartered in the Beijing-Tianjin-Hebei region and have established a well-balanced branch network to serve China's other prosperous economic zones, including the Guangdong-Hong Kong-Macao Greater Bay Area and the Yangtze River Delta, and regions in Western China which show strong development potential.

As the operation management centers within the corresponding regions, most of our tier-one branches are set up in centrally-administered municipalities or the capital city of each province and autonomous region, and are responsible for managing all branches and sub-branches in their responsible areas and directly report to our head office. Tier-two branches are generally set up in prefecture-level cities in provinces and autonomous regions. In addition to their operation management functions, tier-two branches are also responsible for managing lower-level branches and sub-branches, and report to the tier-one branches in their respective regions.

The following table sets forth the distribution of our outlets by region as of the dates indicated.

	As of December 31,					
Region	**2017**		**2018**		**2019**	
	Number	**% of total**	**Number**	**% of total**	**Number**	**% of total**
Northern and Northeastern China[1]	117	45.2%	115	46.2%	111	45.3%
Eastern China	64	24.7%	59	23.7%	62	25.3%
Central and Southern China[2]	60	23.2%	57	22.9%	57	23.3%
Western China	18	6.9%	18	7.2%	15	6.1%
Total	**259**	**100.0%**	**249**	**100.0%**	**245**	**100.0%**

Notes:

(1) Excluding our head office

(2) Including our Hong Kong representative office

We continuously set up new branches and sub-branches to cover new areas and optimize the existing outlet network, so that we could streamline our business structure and expand our customer base by reinforcing our position in the existing market while expanding our presence into new regions. During the Track Record Period, we set up 42 new outlets (including nine community and micro sub-branches), closed 53 outlets (including 46 community and micro sub-branches), and relocated 16 outlets. To improve our institutional layout and raise the competitiveness of our outlets, we may relocate, remove or merge outlets whose communities have undergone significant changes. Through these adjustments, we endeavor to provide our customers with consistently efficient and high-quality financial services.

In addition, our self-service banking facilities include ATMs, cash recycling system (CRS) and virtual teller machine (VTM). These machines provide customers with convenient banking services while allowing us to effectively reduce operating costs. Services provided through these facilities include balance inquiry, cash deposit and withdrawal, fund transfer, and payment of public utility bills. As of the Latest Practicable Date, we operated a total of 617 ATMs and CRSs and 352 VTMs.

Electronic Banking Channels

We provide comprehensive financial services for customers through our electronic banking channels including online banking, mobile banking, telephone banking, and third-party internet finance platforms.

Online Banking

Our online banking, accessible via our website **www.cbhb.com.cn**, offers a broad range of financial services to both corporate banking and retail banking customers. For corporate banking customers, we provide services including account inquiry and management, payment and settlement, payroll services, and money transfer and remittance. For retail banking customers, we offer services including account inquiry and management, money transfer and remittances, investment and wealth management, bill payment, and application for personal loans.

As of December 31, 2017, 2018 and 2019, we had 2,078.2 thousand, 2,373.7 thousand and 2,609.3 thousand online banking users, respectively. For the years ended December 31, 2017, 2018 and 2019, an aggregate transaction volume of RMB6,698.0 billion, RMB6,141.3 billion and RMB4,530.3 billion was processed through our online banking channel, respectively.

Mobile Banking

We began offering our mobile banking services in April 2010. A variety of products and services are offered through our mobile banking, including account inquiry and management, transfer and remittance, investment and wealth management, and application for personal loans. For more details on "Bohai Bank Loan Shop (渤銀貸吧)", our recently launched mobile app for personal consumption loan products, please see "– Our Principal Businesses – Retail Banking – Personal Loans – Personal Consumption Loans". We have also developed a short message services (SMS) notification system, where we send customers SMS notifications upon the occurrence of bank account transactions, and for account safety verification and risk alerts.

As of December 31, 2017, 2018 and 2019, we had 1,729.2 thousand, 2,041.8 thousand and 2,298.6 thousand mobile banking users, respectively. For the years ended December 31, 2017, 2018 and 2019, an aggregate transaction volume of RMB147.6 billion, RMB607.4 billion and RMB507.4 billion was processed through our mobile banking channel, respectively.

Telephone Banking

We offer telephone banking services to retail banking and corporate banking customers, including automated voice services and teller-operated services through our 24-hour nationwide customer service hotline "95541". Our telephone banking services include account inquiries and management, assistance with certain transactions, information inquiries, collection of feedback and complaints, and emergency reporting on lost and stolen cards.

Third-party Internet Finance Platforms

In addition to product innovation, in recent years, we also made breakthroughs in electronic platform innovation. To increase our presence in the thriving internet consumer finance industry, and closely following China's implementation of the "Internet +" strategy, we endeavor to cooperate with influential third-party platforms, develop our B2C, B2B and B2G online integrated financial services systems, and expand our electronic distribution channels.

Under the B2C model, we primarily provide integrated fund settlement and management services to major e-commerce, internet consumer platforms and their users. We have also established a "virtual sub-branch" business concept, where we offer online deposit, wealth management and loan services to a large number of potential customers through these third-party platforms.

As of December 31, 2017, 2018 and 2019, the balance of personal consumption loans we disbursed through third-party consumer finance platforms reached RMB3.4 billion, RMB44.2 billion and RMB92.5 billion, respectively, representing 2.9%, 26.4% and 39.5% of our total personal loans, respectively.

More specifically, we have entered into joint-lending project agreements with leading internet finance platforms which set out key commercial and legal terms stipulating (i) the role of each participant, where we are generally the main fund provider (and therefore entitled to set the interest rate and receive interest income thereof) while the third-party platform provides technological services and connects us with the potential customers (and may charge us fees accordingly); (ii) the percentage of funds each fund provider agrees to contribute towards a consumer loan and how interest income derived from these loans are divided based on the same ratio; (iii) collaborative credit review and approval mechanism, on top of which we implement our independent project approval and admission procedures for platforms with whom we cooperate, similar to those adopted in our traditional business, conduct online credit review and approval for each loan application from the individual borrowers, and, where necessary, exercise our veto right in cases where the credit risks assessed exceed our tolerance level; (iv) our rights to implement post-loan management measures, including the right to collect overdue loan payments; (v) real-time transfer of consumer data and the related data protection and client authorization measures; and (vi) other rights and responsibilities of each participant.

In addition, we provide comprehensive online financial services, through our "Bohai Champion Commerce (渤商贏)" and "Bohai Government Link (渤政通)" business lines, to various B2B/B2G transactional platforms, including account management, payment and settlement, fund deposit and custody, and wealth accumulation. Meanwhile, we provide value-added services such as electronic contracting and digital account reconciliation, catering to our customers' specific business needs. Leveraging the systematic coverage and timeliness of platform databases, we offer multi-dimensional online support to the transactional platforms in key business aspects such as trade finance and credit approval.

During the Track Record Period, our platform-related businesses had evolved into a thriving business serving a wide variety of industries and bolstered by three signature "online ecosystems (線上生態圈)", namely travel and tourism, real estate and lifestyle, and modern logistics.

INFORMATION TECHNOLOGY AND BUSINESS INNOVATION

Overview

We have established a resilient, flexible and secure information technology infrastructure covering key functions of our operation, including business innovation, transaction processing, customer services, risk management and financial management. We have invested and will continue to invest in the development, maintenance and upgrading of our information technology systems.

Information Technology Management and Team

As of December 31, 2019, our information technology team, comprising information technology professionals and experts, had 427 employees in total. We have a sound organizational structure and management system for information technology related work, through which we provide strong support on all key stages of our business development, including risk management, data security, system development and testing, and business continuity.

Our Information Technology Department takes charge of the management of our technology infrastructure, application system and information security. Our Information Technology Committee is responsible for implementing strategic plans in relation to information technology as well as reviewing and approving key information technology projects. Meanwhile, our Financial Technology Department (金融科技事業部) takes the lead in the development, promotion and improvement of our online platforms and mobile products, endeavoring to strengthen our electronic banking channels and enhance customer satisfaction.

Information Technology System

We adopted various advanced technical means to enhance the security of our information technology systems and business operations, and established two intra-city data centers and one off-site backup data center for disaster recovery. Our main data centers have formed a "dual active (雙活)" disaster recovery system, to ensure business continuity in the event of major disruption or failure encountered by any one of the data centers. During the Track Record Period and up to the Latest Practicable Date, our information technology system had not been subject to any material cyber security breaches. For details regarding our information technology risk management, please see "Risk Management – Information Technology Risk Management".

We engage reputable third-party service providers who work closely with our in-house experts in developing and upgrading our information technology system. We believe that, through engaging third-party vendors with rich industry experience, we can leverage their advanced and mature technology to improve the reliability and efficiency of our system, reducing our staff costs and business handling time while providing a superior customer experience. We have built a comprehensive outsourcing management system which allows us to monitor, supervise and control the quality of third-party services throughout the process. We adopt strict standards in selecting our outsourcing providers and conduct comprehensive evaluations based on various factors, including their professional capacity, product maturity, scale of operation, experience and service quality, to ensure that we utilize industry-leading products and technologies.

PERSONAL DATA AND PRIVACY PROTECTION

We collect certain personal data from our customers in connection with our business and operations. PRC government has strict regulations in place governing the collection and use of personal data, requiring that the data owner must consent to the data collection and agree to its usage, unless exceptions are made under the relevant laws and regulations.

In the process of collecting personal data, we uphold the principles of "lawfulness, reasonableness, necessity, and authorized approval (合法、合理、必要、授權同意)". Based on the product and service category selected by the customer, and with the consent of the customer, we may collect the following types of personal data in the course of our business operations: (i) identification information (such as name, ID number, personal biometric information, occupation, contact information and household composition); (ii) financial information (such as income, real estate ownership and tax records); (iii) credit history (such as personal credit inquiry records and loan repayment records); (iv) derivative information (such as information reflecting a customer's consumption habits and investment preferences); and (v) other information related to the customer's account, financial transactions, and businesses with the Bank. When choosing our products and services, customers must confirm that they have read and agreed to the relevant terms and conditions, including the data privacy statement contained therein. Our data privacy statement specifies that personal data will be collected and used in accordance with PRC laws and regulations, and that the personal data collected can only be used for designated business purposes or as required by the applicable laws and regulations.

We store our customers' personal information in data centers located within China. These personal data are collected in accordance with our internal policies and guidelines, and are usually stored for a period of five years or more depending on the types of business and transaction. To reduce the risk of data loss or leakage, we encrypt important user data in the course of network transmission, and organize personal-data emergency training and simulation drills on a regular basis (at least every two years) for our employees.

We have formulated strict customer personal data protection policies and implemented a series of internal control measures accordingly. The Bohai Bank Administrative Measures for the Protection of Customers' Personal Financial Information (《渤海銀行客戶個人金融信息保護工作管理辦法》) sets out our main principles and policies for the collection, storage, transmission, sharing and protection of personal data. We have also established a hierarchical authorization management mechanism for personal databases, following the principle of "minimum authorization" to prevent unauthorized access by irrelevant departments and personnel. Specifically, if our employees need to search the personal data of customers for business purposes, they must strictly comply with the approval procedures, and keep thorough records of the approval and review process to ensure traceability. If personal data is lost, damaged or leaked, we require that the relevant departments to take immediate remedial measures, communicate with the customers in a timely manner in strict accordance with the Bohai Bank Customer Personal Data Protection Emergency Plan (《渤海銀行客戶個人信息保護突發事件應急預案》) and report to the supervising department. Our Personal Banking Department (個人金融部) is responsible for organizing annual bank-wide inspection and evaluation on personal data protection, and reporting the inspection results to the senior management.

We, as the owner of the personal data we collect from our customers, do not share or transfer personal data to third parties without their permission. If there are compelling reasons to allow a third party access to our customers' database for limited purposes, such as cooperating with a regulatory authority or the judiciary's inspections, participating in an external audit, or as necessitated by the services we provide to such customers, our employees must strictly comply with the relevant laws and regulations, as well as our internal approval and filing procedures, and verify that the identity and authorization of the party requesting access are authentic and complete.

Furthermore, we consider the ability to protect personal data an important evaluative indicator when selecting third-party service providers. We further require these third parties to sign confidentiality agreements and confirm that they will preserve and protect personal data in accordance with the agreements and refrain from using the data for any purpose beyond the specified scope. These terms will survive the termination of the third-party services. We also take measures to duly supervise third-party service providers in fulfilling their respective obligations, such as urging them to utilize the appropriate technology and timely destroy personal data they obtain in the course of their services. We may also bring legal action against any business partner who violates the data privacy and protection provisions of the executed agreement.

As advised by Commerce & Finance Law Offices, our PRC legal advisor, we were not in material violation of any mandatory requirements under applicable PRC laws and regulations with regards to the collection, use, disclosure and protection of personal data during the Track Record Period.

COMPETITION

The banking industry in China has become increasingly competitive. We face competition mainly from other commercial banks in the regions where we operate. Our main competitors include Large Commercial Banks and other Nationwide Joint-stock Commercial Banks, as well as city commercial banks. Please see "Industry Overview – Development Trend and Business Drivers".

The principal competitive factors in the banking industry include capital adequacy, risk management, asset quality, reach of distribution network and customer base, brand recognition and scope, as well as quality and pricing of products and services. The primary factors driving competition for deposits products are customer service, interest rates, fees charged, branch locations and hours, online and mobile banking functionality, and the range of products offered. The primary factors driving competition for loan products are customer service, range of products offered, price, reputation, and quality of execution.

We also compete with non-banking institutions with respect to the provision of financial services. For example, we compete with securities companies and fund management companies in attracting customers' funds. Rising non-financial institutions, such as internet-based finance companies, also exert competitive pressure on our business.

Competition between foreign financial institutions and us may intensify in the future. In particular, the lifting of various restrictions on foreign financial institutions business in the regions where we conduct our business may cause us to lose our existing competitive advantage over foreign financial institutions in the PRC. We anticipate that there will be more competition with foreign financial institutions in the future, and such intensifying competition may have an adverse effect on our business and results of operations. See "Risk Factors – Risks Relating to the PRC Banking Industry – We face increasingly intensive competition in China's banking industry."

In response to the aforementioned competitive environment, we plan to expand our electronic banking network, reinforce our traditional banking businesses, innovate our products and services, and explore diversified business development strategies. See "– Our Development Strategies".

EMPLOYEES

Attracting and retaining qualified employees is vital to our success. We offer competitive remuneration, strive to establish a market-based recruitment program and a transparent evaluation mechanism, and are dedicated to talent cultivation and development. As of December 31, 2019, we had 9,491 full-time employees. The following table sets forth the number of our full-time employees by function as of December 31, 2019.

	As of December 31, 2019	
	Number of employees	% of total
Corporate banking	2,191	23.1%
Retail banking	2,150	22.7%
Financial markets	248	2.6%
FinTech	120	1.3%
Finance and assets & liabilities	272	2.9%
Risk management	690	7.3%
Audit, legal, internal control & compliance	290	3.1%
Information technology	427	4.5%
Business operation	2,076	21.9%
Other	1,027	10.8%
Total	**9,491**	**100.0%**

The following table sets forth the total number of our full-time employees by age as of December 31, 2019.

	As of December 31, 2019	
	Number of employees	% of total
Aged 30 or below	2,471	26.0%
Aged 31-35	2,854	30.1%
Aged 36-40	1,943	20.5%
Aged 41-45	1,012	10.7%
Aged 46-50	871	9.2%
Aged over 50	340	3.6%
Total	**9,491**	**100.0%**

The following table sets forth the total number of our full-time employees by education level as of December 31, 2019.

	As of December 31, 2019	
	Number of employees	% of total
Master's degree and above	2,081	21.9%
Bachelor's degree	7,030	74.1%
College/Associate degree and below	380	4.0%
Total	**9,491**	**100.0%**

Believing that our sustainable growth relies on the capability and dedication of our employees, we have invested significant resources in talent development. We offer a variety of training programs tailored for our employees at different levels and in different business segments.

We also take great pride in the various recognition and awards our employees have received in the banking industry. As of December 31, 2019, 27 of our employees had won the title of "National Outstanding Wealth Manager (全國傑出財富管理師)" in the National Outstanding Wealth Manager Competition (全國傑出財富管理師大賽) held jointly by the China Banking Association, Hong Kong Institute of Bankers, and the Financial News, as of the same date, 14 of our employees ranked among the national top 500 in the China Financial Planner Contest (中國金融理財師大賽), four of whom won the title of "China Top 100 Financial Planners (中國百佳金融理財師)" and six were named "China's Outstanding Financial Planners (中國優秀金融理財師)". In addition, we have put in place a mid- and long-term talent cultivation program. As of December 31, 2019, we had trained a total of 499 certified "Chinese Financial Planners (ChFP)", and 168 of our employees had completed the "Wealth Management Planner (WMP)" certificate training program administered by the China Banking Association.

In compliance with the PRC laws and regulations, we contribute to our employees' social security and other benefits program including pension insurance, medical insurance, unemployment insurance, work-related injury insurance, maternity insurance, and housing fund.

We have a labor union established in accordance with PRC laws and regulations, which represents the interests of our employees and works closely with our management on labor-related issues. During the Track Record Period and up to the Latest Practicable Date, we had not experienced any strikes or other material labor disputes that affect our operations.

In addition to the employees with whom we have entered into employment contracts, as of December 31, 2019, we also engaged 361 dispatched workers through third-party human resources agencies. These dispatched workers are not our employees and generally hold non-essential positions at the Bank. According to the PRC Labor Contract Law, there is no labor contract relationship between the dispatched workers and us, and the dispatched workers enter into labor contracts with the relevant human resources agencies. We are not obligated to make social security contributions for them, but we make agreed salary and other related payments to these agencies, who shall in turn pay salaries to the dispatched workers, and make social security contributions and other related payments to the government entities. According to PRC laws, if the third party human resources agencies fail to pay remuneration to the dispatched workers, we may also be held jointly liable for claims brought by the dispatched workers.

PROPERTIES

Our head office is located at 218 Haihe East Road, Hedong District, Tianjin City, China. As of the Latest Practicable Date, we owned 158 real properties in the PRC with an aggregate GFA of approximately 338,033.6 square meters and leased 304 properties in the PRC with an aggregate GFA of approximately 401,760.8 square meters. As of the same date, we also leased one property in Hong Kong with a lettable area of approximately 1,452.5 square meters.

Owned Properties in the PRC

Real Properties

As of the Latest Practicable Date, we owned 158 real properties with an aggregate GFA of approximately 338,033.6 square meters. Among these real properties:

1. For 128 real properties with an aggregate GFA of approximately 325,818.2 square meters (accounting for 96.4% of the aggregate GFA of our owned real properties), we had obtained the relevant building ownership certificates and the land use right certificates, or the real property title certificates, for the land occupied by these properties through grant.

   As advised by Commerce & Finance Law Offices, our PRC legal advisor, we have legitimate ownership rights of such properties and the land use rights for the land occupied by such properties, and we are entitled to occupy, use, transfer, lease, create a mortgage on or by other means dispose of such properties according to applicable laws.

2. Among 23 real properties with an aggregate GFA of approximately 1,589.7 square meters (accounting for 0.5% of the aggregate GFA of our owned real properties), we had obtained the real property title certificates for five real properties with an aggregate GFA of approximately 250.4 square meters. For the remaining 18 real properties with an aggregate GFA of approximately 1,339.3 square meters, we had entered into purchase agreements with the local government and paid the purchase price in full, but had not received the real property title certificates. All of the 23 real properties are currently used as residences for our employees at the local branches and sub-branches.

   As advised by Commerce & Finance Law Offices, our PRC legal advisor, due to restrictions imposed by the local government's housing administrative measures and the relevant provisions in the purchase agreements that we entered into with the local government, we have limited ownership rights of the above-mentioned 23 real properties (even though we have obtained the real property title certificates for five of these real properties). As a result, until we obtain full ownership rights of these properties, we are not entitled to (i) transfer, lease or create a mortgage on the five real properties for which we have obtained real property title certificates, or (ii) lease, lend or transfer the 18 properties for which we have not obtained real property title certificates to any persons except for our employees, or transfer our ownership rights in any way to any entities or individuals other than the government.

   Considering that these properties comprise only a small portion of our owned properties, and that we do not to intend to undertake either (i) or (ii) of the above before we obtain full ownership rights of these properties, Commerce & Finance Law Offices is of the view that the title defects will have no material adverse effects on our business operations or financial condition.

3. For one real property with GFA of approximately 2,823.1 square meters (accounting for 0.8% of the aggregate GFA of our owned real properties), we had obtained the relevant building ownership, and obtained the land use right through allocation. This real property is currently used as our office and outlet.

   As advised by Commerce & Finance Law Offices, our PRC legal advisor, while there is no material legal impediment for us to occupy or use this property, we are subject to certain restrictions on transferring, leasing or creating a mortgage on or disposing of such property by other means, and receiving income thereof, before we obtain the land use right through grant for the land on which this property stands. If this property can no longer be used, we believe that we will be able to find comparable properties as alternatives in corresponding areas, and such relocations will not have material adverse effects on our financial condition or results of operations.

   Based on the above, especially considering that these properties comprise only a small portion of our owned properties, Commerce & Finance Law Offices is of the view that the title defects will have no material adverse effects on our business operations or financial condition.

4. For four real properties with an aggregate GFA of approximately 6,531.6 square meters (accounting for 1.9% of the aggregate GFA of our owned real properties), we had obtained the building ownership certificates, but had not obtained the land use right certificates for the land on which such buildings were erected. These real properties are currently used as our offices or outlets.

   As advised by Commerce & Finance Law Offices, our PRC legal advisor, as we have obtained the relevant building ownership certificates, there is no material legal impediment for us to occupy or use such properties. However, before obtaining the land use right certificates for the land on which such buildings were erected, we may be restricted from transferring, creating a mortgage on or disposing of such properties by other means. In any event, if we have to relocate due to the certificate issues of the land, we believe we are able to find comparable properties as alternatives in corresponding areas, and such relocation will not have material adverse effects on our financial condition or results of operations.

   Based on the above, especially considering these properties comprise only a small portion of our owned properties, Commerce & Finance Law Offices is of the view that the title defects will have no material adverse effects on our business operations or financial condition.

5. We also occupied two real properties with an aggregate GFA of approximately 1,271.1 square meters (accounting for 0.4% of the aggregate GFA of our owned real properties), for which we had not yet obtained the relevant real property title certificates. These real properties are currently used as our offices or outlets.

   As advised by Commerce & Finance Law Offices, our PRC legal advisor, our rights to occupy, use, transfer, lease, create a mortgage on or dispose of such properties by other means are limited until we obtain the relevant real property title certificates for these properties. In the event that we are required to relocate, we believe we will be able to find comparable properties as alternatives to continue our operations, and such relocation will not have a material adverse effect on our financial condition and results of operations.

Based on the above, especially considering these properties comprise only a small portion of our owned properties, Commerce & Finance Law Offices is of the view that the title defects will have no material adverse effects on our business operations or financial condition.

During the Track Record Period and up to the Latest Practicable Date, the defective legal titles of the above-mentioned properties did not have any material adverse effect on our business operations. We will continue our efforts in obtaining the relevant building ownership certificates and the land use certificates. Our Directors are of the view that such defective properties will not, individually or in aggregate, have any material adverse effect on our business. If necessary, we believe that we will be able to find comparable properties as alternatives, and such relocation will not have any material adverse effect on our financial condition or results of operations.

Leased Properties in the PRC

As of the Latest Practicable Date, we leased 304 properties with an aggregate GFA of approximately 401,760.8 square meters. Among these properties:

1. For 236 properties with an aggregate GFA of approximately 341,759.0 square meters, the lessors had obtained the relevant title certificates and/or the consent, authorization, or approval which entitle the lessors to lease the specific properties. As advised by Commerce & Finance Law Offices, our PRC legal advisor, these leases are legal and valid.

2. For 68 properties with an aggregate GFA of approximately 60,001.8 square meters, the lessors had not provided the title certificates of these properties or documents which entitle the lessors to lease out these properties. For 49 of these properties, lessors had issued written undertakings stating, or promised in the relevant lease agreements, that the lessors shall indemnify us if we suffer losses from the defective titles of such properties.

   As advised by Commerce & Finance Law Offices, our PRC legal advisor, if any third party raises claims against the ownership or leasing rights of these properties, our leasing of such properties may be affected. If we are unable to continue to use these properties due to their defective titles, we believe we can find comparable properties as alternatives, and such relocation will not have a material adverse effect on our financial condition or results of operations.

As of the Latest Practicable Date, for our 304 leased properties, we had registered 54 leasing agreements with the relevant housing administrative authorities with an aggregate GFA of approximately 62,542.7 square meters. As advised by Commerce & Finance Law Offices, our PRC legal advisor, pursuant to relevant judicial interpretation of the Supreme People's Court of the PRC, failure to complete the lease registration will not affect the legal effectiveness of the lease agreements. According to the Administrative Measures for Commercial Housing Leases (《商品房屋租賃管理辦法》), the housing administrative authorities may require the parties to the lease agreements to complete lease registration within a prescribed period of time and the failure to do so may subject the parties to the lease agreements to fines from RMB1,000 to RMB10,000. As a result, if we fail to timely complete lease registration upon the housing authorities' request and the highest fines are to be imposed for each of our leasing agreements unregistered as of the Latest Practicable Date, we may face total fines up to RMB2.5 million. During the Track Record Period, we had not received any administrative penalties for failure to register our leases. Based on the above, Commerce & Finance Law Offices is of the view that the failure to complete lease registration will have no material adverse effects on our business operations and financial condition.

Leased Property in Hong Kong

As of the Latest Practicable Date, we leased one property in Hong Kong with a lettable area of approximately 1,452.5 square meters, which was used as our Hong Kong representative office.

Property Valuation

As of December 31, 2019, we had no single property with a carrying amount of 15.0% or more of our total assets, and on this basis, we are not required by section 5.01A of the Listing Rules to include in this prospectus any valuation report. Pursuant to section 6(2) of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, this prospectus is exempt from compliance with the requirements of section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, which requires a valuation report with respect to all of our interests in land or buildings.

PERMITS, LICENSES AND QUALIFICATIONS

As of the Latest Practicable Date, as advised by Commerce & Finance Law Offices, our PRC legal advisor, we had obtained all material licenses, approvals, permits and qualifications that are necessary for our business operations in the PRC and such licenses, approvals, permits and qualifications are valid and subsisting.

INTELLECTUAL PROPERTY RIGHTS

We conduct business under the brand names and logos of "渤海銀行", "CBHB" and " " and several other brand names and logos. Our intellectual property rights mainly include trademarks and internet domain names. As of the Latest Practicable Date, we held 253 registered trademarks and 90 domain names in the PRC as well as three registered trademarks in Hong Kong. With respect to details of our intellectual property rights, please see "Appendix VII – Statutory and General Information". We had not been subject to any material infringement of our intellectual property rights or allegations of infringements by third parties during the Track Record Period that would have a material adverse effect on our business, asset quality, financial condition and results of operations.

LEGAL AND ADMINISTRATIVE PROCEEDINGS

Legal Proceedings

We are involved in various claims and lawsuits in the ordinary course of our business from time to time. As of the Latest Practicable Date, we were the plaintiffs in 81 pending litigations where we have a claim to the assets involved each with an amount of principal claimed by us exceeding RMB30.0 million, and the aggregate amount of claimed principal in such legal proceedings was approximately RMB9,248.3 million. Among these 81 cases, (i) 67 involved enforcement claims we initiated to recover payments on our loans, 13 involved contract disputes with borrowers, guarantors or other third parties and one involved a dispute relating to enforcement dissent; and (ii) two had a claim amount of principal exceeding RMB500.0 million, three had a claim amount of principal exceeding RMB300.0 million and up to RMB500.0 million, 16 had a claim amount of principal exceeding RMB100.0 million and up to RMB300.0 million and 60 had a claim amount of principal of or below RMB100.0 million. As of the Latest Practicable Date, we had won, settled or mediated 43, four and six of these cases, respectively, and the aggregate claim amount of principal from the cases won, settled, or mediated amounted to RMB4,602.5 million, RMB162.1 million and RMB1,226.5 million, respectively, and 51 out of these 53 cases were at the enforcement stage. None of our Directors or senior management was involved in these litigations.

We believe that we have made adequate provisions for the loans in our pending legal proceedings where we were the plaintiffs or applicants of arbitrations, in compliance with our loan provision policies, after taking into account relevant factors including the recoverability of loans. For details of our post-disbursement management and inspection for our loan business, please see "Risk Management – Credit Risk Management – Credit Risk Management for Corporate Loans and Advances" and "Risk Management – Credit Risk Management – Credit Risk Management for Personal Loans".

As of the Latest Practicable Date, we did not expect any of our current and pending legal or arbitration proceedings where we served as plaintiffs or applicants to have, individually or in the aggregate, a material adverse effect on our business, financial condition and results of operations.

Commerce & Finance Law Offices, our PRC legal advisor, is of the view that, as the total amount in dispute accounts for a small percentage of our net assets in our latest audited financial statements, and because such disputes all arose from our ordinary course of business as a commercial bank, these cases have no material adverse effect on our operations. Based on the above, our Directors are of the view that these litigations will not cause any material adverse effect on our business, financial condition, results of operations or prospects.

As of the Latest Practicable Date, we were the defendant in five pending litigations with an amount in dispute exceeding RMB10.0 million, and the aggregate amount in dispute in such legal proceedings was approximately RMB425.1 million. Among these five cases, four were pending before the court of first instance and one was pending before the appellate court. As of the same date, we were a third party in one pending litigation with an amount in dispute exceeding RMB10.0 million, and the amount in dispute in this litigation was approximately RMB103.4 million. None of our Directors or senior management was involved in these cases.

Commerce & Finance Law Offices, our PRC legal advisor, is of the view that, as the total amount in dispute accounts for a small percentage of our net assets in our latest audited financial statements, these cases have no material adverse effect on our operations. Based on the above, our Directors are of the view that these litigations will not cause any material adverse effect on our business, financial condition, results of operations or prospects.

Litigation is inherently uncertain and we cannot guarantee that the court would make findings or judgment in our favor. For more details on the potential risks arising from this and other pending litigations we face, please see "Risk Factors – Risks Relating to Our Business – We may be involved in legal and other disputes arising out of our business operations from time to time".

Regulatory Inspections and Proceedings

We are subject to various regulatory requirements and guidelines promulgated by different PRC regulatory authorities, such as the CBIRC, PBoC, NAO, SAT, SAMR, NDRC, SAFE and their respective local branches and offices. Inspections and examinations are carried out by such regulatory authorities regarding our compliance with the legal and regulatory requirements in relation to our business operations, risk management and internal control. Based on the results of these inspections and examinations, the regulatory authorities may issue inspection reports demanding timely rectification of the issues identified, or, taking into account the nature and severity of the non-compliance incidents, impose administrative penalties on us or our branches and sub-branches.

During the Track Record Period and up to the Latest Practicable Date, these inspections and reviews did not identify any major risk or non-compliance events in us but located some deficiencies in our business operations, risk management and internal control, the details of which are set out below. Although these deficiencies have not had any material adverse impact on our business, financial position or results of operations, we have taken improvement and remedial measures to prevent the occurrence of similar incidents in the future.

Save as disclosed and separately discussed under "– Legal and Administrative Proceedings – Regulatory Inspections and Proceedings", "– Legal and Administrative Proceedings – Compliance with Core Indicators" and "– Legal and Administrative Proceedings – Anti-money Laundering", we had been in compliance with relevant regulatory requirements and guidelines relating to our business operations, risk management, tax compliance and internal controls in all material respects and there have been no other regulatory inspections or proceedings that may cause material and adverse impact on our business operations or financial results during the Track Record Period and up to the Latest Practicable Date.

In February 2020, we obtained a regulatory opinion from CBIRC stating that, in recent years, we had (i) continuously improved our corporate governance system in line with the relevant regulatory requirements; (ii) proactively optimized our business operational procedures, and enhanced our internal control system; (iii) maintained sound and robust operations across the Bank, substantiated by the fact that CBIRC had not identified, within the scope of its supervision responsibilities, any material violation of the applicable laws and regulations which may have an impact on the Listing; and (iv) duly complied with all major regulatory indicators governing a bank's prudent business operations.

We have engaged an independent internal control advisor to review our internal controls over financial reporting. Based on the findings and recommendations identified by the internal control advisor, we have made improvements in matters related to our business operation, internal control and risk management, including controls in relation to the deposit business process, credit business management process and financial markets business process. For instance, to (i) prevent conflicts of interest, (ii) enhance the timeliness, standardization and accuracy of our information disclosure, (iii) improve product design and development principles, and (iv) ensure, from a management perspective, timely compliance with the latest regulations to reduce compliance risks, we have adopted specific measures including but not limited to the formulation of targeted internal policies, clarification of each department's power and responsibility, and refining the applicable implementation procedures.

Taking into account the internal control measures we have adopted, and the internal control advisor's report on the remedial measures we have taken to rectify the identified internal control deficiencies with no further comments regarding our remedial measures noted during its follow-up procedures, our Directors consider that our internal control measures currently in place are adequate and effective in all material respects.

Administrative Penalties

During the Track Record Period and up to the Latest Practicable Date, we received a total of 63 administrative penalties imposed by the CBIRC, PBoC, SAFE, SAT and other regulatory authorities, generally in the form of fines. These administrative penalties were issued against our head office and 34 branches and sub-branches and resulted in aggregated fines and improper gains confiscated of RMB55.9 million, the details of which are set forth below:

- CBIRC and its local offices imposed 33 administrative penalties with aggregated fines totaling RMB43.2 million, including one against our head office and 32 against our branches and sub-branches. The main issues identified were: (i) improperly applying the Bank's own investment funds and funds acquired from its wealth management customers to the financing of land purchase, or investing in real estate projects which had not obtained all requisite permits; (ii) improperly offering guaranteed returns for non-principal protected wealth management products; (iii) failure to carry out thorough due diligence inspection before conducting interbank investment in non-principal protected wealth management products; (iv) one sub-branch's failure to timely identify and prevent its employees' participation in private lending activities, which resulted in loan proceeds being diverted into the private lending sector (for more details, please see sub-section below headed "Deyang Incident"); and (v) weaknesses in some branches' credit review and approval process, disbursement and post-disbursement management mechanism, and inspection over the use of loan proceeds.

- PBoC and its local offices imposed 19 administrative penalties with aggregated fines totaling RMB8.2 million and improper gains confiscated of RMB15.7 thousand, all against our branches and sub-branches. The main issues identified were: (i) improper inquiry and use of corporate credit report in violation of applicable regulations; (ii) inadequate client identification mechanism, failure to thoroughly analyze unusual transactions and untimely submission of reports on doubtful transactions; and (iii) some branches' failure to verify the authenticity of trade background when conducting acceptance bill business.

- SAFE's local offices imposed three administrative penalties with aggregated fines totaling RMB3.8 million and improper gains confiscated of RMB327.1 thousand, both against our branches. The main issues identified were: (i) failure to conduct thorough investigation and review on the customers' source of repayment and use of proceeds before conducting cross-border guarantee businesses; (ii) failure to fully examine the authenticity and consistency of transactional documents; and (iii) untimely submission of statistical reports in compliance with the relevant rules.

- Eight administrative penalties were imposed by other regulatory authorities, such as SAT and SAMR and their local offices, resulting in aggregated fines of RMB0.3 million, all against our branches and sub-branches.

As of the the Latest Practicable Date, we had made timely payment for the fines imposed by the above-mentioned administrative penalties.

Deyang Incident

Between 2012 and 2015, two former employees at our Deyang sub-branch ("Former Employees") wrongfully engaged in private lending activities (the "Deyang Incident") by (i) improperly facilitating certain corporate customers' borrowing of funds from private lenders, which were used to repay such customers' overdue loans at our Bank, and (ii) instructing junior employees to apply the official seal on two private loan guarantee agreements without our authorization. At the time of the Deyang Incident, one of the Former Employees served as Deyang sub-branch's head of corporate banking department, while the other served as Deyang sub-branch's president before being appointed as head of personal banking department at our Chengdu branch.

In 2015, Deyang sub-branch discovered Former Employees' wrongful activities during one of its loan inspections and made timely reports to the CBIRC Deyang Office. We fully cooperated with and were closely engaged in CBIRC Deyang Office's subsequent investigations into the Deyang Incident, notwithstanding Former Employee's voluntary departure from our Bank near the end of 2015. In December 2018, the CBIRC Deyang Office issued (i) administrative penalties against Former Employees, including imposing a permanent ban on their employment in the banking industry, and (ii) an administrative penalty against Deyang sub-branch for its failure to timely identify and prevent Former Employees' participation in private lending activities, and inadequate management over the use of official seals.

Upon discovering the Deyang Incident, we took prompt measures to rectify the deficiencies in our employee management and operational risk prevention mechanism, including (i) conducting thorough internal investigations in relation to the Deyang Incident and imposing strict disciplinary measures against employees we found responsible for failing to prevent and detect Deyang Incident at an earlier stage, ranging from warnings, fines, to sanctions of demerit and major demerit (記過、記大過), (ii) enhancing our monitoring over employee misconduct through intensified and more frequent inspections, (iii) increasing the percentage of internal control and risk management personnel at the sub-branch level, (iv) tightening our control over the use and safe-keeping of official seals by instituting rigorous authorization and approval procedures, and (v) raising our employees' awareness of the applicable laws, regulations and professional ethics through bank-wide training. CBIRC Deyang Office, to which we timely submitted remedial reports, had not raised any objections to our rectification measures.

During the Track Record Period and up to the Latest Practicable Date we had not experienced or been aware of any other incidents which led to administrative penalties involving fraud or dishonesty on the part of the Bank, our branches and sub-branches, or employees. As advised by Commerce & Finance Law Offices, our PRC legal advisor, during the Track Record Period and up to the Latest Practicable Date, the regulatory authorities did not issue any administrative penalties against us involving fraud or dishonesty on the part of the Bank, our branches and sub-branches, or employees other than in the Deyang Incident. As such, and based on the reasonable inquiries conducted by the Joint Sponsors and their PRC legal advisor, there is nothing that has caused the Joint Sponsors to disagree with our statement above.

We have taken and will continue to take the following steps and measures to rectify the issues identified by the PRC regulatory authorities:

- regarding each specific incident identified, we have taken timely rectification measures in accordance with opinions of the regulatory authorities and our internal policies;

- regarding the issues caused by flaws in our systems and procedures, we enhanced the relevant systems and procedures;

- regarding the issues in connection with the poor implementation of our internal control systems, we have held the employees who violated the rules accountable, including issuing internal warnings and penalties;

- regarding the branches and sub-branches which were not inspected by the PRC regulatory authorities, we have inspected these branches and sub-branches ourselves for issues highlighted by the regulatory authorities to reduce similar operational risks; and

- to prevent similar issues from recurring, we provided additional training to employees, took new measures in risk management and improved our internal control system.

Specifically, we have taken, and intend to continue implementing, the following key steps and measures to rectify the key issues identified by the PRC regulatory authorities:

- Regarding the inadequate internal control management for our wealth management business, we have enhanced our training and supervision for business departments, and reiterated the importance of operational risk management and strict compliance with our credit risk management procedures; and

- Regarding the inadequate pre-loan (or pre-investment) and post-disbursement management mechanism, we have strengthened our accountability mechanism to hold each account manager to strict due-diligence standards, and increased our supervision over the borrower's use of proceeds.

Commerce & Finance Law Offices, our PRC legal advisor, confirms that, as of the Latest Practicable Date, they were not aware of any material objections from the relevant regulatory authorities raised against the remedial reports we submitted. Considering that (i) these penalties, individually or in the aggregate, did not result in materially adverse outcome such as the suspension of our legal existence, the revocation of our financial license and business license or the withdrawal of any approval, permits, authorization or record necessary for our business operations, and (ii) the fines imposed account for a small percentage of the net assets in our latest audited financial statements, and had been paid in a timely manner as of the Latest Practicable Date, Commerce & Finance Law Offices confirms these penalties have no material adverse effect on our operations.

Based on the above, our Directors are of the view that (i) we had taken appropriate measures to rectify the identified deficiencies in these administrative penalties and submitted remedial reports as requested by the regulatory authorities, and (ii) these administrative penalties did not, individually or in the aggregate, have a material adverse effect on our financial position or results of operation. Having considered the view of the Bank's PRC legal advisor and Directors, and based on the due diligence work conducted by the Joint Sponsors, as well as taking into account the work performed by the internal control advisor engaged by the Bank with no material deficiencies identified in this respect, nothing has come to the Joint Sponsors' attention which would cause them to disagree with the above Director's view.

Findings of Regulatory Examinations

Routine and *ad hoc* inspections are carried out by the PRC regulatory authorities, typically on an annual or semi-annual basis. Apart from non-compliance incidents which led to the administrative penalties discussed above, such inspections also revealed certain deficiencies in relation to our business operations, risk management, corporate governance and internal controls, the details of which are set forth below. Although such deficiencies identified did not subject us to any administrative penalties, the relevant regulatory authority typically issues an inspection report along with a request for timely rectification of the non-compliance issues identified.

We have taken appropriate measures to remedy the identified deficiencies without undue delay, and submitted remedial reports to relevant regulatory authorities. During the Track Record Period and up to the Latest Practicable Date, the relevant regulatory authorities had not raised any material objection to the remedial measures set out in our remedial reports and adopted by us. We believe that the findings and recommendations summarized below have no material adverse impact on our business, financial condition or results of operations, but have instead enabled us to better diagnose the deficiencies in our operations and to improve our risk management and internal control measures accordingly.

Commerce & Finance Law Offices, our PRC legal advisor, confirms that the following findings of regulatory examinations have no material adverse effect on our business operations, considering that (i) the deficiencies identified during these inspections did not subject us to administrative penalties, save as disclosed and separately discussed under "– Legal and Administrative Proceedings – Regulatory Inspections and Proceedings – Administrative Penalties", and (ii) they are not aware of any material objections from the relevant regulatory authorities raised against our remedial reports during the Track Record Period and up to the Latest Practicable Date.

Based on the above, our Directors are of the view that the findings and recommendations made by the regulatory authorities summarized below had identified no material deficiencies nor systematic failures in our business operations, corporate governance, internal controls or risk management which may cause a material adverse impact on our business, financial condition or results of operations. Having considered the view of the Bank's PRC legal advisor and Directors, and based on the due diligence work conducted by the Joint Sponsors, as well as taking into account the work performed by the internal control advisor engaged by the Bank with no material deficiencies identified in this respect, nothing has come to the Joint Sponsors' attention which would cause them to disagree with the above Director's view.

CBIRC

The relevant local offices of the CBIRC, or its predecessor the CBRC, conduct regular and *ad hoc* inspections on our operating conditions. Based on these inspections, the relevant local offices of the CBIRC issue inspection reports that contain inspection results and guiding opinions. The major issues raised by the relevant local offices of the CBIRC and our corresponding remedial measures during the Track Record Period and up to the Latest Practicable Date are set forth below:

Major issues and main recommendations	Our primary remedial measures	Latest remedial report submission date
Credit risk management		
• Inadequate management of credit risks arising from customer and industry concentration, such as high loan exposure to a single customer or to the real estate development industry and LGFVs	We enhanced our internal guidelines to control concentration risk, including diversifying our portfolio by developing innovative backbone enterprises with global influences and the five major financial fields as key marketing customers, broadening the capital replenishment channels, restricting loan extensions as well as closely monitoring our credit exposure in real estate development, government financing platform, and industries with excess production capacity.	June 22, 2020[1]
• Failure to properly assess and categorize loans and other credit products according to their quality and to make timely adjustments to such classification based on the most recent status of the ultimate borrowers	We rectified the classification of the assets identified, and reinforced our implementation of and supervision over loan classification, and arranged trainings to enhance our employees' professional skills and to improve the accuracy of the credit classification system.	May 29, 2020

Major issues and main recommendations	Our primary remedial measures	Latest remedial report submission date
• Insufficient pre-loan investigation, including (i) failure to verify the authenticity of trade background and underlying documents; (ii) failure to conduct comprehensive review on ultimate borrowers and ensure timely updates of account information; (iii) failure to restrict loan extension to customers who had overdue loan repayments in the past; (iv) inadequate investigation on and management over certain guarantors and collateral; (v) failure to thoroughly examine underlying assets; (vi) inadequate investigation in relation to granting credit to non-resident clients; (vii) failure to strictly control credit loan extension to certain related parties; (viii) failure to properly maintain the unified credit extension management system and the credit line did not meet the actual capital needs; and (ix) failure to strictly comply with the relevant regulatory provisions on credit approval	We expanded our investigative measures designed for new customers and their credit applications, strengthened our unified credit extension management, and reinforced its strict implementation and the analysis of the reasonableness of the purpose and limit of credit extension, enhanced our accountability mechanism to hold each responsible personnel to high due-diligence standards, made sound decisions based on comprehensive evaluation, supplemented the supporting documents previously identified as incomplete, and intensified our screening and compliance review of guarantors and collateral to reduce potential credit risks.	June 18, 2020(1)
• Inadequate allowance made for impaired assets and certain investments, due to inaccurate categorization or untimely recategorization of the assets based on their quality	We focused on increasing allowance for the impaired assets identified and enhanced our supervision over the implementation of internal procedures relating to allowance provisions. We also organized customer managers to conduct special trainings on risk classification to ensure timely and accurate asset classification.	April 26, 2019
• Failure to improve NPL disposal and management system to promptly address noticeable growth of NPL balance arising from areas such as personal mortgage loan, real estate development industry, government financing platform and steel industry	We optimized our internal procedures to monitor our NPL status and to accelerate the transferals or disposals of NPLs, through measures such as initiating recovery litigations, deepening the credit investigation measures for enhanced risk management and monitoring, and enhancing our accountability mechanism to control NPL increment.	June 18, 2020(1)
• Failure to strictly implement post-disbursement management measures, including (i) failure to conduct periodic inspections on the borrowers', as well as the collateral and pledges', latest status to monitor credit risks in a timely manner; (ii) insufficient supervision over use of proceeds to ensure that the funds disbursed are utilized for the designated purposes; and (iii) failure to strictly disburse loan proceeds to customers of the real estate development industries in line with the development stages of the real estate projects	We held our customer managers responsible for each account's post-disbursement management, enhanced relevant trainings and internal guidelines, established the post-loan customer tracking and maintenance record, and conducted regular post-loan inspections to ensure proper disbursement and use of loan proceeds.	June 18, 2020(1)

Major issues and main recommendations	Our primary remedial measures	Latest remedial report submission date
• Risk management over off-balance sheet business subject to improvement, so as to address the noticeable increase of certain off-balance sheet assets and to ensure they are in strict compliance with the regulatory requirements	We strictly monitored and controlled credit risks arising from our bank acceptance bill business and agency services, carried out comprehensive check and assessment on the risk status of various assets, optimized its business structures, reinforced our internal rules in relation to background investigations, enhanced employee trainings and strengthened internal control to ensure strict compliance with the relevant regulatory requirements.	June 18, 2020(1)
• Failure to fully comply with the government's macroeconomic guidelines, restricting the extension of credits to certain real estate developers, and insufficient credit support to micro and small enterprises and the agricultural sector	We refined our internal guidelines governing credit extension to real estate development projects in line with the government's policy. We also enhanced our support to micro and small enterprises and the agricultural sector by streamlining the credit review and approval process for their loan applications and designing credit products tailored to their needs.	June 4, 2020
Operational risk management		
• Inadequate staff management mechanism, including inconsistent enforcement of the staff rotation and mandatory leave system, insufficient staff with financial technology expertise, failure to fully comply with regulations and internal policies governing employee compensation and deferred payments, insufficient supervision over key positions and frontline staff, inadequate guidelines and internal policies governing the performance appraisal index, inadequate oversight over employee behaviors and authorization management over loan operations, failure to investigate and maintain comprehensive records on employees' backgrounds in strict compliance with regulatory requirements, errors and delays in certain statistical data and reports submitted to the regulatory authorities, and incomplete rectification of certain non-compliant incidents	We increased our efforts in recruiting staff with financial technology expertise, enhanced the internal rules in relation to the prevention of non-compliance incidents, maintained comprehensive records on employees' backgrounds, strengthened our employee trainings and disciplinary measures, strictly implemented rotation of positions and mandatory leaves, reformulated the performance appraisal rules according to the relevant rules, adjusted our compensation and deferred payment schemes in compliance with the relevant rules and timely and accurately enabled the management permission rights of the related positions in each segment of the organization. We also accelerated our compliance efforts and increased internal penalties for delayed rectifications to ensure that regulatory opinions and recommendations were promptly addressed, and that relevant reports were timely submitted to the regulators as required.	June 22, 2020(1)
Liquidity risk management		
• Performance in certain liquidity indicators subject to improvement	We enhanced our capacity to mitigate liquidity risks, including optimizing the duration management and limit management, and closely monitoring key indicators in relation to our liquidity status to reasonably control maturity mismatch.	July 19, 2019
• Design and implementation of liquidity risk monitoring system and stress tests subject to improvement, to give adequate coverage of stress tests, refine verification and evaluation segments to, and enhance liquidity risk management	We upgraded our liquidity risk monitoring and stress tests system, strengthened our recruitment and training of the liquidity control experts and personnel, so as to maintain a stable and diversified assets and liabilities structure and to reduce maturity mismatch.	March 3, 2020

Major issues and main recommendations	Our primary remedial measures	Latest remedial report submission date
• Failure to strictly manage (i) concentration of deposits in certain major accounts, and (ii) properly prevent high deposit deviation ratio, the latter being an indicator of large inflows or outflows of deposits during a certain period	We proactively sought expansion of our client base, including through product innovation and targeted marketing plans, to improve the deposit stability and reduce our reliance on major deposit accounts. We also enhanced our internal control to closely monitor inflows and withdrawals of deposits and to keep our deposit deviation under control.	June 22, 2020(1)
Information technology risk management		
• Information technology risk management system subject to improvement, particularly in relation to (i) failure to formulate sufficient risk evaluation and prevention measures in light of the substantial involvement of third party suppliers in the development of the Bank's IT system; (ii) lack of capacity in providing support to key business activities such as liquidity control, data accuracy, and capital management; (iii) disaster recovery stem in need of further upgrade and expansion; (iv) occasional deviations and delays in the statistics and submission of the regulatory data; and (v) server room security and operational management subject to further enhancement	We continuously strengthened and expanded our internal information technology team and equipment to reduce our potential reliance on subcontractors and to enhance its compatibility with our business development, enhanced the security of our server room by optimizing the access control system, and improved the operational management by introducing file sharing to streamline the workflow, upgrading firewalls to enhance security, gradually establishing a sound data statistics and reporting mechanism, and refining our internal guidelines on production data extraction to control the circulation of sensitive data.	May 19, 2020
Interbank business		
• Inadequate credit risk control and disclosure mechanism, including failure to (i) strictly implement measures on monthly information reconciliation and account opening documentation; (ii) strictly implement the classification and management system for all interbank investments; (iii) strictly implement risk management measures on concentration risks; (iv) review prudently the credit line of interbank financing; (v) carefully verify the legitimacy of the source of repayments and supervise the use of proceeds; (vi) conduct sufficient investigation to ensure the investment was within the relevant regulatory scope; and (vii) make sufficient allowance for impaired assets	We enhanced our interbank credit risk management by extending our loan business management guidelines to the interbank business. We also strengthened our compliance review over interbank credit, commenced post-investment inspections on the underlying assets and our counterparties' financial status, strengthened internal and external trainings and business learnings, prudently determined the limit of interbank financing, optimize the reconciliation system and prevented the occurrence of related non-compliance incidents.	July 19, 2019
• Inadequate internal policies and risk management measures relating to interbank business, such as failure to (i) examine all interbank transactions under the unified credit extension system to fully evaluate risk exposures; and (ii) strictly implement internal review and inspection procedures while conducting certain transactions	We adopted a series of rectification measures including (i) further implemented unified credit extension for interbank business; (ii) optimized the structure of our interbank assets and liabilities to reduce maturity mismatch; and (iii) strictly implemented existing internal procedures, while making necessary adjustments to further standardize interbank transactions.	April 23, 2020

Major issues and main recommendations	Our primary remedial measures	Latest remedial report submission date
• Inadequate compliance with standard procedures, such as the delegation of the approval authority of interbank business contracts to branches, failure to conduct sufficient post-loan management of the non-standard wealth management investment, and sufficiently prevent maturity mismatch between wealth management products and investment objectives	We rectified the inadequate processes identified and supplemented necessary documents, reinforced our internal policies on account management, and enhanced our disciplinary measures and performance evaluation to hold employees accountable. We also actively communicated with our counterparties on individual business and enhanced post-investment management to ensure asset security.	July 19, 2019
Bank bills business		
• Inadequate formulation and implementation of internal procedures, including failure to verify authenticity of trade background, inadequate allowance for certain risk weighted assets regarding the bank bills business, failure to strictly follow relevant on-site processing procedures, and failure to properly demand, examine, and record underlying documents, such as invoices	We reinforced our training and internal procedures applicable to the bills business, such as establishing a centralized system of credit approval, verification and record-keeping, and strictly enforced our accountability mechanism to address employee misconducts.	February 27, 2020
Wealth management business		
• Failure to strictly implement internal control procedures, such as inadequate investigations on wealth management customers, failure to strictly follow relevant on-site handling procedures, incomplete or inaccurate product description in marketing materials, inconsistent financial records kept by different departments, failure to strictly follow standardized marketing procedures, failure to carefully verify the legitimacy of the source of repayments and lack of supervision over the use of proceeds	We improved our internal control measures in the sector, including (i) increasing our monitoring over the disclosure of product information and operations of the wealth management business; (ii) standardizing quality-control for underlying documents; (iii) intensifying our training on the proper marketing of wealth management products to improve the quality of our services; (iv) requiring audio and video recording of the sales process; (v) enhancing our supervision over the borrowers' source of repayment and use of proceeds; (vi) strengthened the risk isolation and improved the functions of the wealth management system; (vii) gradually adjusted the maturity of assets and liabilities to reduce the risk of maturity mismatch; and (viii) enhanced the ability to invest and research to grasp the development and transformation trend of the wealth management business.	May 25, 2020
• Failure to strictly implement financial statistics reporting procedures and insufficient monitoring over the level of non-standardized debt assets	We enhanced the internal control over the wealth management business by establishing a specialized compliance committee to resolve the relevant compliance issues, optimizing the internal control mechanism with clear delineation of responsibilities, strengthening the risk management on non-standardized assets and returning certain assets to the balance sheet to relieve the relevant asset pressures.	June 20, 2018

Major issues and main recommendations	Our primary remedial measures	Latest remedial report submission date
• Insufficient pre-investment investigation and post-investment review, including failure to conduct comprehensive review on ultimate borrowers, granting investments beyond credit limit for certain customers, and lack of supervision over the use of proceeds	We terminated various non-compliance transactions, strengthened pre-investment inspection, conducted comprehensive examination on the authenticity, accuracy and completeness of the wealth management related information, and required the customer department to carry out post-investment inspections. We also drew up a training plan for relevant wealth management staff, and enhanced our concentration risk control measures and investigation of underlying investments to improve our overall risk management of the wealth management business.	May 10, 2020
Corporate governance and internal control		
• Failure to strictly enforce corporate governance and internal control measures, such as (i) delayed appointments of certain directors and other management personnel; (ii) internal audit system to be improved and insufficient number of audit personnel; (iii) concurrent positions inappropriately held by certain senior management members; (iv) failure to formulate or revise certain business systems and procedures in a timely manner; (v) effectiveness of the performance evaluation, rectification and accountability systems to be improved; and (vi) failure to strictly implement management on related party transactions	We expedited the filling of management vacancies in compliance with the relevant rules, hired additional staff to strengthen our internal audit department and internal control and compliance department, strengthened the auditing on key risk areas and new business, strengthened our trainings to our audit personnel to enhance their professional capabilities, and improved our employee performance evaluation and accountability system. We will also accelerate the implementation of the organizational separation, staff separation and business independence among branches, and strengthen the supervision on branches to ensure proper line management. In relation to the identification of related parties and the management of related transactions, we continuously improved the rectification measures, issued risk warnings to the entire bank, and further strengthened the identification and investigation of internal responsibilities.	June 22, 2020(1)
• Insufficient customer protection measures including failure to ensure clear delineation of responsibilities	We enhanced customer protection by (i) formulating internal rules which clearly delineated the responsibilities of the Board on customer protection, required audio-and-video recording during sales process, and emphasized the risk attributes of the bank products and the importance of matching customers' risk tolerances; (ii) introducing advertising campaigns and updating advertising materials on financial knowledge; (iii) optimizing the customer complaints handling procedures; and (iv) enhancing employees' trainings on customer protection.	June 22, 2020(1)
Capital management		
• Capital management system subject to improvement as shown by issues like (i) delay in capital replenishment; (ii) inadequate monitoring over capital adequacy; and (iii) insufficient internal policies and procedures relating to internal auditing and the classification of assets based on their credit risks	We accelerated the formulation of internal policies relating to capital measurement, actively expanded the external capital replenishment channel, upgraded and enhanced our capital stress tests.	July 19, 2019

Note:

(1) As of the Latest Practicable Date, we were preparing remedial reports in relation to some inspection reports and recommendations we recently received, which addressed certain incidents under this category.

We submitted remedial reports in relation to the implementation of regulatory recommendations included in the inspection reports issued by the local offices of the CBIRC and its branches. Pursuant to the aforesaid inspection reports issued by the relevant local offices of the CBIRC and taking into account the abovementioned advice of our PRC Legal Advisor, we believe that there are no material deficiencies in our business operations, corporate governance, internal controls or risk management which may result in material and adverse impact on our business, financial condition or results of operations.

PBoC

The relevant local branches of PBoC conduct routine and *ad hoc* inspections on our operation. Based on these inspections, the relevant local branches of PBoC issue inspection reports that include inspection results and guiding opinions. The major issues and guiding opinions raised by the relevant local branches of PBoC in their reports to us and our major remedial measures during the Track Record Period and up to the Latest Practicable Date are set forth below:

Major issues and main recommendations	Our primary remedial measures	Latest remedial report submission date
• Inadequate internal policies and procedures in certain areas, such as insufficient consumer protection measures, untimely submission of comprehensive periodic and self-inspection reports to the regulatory authorities, insufficient credit support to micro and small enterprises and poverty alleviation, incomplete credit inquiry mechanism, inadequate management in relation to the clearing and settlement system, statistical accuracy of loans and deposits subject to improvement, and certain unstandardized business procedures	We formulated new internal rules to (i) enhance our consumer protection mechanism including the launch of financial information public education campaigns; (ii) standardize our report preparation and submission procedures; (iii) enhance our support to micro and small enterprises and agricultural sector by designing credit products tailored to their needs; (iv) improve our management over the credit inquiry system; (v) further optimize the clearing and settlement system with improved efficiency and accuracy, and implement the small-value settlement system; (vi) improve statistical standards for loans and deposits; (vii) establish a more sound business process mechanism; and (viii) improve the coverage and frequency of training.	May 29, 2020
• Inadequate internal control on strict implementation of financial statistics reporting procedures and making timely and comprehensive reports to supervisory authorities according to regulatory requirements	We enhanced the awareness and understanding of the employees on the relevant reporting requirements, clearly defined the duties and responsibilities of the relevant departments with accountability system, and optimized the management over business operations to ensure timely and accurate reports to be made to regulatory authorities.	May 29, 2020

Major issues and main recommendations	Our primary remedial measures	Latest remedial report submission date
• Inadequate systems to fully prevent risks associated with counterfeit money and banknotes unfit for circulation	We have established a sound Renminbi collection and payment and anti-counterfeit currency management system, standardized business procedures, enhanced the enforcement of the system and strictly implemented the counterfeit currency collection and reward system. Meanwhile, we also strengthened business training and inspection, comprehensively upgraded the supporting maintenance measures, and strengthened the fitness classification function to sort out unfit banknotes.	November 21, 2019
• Insufficient management on foreign currency business and national treasury business to ensure proper accounting, accurate reporting and timely turning of relevant funds into national treasure	We enhanced internal trainings to reinstate the proper accounting and reporting methods of foreign currency business and national treasury business, and took immediate measures to resolve the system failure and ensure it is functioning properly in turning funds into national treasure in an accurate and timely manner.	May 29, 2020
• Interbank credit risk and operational risk management subject to improvement, such as failure to promptly address noticeable growth of NPL balance, incomplete account opening procedures and failure to retain key underlying documents	We improved the credit risk management by enhancing support to enterprise debt restructuring and accelerating the recoveries of NPL, strengthened the training and inspections on our staff in credit risk management and took immediate actions to supplement the records identified as incomplete.	March 29, 2018
• Information technology risk management system subject to improvement to ensure adequate information security	We improved the information technology risk management system by establishing a security check committee, enhancing the information technology security with system upgrades and regular self-evaluations, actively replacing magnetic stripe cards with integrated circuit cards and optimizing the operation management of the server room such as the installation of security camera systems.	May 29, 2020
• Insufficient due diligence investigation and account management, such as failure to fully examine and verify the authenticity and compliance of the supporting documents for account opening, failure to retain key underlying documents, untimely update of account information, failure to strictly implement the annual inspection system for certain accounts, inaccurate categorization of certain customers and accounts and incomplete account opening procedures in relation to personal mortgage loan business	We took immediate actions to supplement the records identified as incomplete, enhance the effectiveness of our account management system, rectify and strengthen the supervision of the non-compliance issues, enhance the effectiveness of our account management system, strengthen our trainings on account documentation and account opening procedures and establish accountability system on the personnel involved.	May 29, 2020

Major issues and main recommendations	Our primary remedial measures	Latest remedial report submission date
• Inadequate internal control on cross-border Renminbi business to ensure sufficient customer background investigations, and timely and complete reports were made to regulatory authorities	We expanded our investigation measures on customer backgrounds, provided additional trainings and established supervision mechanisms to ensure timely and complete reports to be made to regulatory authorities.	April 30, 2020
• Certain anti-money laundering internal control measures subject to improvement	We strengthened our internal trainings with clear delineation of responsibilities, intensified the anti-money laundering inspection, specified the procedures on customer identification, improved the quality of large and doubtful transaction reports and other aspects, and strengthened the internal supervision and auditing on anti-money laundering, as well as the construction of supporting mechanisms on training and education.	May 29, 2020

We submitted remedial reports with respect to our adoption of regulatory recommendations included in the inspection reports issued by the relevant local branches of PBoC. Based on the aforesaid inspection reports issued by the local branches of the PBoC, and taking into account the abovementioned advice of our PRC Legal Advisors, we believe that we do not have significant deficiencies in our business operations, internal audit or risk management which may result in material and adverse impact on our business, financial condition or results of operations.

SAFE

The relevant local branches of SAFE conduct inspections on our foreign exchange business and issue opinions containing inspection results and related recommendations. The major issues identified and key recommendations raised, during the Track Record Period and up to the Latest Practicable Date, and our primary remedial measures are set out below:

Major issues and main recommendations	Our primary remedial measures	Latest remedial report submission date
• Inadequate internal control, such as failure to strictly implement internal rules and procedures in relation to the foreign exchange business	We optimized the relevant internal rules and policies, appointed designated employees for the management of foreign exchange business, and strengthened employee trainings on the implementation of the relevant rules and procedures.	March 25, 2020

Major issues and main recommendations	Our primary remedial measures	Latest remedial report submission date
• Insufficient enforcement of certain operational procedures on foreign exchange business, such as failure to (i) verify the authenticity of certain transactions and retain key underlying documents, (ii) make timely submission of accurate transaction filings, (iii) timely establish comprehensive accounting and statistical management system for settlement and sales, (iv) prepare comprehensive product pricing policies	We rectified the irregularities of the transaction filings, refined the relevant operational procedures, enhanced inspection and supervision over the operations of our foreign exchange business and adjusted the pricing policy in light of the business demand and provided discount as appropriate.	March 22, 2018
• Inadequate liquidity risk management, such as noticeable fluctuations in certain liquidity regulatory indicators	We actively enlarged the market share of our cross-border business through enhanced service quality and continuously improved the management of our foreign exchange business.	March 15, 2018
• Insufficient management over the quality of foreign exchange data, such as to enhance the accuracy, completeness and timeliness of data reporting	We enhanced employee trainings of our foreign exchange business for better collection, reporting and statistics management of foreign exchange data, and carried out self-examination and self-correction work to mitigate risks in relation to mistakes and omissions from reporting.	May 29, 2020

We submitted remedial reports with respect to our adoption of regulatory recommendations included in the opinions issued by the relevant local branches of the SAFE. Based on the aforesaid opinions issued by the SAFE, and taking into account the abovementioned advice of our PRC Legal Advisor, we believe that we do not have significant deficiencies in our foreign exchange business or risk management which may result in material and adverse impact on our business, financial condition or results of operations.

Compliance with Core Indicators

We are required to comply with various ratios set out in the Core Indicators (Provisional) of the CBIRC. For details, please see "Supervision and Regulation – Other Risk Management Ratios". During the Track Record Period, we had complied with all material indicators set out in the Core Indicators (Provisional) and were not subject to any administrative penalties as a result of non-compliance with the core indicators.

Anti-money Laundering

No material abnormal money laundering incidents had been identified by, or reported to, the senior management during the Track Record Period and up to the Latest Practicable Date.

For details of our anti-money laundering measures, see "Risk Management – Operational Risk Management – Anti-money Laundering".

OVERVIEW

The primary risks in relation to our operations include credit risk, market risk, liquidity risk, operational risk, information technology risk, reputational risk, strategic risk and country risk. We have established an integrated risk management system with comprehensive risk coverage and invested in its continuous upgrade and optimization. For details about our risk management framework, please see the subsection headed "– Risk Management Framework".

Our Risk Management Objectives and Principles

The overall objective of our risk management is to build a comprehensive risk management system, leveraging a combination of qualitative and quantitative measures to identify, calculate, evaluate, monitor, report, control and mitigate various types of risk exposures; to promulgate and ensure proper implementation of comprehensive risk management policies, while enhancing internal self-discipline mechanism; to promote a sound risk management culture and to uphold risk management principles, moral standards and professional ethics compatible with our corporate governance and development strategies.

To achieve the above-mentioned objectives, we have implemented the following risk management principles.

- Compatibility (匹配性). Our risk management system must be compatible with the risk condition of the Bank, and be adjusted in timely response to changes in the market environment. Meanwhile, our technology support system must be continuously improved in line with our needs to build a sustainable risk management system.

- Comprehensiveness (全面性). Our risk management system must encompass every business line, branch and sub-branch, department, position, and employee. It must also cover all types of risks, including the intersections between these risks, and the decision-making, execution and supervisory stages of all internal procedures.

- Independence (獨立性). Our departments entrusted with risk management responsibilities are sufficiently authorized and equipped with adequate manpower and resources, so as to maintain checks and balances across business lines.

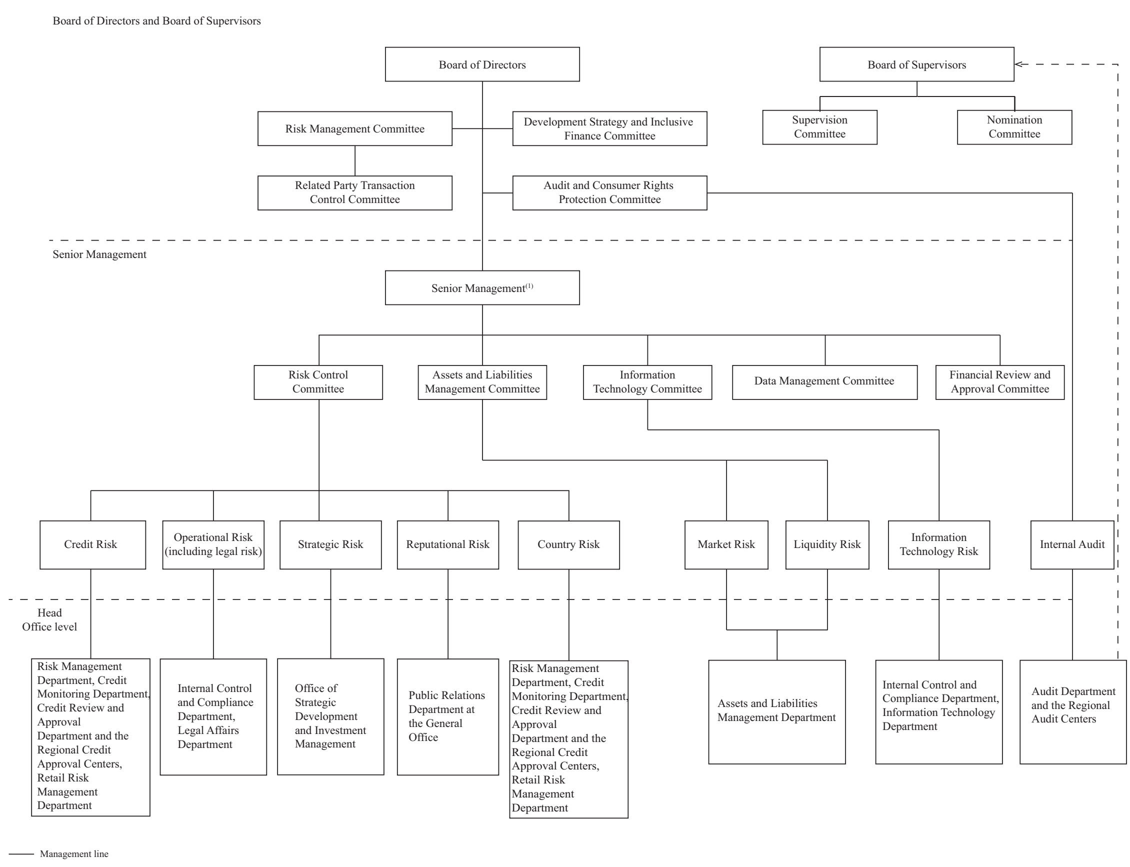
- Effectiveness (有效性). To effectively contain our overall risk exposure, and potential vulnerability in more specific areas, we constantly evaluate our capital and liquidity adequacy in light of the market condition and macroeconomic trends and apply findings from our risk control efforts to the Bank's operations and management.

RISK MANAGEMENT FRAMEWORK

Based on our risk management principles, we have established a sound risk management organizational structure, comprising (i) the Board of Directors, the Risk Management Committee at the board level and the Board of Supervisors; (ii) various special risk management committees at the board level and the senior management level that take charge of the supervision, support and coordination of our risk management system; and (iii) various departments in our head office, branches and sub-branches that implement our daily risk management measures. Capitalizing on our comprehensive risk management structure, we have been able to effectively manage key risks associated with our daily operations, primarily credit risk, market risk, liquidity risk and operational risk.

Our top-down risk management model divides the risk management responsibilities by hierarchy and clearly defines the roles of each committee and department. We have established clear and specific reporting and communication procedures to ensure efficient and effective coordination between the management departments and our various business departments at the head office, branches, and sub-branches in addressing various risks.

The following chart illustrates our risk management organizational structure as of the Latest Practicable Date.



Note:

(1) As of the Latest Practicable Date, Mr. ZHAO Zhihong (趙志宏), our chief risk officer, was in charge of our overall risk management. For details on Mr. Zhao's experience and qualifications, please see "Directors, Supervisors and Senior Management – Senior Management".

Three Lines of Defense

We have established "three lines of defense" to prevent and control each major type of risk we face. Specifically:

- The first line of defense of risk management is formed by our various business departments, divisions, branches, and sub-branches, who are directly responsible for carrying out their risk management functions;

- The second line of defense is our Risk Management Department, Credit Monitoring Department, Credit Review and Approval Department, Retail Risk Management Department, Assets and Liabilities Management Department, Internal Control and Compliance Department, Legal Affairs Department, Public Relations Department at the General Office, and Office of Strategic Development and Investment Management and other departments entrusted with their respective risk management responsibilities, whose duties include formulating the relevant policies and procedures, as well as the monitoring and management of major risks; and

- The third line of defense of risk management is our audit departments, which are responsible for performing audits in relation to our business departments' and risk management departments' discharge of duties, conducting independent evaluation of our risk management system and its implementation, and monitoring the effectiveness of our risk management policies.

Board of Directors and its Special Committees

Our Board of Directors assumes the ultimate responsibility for comprehensive risk management, whose responsibilities include (i) fostering bank-wide risk culture, formulating risk management strategies, setting risk appetite, and ensuring the proper formulation of risk limits; (ii) approving major risk management policies and procedures; (iii) supervising the senior management's implementation of comprehensive risk management, deliberating comprehensive risk management reports, reviewing and approving information disclosure in relation to overall risk exposure and other important risk categories; (iv) appointing the chief risk officer; and (v) taking the lead in overseeing the comprehensive risk management system.

Our Board of Directors performs its risk management duties through the Risk Management Committee (and the Related Party Transaction Control Committee subordinate to it), the Audit and Consumer Rights Protection Committee, and the Development Strategy and Inclusive Finance Committee, with support from management teams at our head office, branches and sub-branches. For a detailed list of the members comprising each of the special committees below, please see "Directors, Supervisors and Senior Management – Committees Under the Board of Directors".

Risk Management Committee (風險管理委員會)

Our Risk Management Committee under the Board of Directors is primarily responsible for: (i) setting the basis and methodology for determining the Bank's risk tolerance level; (ii) reviewing the Bank's risk appetite and risk management policies, systems and fundamental principles; (iii) scrutinizing the Bank's disposal of assets and provision of external guarantees outside its ordinary course of business; (iv) supervising the senior management's performance in relation to risk control, periodically hearing reports on the Bank's risks and risk management status prepared by the senior management, and making recommendations in relation to risk management and internal control; and (v) authorizing its sub-committee, the related party transaction control committee, to discharge responsibilities in relation to related party transaction and connected transaction control.

The Risk Management Committee currently consists of seven members and is chaired by Mr. MU Binrui (牟斌瑞).

Related Party Transaction Control Committee (關聯交易控制委員會)

Our Related Party Transaction Control Committee is subordinate to the Risk Management Committee under the Board of Directors, and is primarily responsible for (i) reviewing our management measures on related party transactions and connected transactions before their submission to the Board of Directors, as well as preparing special annual report in relation to the implementation of such management measures and submitting the same to the Board of Directors; (ii) evaluating and approving the Bank's lists of related parties and connected persons, and making relevant reports to the Board of Directors and Board of Supervisors; (iii) examining related party transactions and connected transactions in accordance with relevant laws and regulations, relevant requirements of the stock exchange where our Shares are listed, and fair dealing commercial principles; and (iv) reviewing and approving the information disclosure of related party transactions and connected transactions, and supervising the authenticity, accuracy and completeness of such disclosure.

The Related Party Transaction Control Committee currently consists of seven members and is chaired by Mr. MU Binrui (牟斌瑞).

Audit and Consumer Rights Protection Committee (審計和消費者權益保護委員會)

Our Audit and Consumer Rights Protection Committee under the Board of Directors is primarily responsible for: (i) reviewing the internal audit charter and medium and long-term audit plans of the Bank; (ii) overseeing internal audit with authorization from the Board and enabling communication between internal and external auditors; (iii) reviewing and approving appointment and removal of the head of internal audit department, and evaluating and supervising performance of the internal audit department and its person in charge; (iv) hearing quarterly and annual audit working reports presented by the head of internal audit department, and submitting quarterly and annual audit working reports to the Board of Directors; (v) hearing internal audit department's reports on major audit findings from internal, external and regulatory audit and supervising corresponding actions taken by the senior management; (vi) examining the financial position, accounting policies and financial reporting procedures of the Bank, and organizing independent inspections conducted by various working groups to monitor their implementation; (vii) directing annual audit of the Bank; (viii) making recommendations to the Board of Directors on matters relating to the appointment, re-appointment and removal of external auditors responsible for the Bank's annual financial statements; and (ix) formulating strategies, policies and goals in relation to consumer rights protection and supervising their effective implementation by our senior management.

The Audit and Consumer Rights Protection Committee currently consists of seven members and is chaired by Mr. TSE Yat Hong (謝日康).

Development Strategy and Inclusive Finance Committee (發展戰略和普惠金融委員會)

Our Development Strategy and Inclusive Finance Committee under the Board of Directors is primarily responsible for: (i) reviewing, and periodically assessing, the development strategies and medium-and long-term development plans of the Bank; (ii) reviewing proposals for material changes in shareholding, financial restructuring, merger, division and dissolution; (iii) reviewing proposals concerning capital management planning, listing or other fund raising arrangements, use of proceeds, increase or decrease of registered capital, and share repurchase; (iv) reviewing the Bank's plans for annual budget, final accounts, risk capital allocation, profit distribution and loss recovery, and other financial plans that may materially affect its business operations and development, and opining on whether such plans are in line with the Bank's development strategies; (v) reviewing the Bank's investment and outlet establishment plans, and opining on whether these plans are in line with the Bank's development strategies; (vi) reviewing the Bank's risk management policy, capital management policy and other policies having significant impact on its business operations and development; and (vii) formulating the Bank's strategic development plans and fundamental management policy for inclusive finance business and supervising their implementation.

The Development Strategy and Inclusive Finance Committee currently consists of seven members and is chaired by Mr. LI Fuan (李伏安).

Board of Supervisors and its Special Committees

Our Board of Supervisors assumes the responsibility for supervising the comprehensive risk management system, including monitoring and inspecting the Board of Directors' and senior management' discharge of their corresponding risk management duties and supervising pertinent rectification actions.

Supervision Committee (監督委員會)

The Supervision Committee under the Board of Supervisors is primarily responsible for (i) supervising the Board of Directors in the forming of sound operating concept and value standards and a development strategy consistent with the Bank's circumstances; (ii) formulating supervision plans for the Bank's financial activities and implementing relevant inspections; and (iii) monitoring and inspecting the Bank's business decisions, internal control and risk management.

The Supervision Committee currently consists of three members and is chaired by Mr. DIAO Qinyi (刁欽義).

Nomination Committee (提名委員會)

The Nomination Committee under the Board of Supervisors is primarily responsible for (i) thoroughly evaluating our directors and senior management' discharge of duties; and (ii) conducting exit audits on directors and senior management members departing from the Bank.

The Nomination Committee currently consists of three members and is chaired by Mr. QI Ershi (齊二石).

Senior Management and its Special Committees

Our senior management is responsible for implementing comprehensive risk management and executing relevant resolutions of the Board of Directors. Its primary responsibilities include: (i) establishing an operational management structure that is suitable for comprehensive risk management, clarifying the division of risk management responsibilities between functional departments, business departments and other departments, and building an operational mechanism featuring mutual coordination and effective checks and balances among departments; (ii) formulating clear implementation and accountability mechanisms to ensure that the Bank's risk management strategies, risk appetites and risk limits are fully communicated and effectively implemented; (iii) setting risk limits according to risk appetites set by the Board of Directors for various industries, regions, customers, and products; (iv) formulating risk management policies and procedures, conducting periodic assessments, and making adjustments as necessary; (v) evaluating overall risk exposure and various important risk management statuses and reporting the same to the Board of Directors; (vi) establishing a sound management information system and data quality control mechanism; and (vii) supervising and handling violations of risk management policy and procedures according to the authorization of the Board of Directors.

Risk Control Committee (風險控制委員會)

The Risk Control Committee under our senior management is primarily responsible for (i) providing guidance on the Bank's development strategy and business plans in light of the major risks we face; (ii) establishing and maintaining a risk management system compatible with our business nature, scale and complexity, and delineating the various departments' management responsibilities and internal reporting mechanism; (iii) organizing the various departments' evaluation on the Bank's major risk conditions, and assisting the senior management in submitting its periodic risk management reports (at least semi-annually) to the Board of Directors' special committees; and (iv) upon the identification of major risk incidents, promptly formulating the requisite working plans and solutions, as well as monitoring and supervising the implementation of the remedial measures.

The Risk Control Committee currently consists of 20 members and is chaired by Mr. QU Hongzhi (屈宏志).

Assets and Liabilities Management Committee (資產負債管理委員會)

The Assets and Liabilities Management Committee under our senior management is primarily responsible for (i) determining the Bank's assets and liabilities management targets and development strategy, stabilizing our interest margin; (ii) reviewing our capital management policies in accordance with the risk appetite and relevant guidelines set out by the Board of Directors; (iii) formulating our interest rate management policy and reviewing our pricing mechanism and model for various types of businesses; (iv) reviewing the pricing management policies for our transfer of internal funds; (v) reviewing the Bank's risk management measures and procedures for liquidity risk and market risk, including rules relating to limit management and the implementation of stress tests and emergency plans; and (vi) setting the development strategy and policy for our intermediary businesses.

The Assets and Liabilities Management Committee currently consists of 13 members and is chaired by Mr. QU Hongzhi (屈宏志).

Financial Review and Approval Committee (財務審批委員會)

The Financial Review and Approval Committee under our senior management is primarily responsible for (i) reviewing, analyzing, inspecting and approving key financial proposals, with an aim to enhance the reasonableness of the decision-making process for major financial expenditures, (ii) reviewing and approving our budgets for major financial expenditures (including but not limited to outlet renovation and rental costs, purchase of fixed asset and intangible asset, technology-related investments, and large-sum operational spending), and (iii) reviewing and approving substantial disposals of fixed assets.

The Financial Review and Approval Committee currently consists of eight members and is chaired by Mr. WU Siqi (吳思麒).

Information Technology Committee (信息科技委員會)

The Information Technology Committee under our senior management is primarily responsible for (i) performing a preliminary review on the Bank's overall information technology development strategy in support of the Board of Directors and senior management's decision making process; (ii) overseeing the implementation of information technology development plan, as well as the Bank's budget setting and actual expenses in this aspect; (iii) monitoring the key risks arising from information technology and ensuring that such risks are effectively identified, monitored and controlled; (iv) making periodic reports (at least semi-annually) on information technology risk management to the senior management; and (v) inspecting the implementation of key internal measures in relation to information infrastructure protection and information security system enhancement.

The Information Technology Committee currently consists of 12 members and is chaired by Mr. ZHAO Zhihong (趙志宏).

Data Management Committee (數據治理委員會)

The Data Management Committee under our senior management is primarily responsible for (i) performing preliminary review on, and making subsequent adjustments to, the Bank's data management strategic plans, to support our Board of Directors and senior management's decision-making process when evaluating these plans; (ii) reviewing and approving internal procedures and policies relating to bank-wide data management, data quality control, and the realization of data value; (iii) evaluating our data management mechanism and the related accountability and incentive schemes, assessing the effectiveness of our data management performance, and leading accountability investigations for data management; (iv) hearing progress reports for our key data management projects; and (v) submitting periodic (at least semi-annual) reports on data management to the senior management and making timely reports to the senior management upon the occurrence of significant data security incidents or emergencies.

The Data Management Committee currently consists of 17 members and is chaired by Mr. ZHAO Zhihong (趙志宏).

Departments Relating to Risk Management

Departments Relating to Risk Management at Our Head Office

Our head office oversees our major risk management activities and supervises risk management at our branches and sub-branches. We have established the following departments at our head office, each being responsible for managing risks in its respective area. The primary duties and responsibilities of these departments are set forth below.

Risk Management Department (風險管理部)

The Risk Management Department at our head office takes charge of the overall coordination of risk management throughout our operations. Our Risk Management Department is mainly responsible for (i) leading the formation of bank-wide risk management procedures and principles, and aligning risk appetites across the Bank; (ii) establishing and enhancing the risk management policies and the corresponding authorization system within our corporate banking, retail banking and financial market business segments; (iii) transmitting, monitoring and managing regulatory data relating to our large risk exposure; (iv) taking the lead in coordinating bank-wide implementation of periodic stress tests; (v) building a comprehensive risk management analysis and reporting system; (vi) the development and management of risk assessment models and system; (vii) the development, maintenance and management of credit risk management systems; and (viii) organizing performance assessment within the Bank's risk management system.

Credit Review and Approval Department (信貸審批部) and the Regional Credit Approval Centers (區域信貸審批中心)

The Credit Review and Approval Department at our head office and our three regional credit approval centers located in Beijing, Shanghai and Guangzhou are jointly responsible for bank-wide credit risk approval and management work. The Credit Review and Approval Department is primarily responsible for (i) implementing each stage of our credit review procedures, as well as evaluating and approving, within its authority, our credit extension businesses across the Bank; (ii) effectively conveying the head office's risk preferences and credit management directives; (iii) guiding and coordinating the branches' customer credit rating and debt credit rating performance, and affirming the rating results in accordance with its authority; (iv) collecting credit approval-related data and preparing periodic summaries and analysis in relation to bank-wide credit approval working status; (v) overseeing and inspecting bank-wide credit approval performance; and (vi) verifying the qualifications and assessing the performance of, and offering professional training to, credit review and approval personnel at the branch level. The three regional credit approval centers are primarily responsible for carrying out credit approval work within their respective authorities.

Credit Monitoring Department (信貸監控部)

The Credit Monitoring Department at our head office is primarily responsible for (i) credit disbursement review and post-loan management for our corporate banking credit extension business; (ii) credit risk monitoring, risk alerts, as well as duties relating to the monitoring of asset quality, risk categorization, and the calculation and accrual of provisions; (iii) coordinating bank-wide asset preservation measures, including the monitoring, analysis, collection, disposal, write-off and transfer of non-performing assets; (iv) post-transaction management within the financial market business; and (v) collecting and managing credit risk management data and statements to be submitted to the regulatory authorities.

Retail Risk Management Department (零售風險管理部)

The Retail Risk Management Department at our head office is primarily responsible for overseeing the formation and implementation of credit risk approval and management work, credit review and disbursement, and post-disbursement monitoring policies within the credit extension segment of our retail banking business.

Internal Control and Compliance Department (內控合規部)

The Internal Control and Compliance Department at our head office is primarily responsible for (i) the establishment and maintenance of bank-wide internal control system and framework; (ii) organizing and promoting bank-wide compliance and operational risk management, providing training, guidance and consultancy services in relation to operational risk and compliance risk management; (iii) guiding, managing, supervising and inspecting the performance of internal control and compliance work at the branches, as well as laying out routine audit and inspection arrangements at the branches; (iv) reviewing and commenting on the formulation of various policies, procedures and product-related documents from an operational risk and compliance perspective; (v) organizing the establishment of the Bank's anti-money laundering system and promoting bank-wide anti-money laundering work; (vi) leading the investigation and confirmation of misconducts in relation to the origination of non-performing credit businesses; and (vii) leading the coordination of the Bank's information technology risk management.

Legal Affairs Department (法律事務部)

The Legal Affairs Department at our head office is primarily responsible for (i) managing bank-wide legal affairs, including the legal review of various contracts, internal policies and procedures and raising relevant legal opinions and risk alerts; (ii) tackling or coordinating the handling of legal disputes, litigation, arbitration and other legal proceedings involving the Bank; (iii) formulating internal legal guidelines in light of newly promulgated laws and regulations, and providing internal legal consultancy to support the Bank's operation and management; (iv) managing the Bank's intellectual property rights; (v) taking charge of the engagement and management of external legal advisors; (vi) organizing internal legal training and education designed for employees; and (vii) drafting and implementing the authorization scheme at the head office level.

Assets and Liabilities Management Department (資產負債管理部)

Our Assets and Liabilities Management Department at our head office is primarily responsible for (i) establishing bank-wide assets and liabilities management system and mechanism, managing the size and structure of the Bank's assets and liabilities, and overseeing the management of the Bank's credit scale; (ii) managing the setting of interest rates for our banking products, formulating policies relating to the management of the Bank's market risks (including interest rate risk in the banking book) and coordinating the implementation of these policies; and establishing the requisite market risk identification, assessment, monitoring, reporting, and control procedures; (iii) formulating internal policies and procedures relating to liquidity risk management and enabling integrated bank-wide fund management; (iv) formulating the Bank's capital management policies and procedures, establishing its capital budgeting, replenishment and utilization mechanism, and optimizing the measurement and usage of economic capital; (v) establishing and enhancing the pricing mechanism for transfer of internal funds; (vi) managing our intermediary business to enhance the continual optimization of the Bank's income structure; and (vii) improving our regulatory ratings in accordance with the PBoC's deposit insurance evaluation system to obtain the most desirable differential rate.

Information Technology Department (信息科技部)

The Information Technology Department at our head office is primarily responsible for (i) setting the Bank's overall information technology development plan; (ii) formulating various policies and measures in relation to technology management; (iii) determining the Bank's information technology management structure and standards; (iv) overseeing bank-wide construction and security maintenance of the information technology system; and (v) supporting the Bank's business innovation and supervising the information technology departments' performance of duties at each branch. Information technology departments at the head office and the branches are also responsible for implementing comprehensive risk prevention and control measures and effectively mitigating information technology risks, in line with our information technology risk management principles, risk management strategies, and the results from risk assessment.

Public Relations Department at the General Office (辦公室公共關係部)

The Public Relations Department at the General Office of the Headquarters is primarily responsible for (i) establishing and maintaining our reputational risk management mechanism; (ii) monitoring and making timely alerts on incidents that may affect our reputation; and (iii) coordinating our business departments, and supervising our branches and sub-branches', implementation of internal policies and procedures relating to reputational risk management.

Office of Strategic Development and Investment Management (戰略發展與投資管理辦公室)

The Office of Strategic Development and Investment Management is primarily responsible for the planning, implementation and follow-up assessment of the Bank's development strategy, actively monitoring and analyzing issues relating to the macroeconomic conditions, financial institutions, the banking industry and other subjects critical to the Bank, and overseeing the Bank's external equity investment outlet network optimization from a strategic risk management perspective.

Audit Department (審計部) and the Regional Audit Centers (區域審計中心)

Our Audit Department at our head office and the regional audit centers are primarily responsible for: (i) acting as the third line of defense within the risk management system, conducting independent and impartial inspections and evaluations on audit objects including the Bank's management, operational and financial activities and economic responsibilities, and providing related advisory services; (ii) supporting the Bank's implementation of national economic and financial laws, regulations and supervisory policies; (iii) enhancing the Bank'sconstruction and continual improvement of its risk management, internal control, compliance, and corporate governance structure; and (iv) supervising the relevant audit objects' effective discharge of duties in a joint effort to achieve the Bank's strategic goal.

Risk Management Framework at Our Branches and Sub-branches

Risk Management-related Departments at Our Branches and Sub-branches

The president of each branch oversees branch risk management with support from the risk management department at the branch, and is responsible for the implementation of policies and procedures issued by the head office. Meanwhile, our head office appoints and dispatches full-time risk directors (風險總監) to each of our tier-one branches, and to selected tier-two branches whose total assets exceed a certain level.

Dual Reporting Line System

We adopt a dual reporting line system at our branch level, where risk directors dispatched by the head office to each tier-one branch report directly to the chief risk officer at our head office and make simultaneous report to the presidents of the respective branches. Meanwhile, risk management personnel dispatched to tier-two branches report to the risk director at the higher tier-one branch, and simultaneously to the senior management at its own branch.

Upon the occurrences of major risk incidents, such as significant investment losses or revelation of large non-performing loans, the relevant departments at our branches and sub-branches report directly to the senior management at the respective branch and then to the General Office at the Headquarters (總行辦公室), in accordance with expedited bottom-up reporting procedures set out in the *Bohai Significant Emergency Reporting Mechanism* (《渤海重大突發事件報告制度》).

Risk Monitoring and Alert

We closely monitor the various types of risks so as to make timely responses accordingly, particularly for key risks associated with our daily operations including credit risk, market risk, liquidity risk and operational risk.

- **Credit Risk**. Our Credit Monitoring Department takes the lead in monitoring the Bank's credit risk throughout the entire post-disbursement process. In the meantime, we allocate significant resources in the training of our account managers, in order to sharpen their risk identification skills in post-disbursement management and we closely inspect their quarterly review on the customers' use of proceeds, operational status, financial condition, and repayment record. We place customers identified with significant credit risks on our warning list, implement heightened risk monitoring procedures accordingly, and take attentive measures to reduce or withdraw our credit support to them.

- **Market Risk**. Our Assets and Liabilities Management Department closely monitors fluctuations of interest rate, exchange rate and market price of securities and regularly conduct gap analysis, duration analysis, foreign exchange exposure analysis and scenario analysis in measuring and evaluating market risk in line with our prudent risk preferences.

- **Liquidity Risk**. Our Assets and Liabilities Management Department monitors the market's movements and our fund inflows and outflows on a daily basis, and arranges for the reasonable adjustment of fund position to ensure our ability to fulfill routine payment obligations. We also conduct periodic assessment and analysis on our liquidity risk limits and regulatory indicators including the liquidity ratio, the liquidity coverage ratio, and the net stable funding ratio, and carry out liquidity risk stress tests and emergency drills. In addition, we make timely reports on the results from liquidity risk monitoring and take proactive measures to control liquidity risks.

- **Operational Risk**. Our Internal Control and Compliance Department organizes and promotes the business departments, functional departments and branches and sub-branches' performance of first-line-of-defense duties, urging them to conduct self-inspections according to the requirements in order to timely identify and address potential risk exposure, prevent the occurrence of non-compliance incidents, and keep significant operational risks under control. The Internal Control and Compliance Department also collects, consolidates and analyzes various types of operational risk data across the Bank,oversees the overall status of our operational risk management work, and makes corresponding reports and disclosures according to the rules and procedures. Our Legal Affairs Department and other managing departments lead and coordinate the management of legal risks and other specific operational risks. Meanwhile, we require that the departments and branches make routine reports in relation to their operational and compliance status, and emergency reports upon occurrence of major risk incidents.

- **Information Technology Risk**. We require that all business departments work closely with our Information Technology Department to timely and accurately identify and evaluate any conduct, incident and situation that may lead to information technology risks and take proper mitigation measures accordingly. We have established a comprehensive information technology risk management strategy covering each key aspects of our operations, including information security, system development testing and maintenance, operation and maintenance of the information technology system, business continuity management, emergency response and handling, and outsourcing of information technology services.

- **Strategic Risk**. Our Office of Strategic Development and Investment Management works together with the Risk Management Department to monitor risks in relation to our overall development strategy.

- **Reputational Risk**. We have established a 24/7, all-encompassing reputational risk monitoring system which covers both the traditional press channels and the internet, including online forums and social media. We actively collect, organize, and analyze information in relation to our reputation through these channels, and supervise, guide and assist the various business departments, branches and sub-branches' reputational risk management.

CREDIT RISK MANAGEMENT

Credit risk refers to the risk of loss that may arise from the default by, or downgrade of credit rating of, an obligor or counterparty, or from its reduced capacity of fulfilling its contractual obligations. We are exposed to credit risks primarily associated with our corporate loan business, personal loan business and other credit extension businesses where the Bank bears credit risks. We have established, and strive to continuously improve, a bank-wide credit risk management system to identify, measure, evaluate, monitor, report, and control or mitigate risks that arise from our credit extension business.

Credit Policy Guidelines

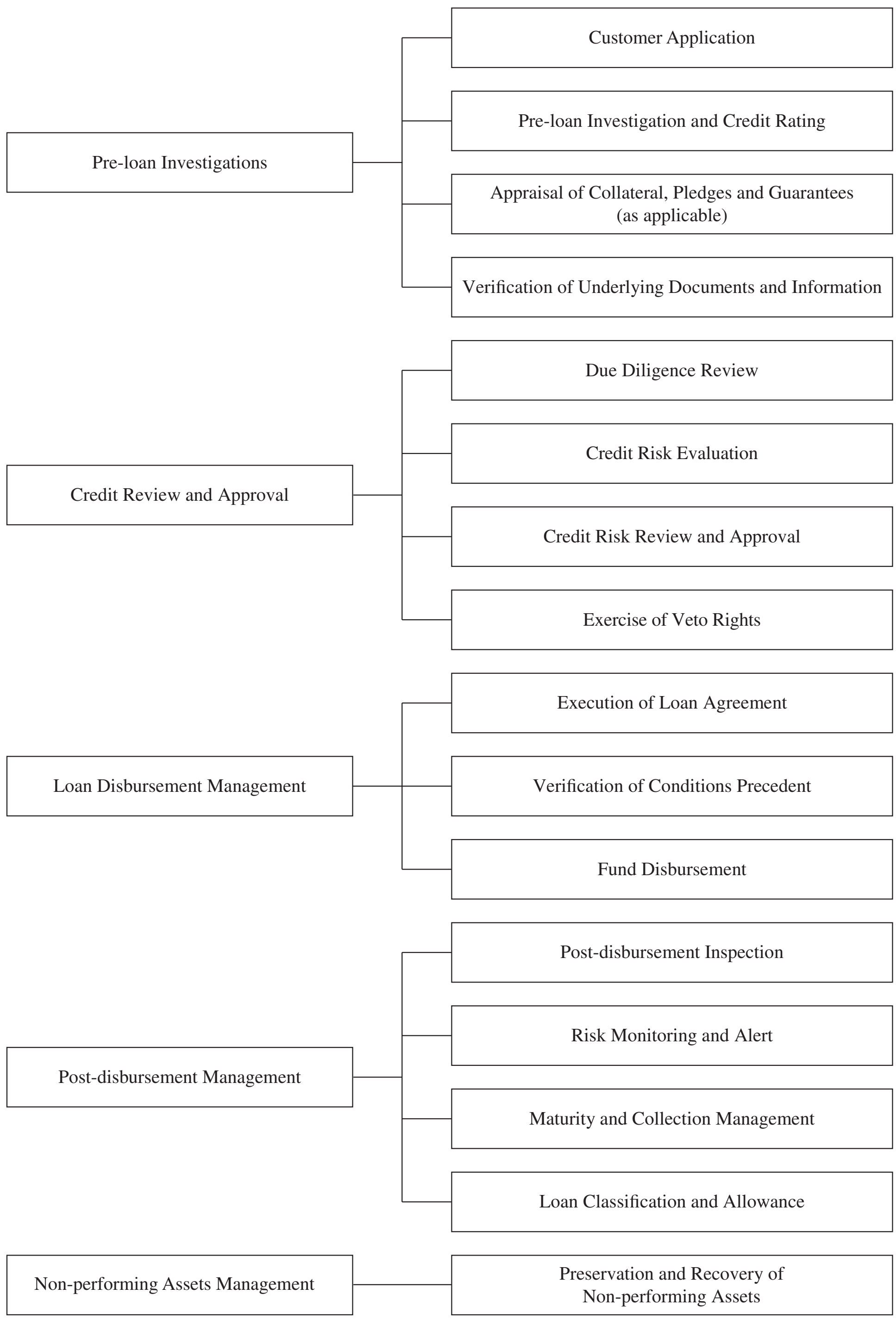
We are dedicated to striking a balance between achieving steady loan growths and maintaining a prudent risk management culture. To this end, we promulgate detailed credit policy guidelines based on our assessment of the regional, national and international economic environment, as well as the pertinent government policies and regulatory requirements, to provide guidance to our branches and various departments. These guidelines have specified our risk appetite in relation to the different industries, customers, and product types within our portfolio. We also adjust our guidelines in a timely manner in response to changes in government policies and the economic environment.

We prioritize extending our credit to robust, large-scale state-owned enterprises, as well as private enterprises with strong growth prospects or business strategies closely associated with the general public's livelihood and consumption needs, such as providers of medical services, community services, education and car manufacturers. Meanwhile, we pay particular attention to enterprises benefiting from business opportunities raised by national and regional development policies, such as the "Belt and Road Initiative (一帶一路倡議)" and the Coordinated Development Strategy for the Beijing-Tianjin-Hebei Region (京津冀協同發展戰略). We also reinforce credit support to micro and small enterprises, as well as agriculture, rural areas and farmers, in response to national macroeconomic policies.

In the meantime, we have adopted a four-category strategy for credit allocation, namely "encouraged support (鼓勵進入)", "balanced proportion (保持佔比)", "strict control (嚴格控制)" and "compress and exit (壓縮退出)". Specifically, we (i) prioritize the allocation of credit resources into industries in the "encouraged support" category (such as pharmaceutical manufacturing, special equipment manufacturing, education, computerization, communication, and manufacturing of other electronic equipment); (ii) extend appropriate credit support to the "balanced proportion" industries (such as retail, agriculture, forestry, and water transportation); (iii) constrain credits granted to the "strict control" industries (such as the non-metallic mineral product manufacturing, metal smelting and calendering); and (iv) reduce the scale of credits granted to, or withdraw credits from, the "compress and exit" industries (such as coal mining and washing, chemical fiber manufacturing, rubber and plastic product manufacturing). We will continue to improve our risk identification capabilities according to our credit policy guidelines, and strive to seize market opportunities and prevent credit risks. For more details, please see subsection headed "– Credit Risk Management – Credit Risk Management for Corporate Loans and Advances – Portfolio Management".

Credit Risk Management for Corporate Loans and Advances

Our credit risk management procedures for corporate loans and advances include pre-loan investigations, credit review and approval, loan disbursement management, post-disbursement management and non-performing assets management. The following flowchart illustrates the process of the credit risk management for our corporate loan business.



Pre-Loan Investigations

Customer Application

We conduct an initial assessment upon receiving a loan application from a potential or existing customer. In general, we will reject an application if the borrower (i) shows a pattern of debt avoidance, deliberate delay in interest payment, or hiding of assets; (ii) is currently subject to a bankruptcy or reorganization proceeding, or against whom a court judgment is being enforced; (iii) owes overdue loan payments to other banks or has outstanding debt categorized as non-performing; or (iv) has been granted a rating of CCC or below by our internal credit rating system.

Pre-loan Investigation and Credit Rating

After a corporate customer submits a loan application, we begin our pre-loan investigation process. We ask that applicants provide necessary supporting documents, such as its organizational documents, business certificates, recent audited financial statements, and credit inquiry reports. We also require the applicant to provide its ownership certificates and valuation reports for the collateral and pledges on collateralized and pledged loans, and the information and relevant supporting documents about its guarantors, if the loan is guaranteed. Our account managers will review the supporting documents pursuant to our established procedures to ensure they are complete, authentic and inherently consistent.

In addition to examining key credentials, we also require on-site due diligence as part of our pre-loan investigation. To prevent operational risk, we adopt a "two-person investigation" mechanism which requires two account managers to conduct on-site investigations not only on the borrower, but also on its highly related parties. Each of the two account managers shall inspect the borrower's operational and financial status, organizational structure, reputation, credit history, and fitness of its leadership. Our account managers also conduct an analysis of the borrower's proposed use of proceeds and source for repayment, and evaluate the industry and regulatory environment where the borrower belongs.

Upon the completion of a comprehensive investigative process, we typically assign a credit rating to each potential borrower to better assess its probability of default. Our internal credit rating system is built upon a variety of financial and non-financial criteria and currently consists of sixteen levels, from AAA (excellent), BBB+ (medium), CCC (dire) to D (default). We revisit a customer's credit ratings at least annually and, where applicable, upon the occurrence of material changes in the customer's operations.

Appraisal of Collateral, Pledges and Guarantees

Our internal policies have specified types of acceptable and non-acceptable collateral and pledges, as well as the appraisal procedure and the standard for determining loan-to-value ratios, an indicator that compares the size of a loan to the value of the assets securing the loan. We require the customers to provide detailed information and supporting documents about the collateral and pledges that, depending on the type of the assets, include (i) the certificates of ownership, and other relevant documents showing control of the relevant assets; (ii) the business certificate, articles of association and the necessary shareholders' resolutions or board resolutions for corporate mortgagers or pledgers; and (iii) the identification documents for individual mortgagers or pledgers.

We conduct collateral appraisal prior to approving an application for secured loans. Where necessary, we engage qualified third-party appraisers to issue reports on the value of collateral. We review the valuation reports issued by third-party appraisers to ensure that they reflect the actual value of the collateral. Following fund disbursement, we determine the frequency of re-valuation considering the conditions of relevant collateral and the market conditions. For collateral and pledges that have a relatively stable value such as real properties and land use rights, we generally conduct revaluation annually or semi-annually; for more volatile collateral and pledges, we carry out revaluation semi-annually or, for inventories, every three months. We may also conduct *ad hoc* revaluation if there are material adverse changes in the market.

We determine the loan-to-value ratios of the loans by considering various factors such as the collateral and pledges' types, stability, and liquidity. The maximum loan-to-value ratios for the principal types of collateral and pledges securing our corporate loans and advances are as follows:

Type of collateral and pledges	Maximum Loan-to-Value Ratio
Collateral	
Residential properties	70%
Land use rights	60%
Buildings for industrial and office use	50%
Shopping malls and commercial properties	60%
Pledges	
Cash and cash equivalent	100%
Certificates of deposit	90%
Bank acceptance bills	100%
Commercial acceptance bills	80%
Investment funds	90%
Bonds	100%
Shares	60%
Precious metals	80%
Receivables	70%

For guaranteed loans, we conduct a comprehensive analysis on the guarantors' background to determine their qualification, capacity, reliability, willingness, and relationship with the borrower. We generally hold the borrower and guarantor jointly liable for our loans. For individual guarantors, we examine their identification documents, supporting documents for repayment abilities such as proof of employment and pay stubs, and other relevant documents. For entity guarantors, we generally require them to provide (i) business certificates, articles of association and other fundamental organizational documents; (ii) audited financial statements from the last three years; and (iii) other necessary documents, such as credit inquiry reports and litigation search results. Guarantees furnished by an overseas entity or individual must be accompanied by a legal opinion issued by a qualified law firm. We also require that the guarantors provide information about any outstanding interest-bearing debts of which they themselves are the borrowers, and guarantees they have given to others.

Verification of Underlying Documents and Information

We pay close attention to verifying the authenticity and validity of the loan application and materials collected during the pre-loan investigation process. Specifically, we check the consistency of copies and originals, conduct on-site verification for the business address and operating conditions of the borrowers, and collect credit information of the loan applicant and relevant guarantors (where applicable) from our internal database and from public or third-party sources, including the media, the National Enterprise Credit Information Publicity System (國家企業信用信息公示系統) and the List of Untrustworthy Individuals (失信被執行人名單). Among other channels, we also contact our clients' third-party suppliers, customers and employees to obtain additional information about the client's authentic trade background.

Based on the analysis of the customer profile, our account managers prepare a credit investigation report after the verification process is completed. We require at least two account managers to sign the report and hold them jointly responsible for the authenticity, completeness and validity of the information in the report. The investigation report must also be reviewed and approved by the person in charge at the respective branch or department.

Credit Review and Approval

Our branches process certain loan applications within their authority. To optimize the balance between business development and risk management, we adjust credit review and approval authority from time to time by considering various factors, including the regional economy in which a branch is situated, as well as each branch's operational status and risk management capacity.

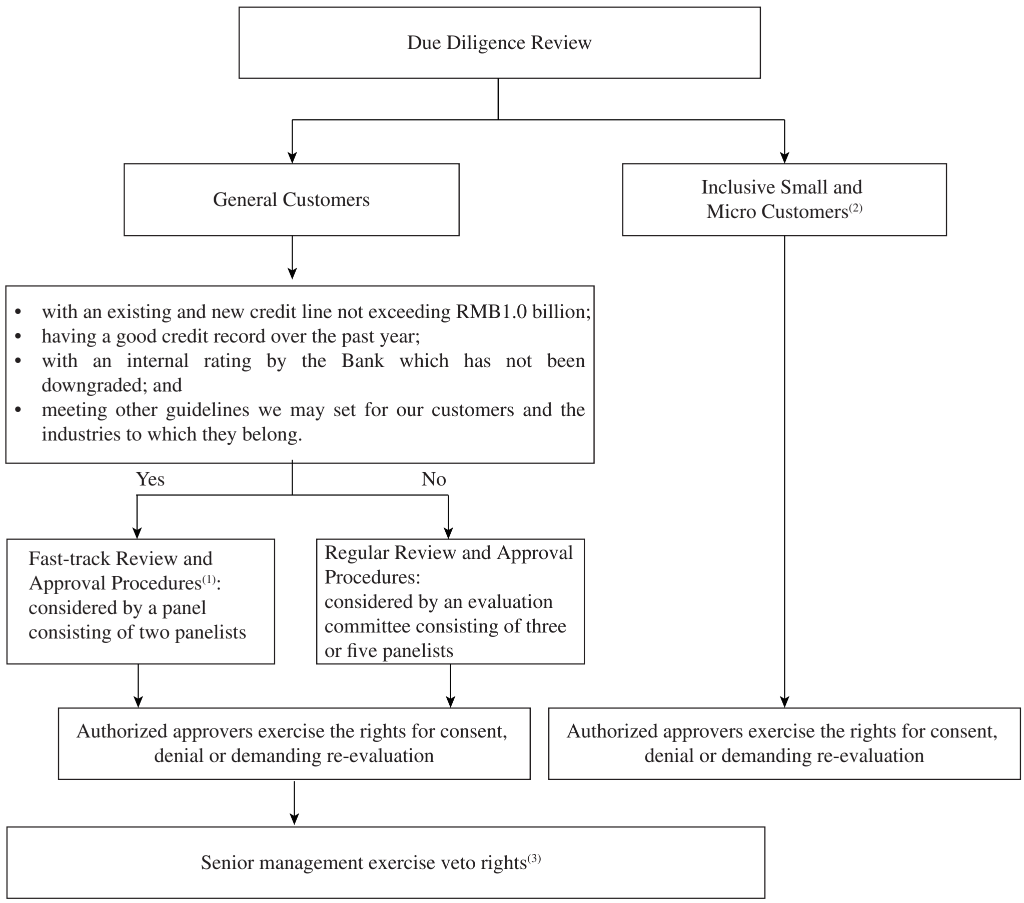
Credit Review and Approval at the Branch Level

Before the applications are submitted to the authorized approvers, our credit review staff examine the documents and other materials obtained during pre-loan investigation and may request that the applicants provide additional documents for further consideration. Our sub-branches do not have credit approval authority and, therefore, all applications received at the sub-branches must be submitted to the corresponding branches or our head office for further review and approval.

Upon completion of review, our credit review staff at the branches prepare a report to advise key risks, rationality of the intended use of proceeds, and propose risk mitigation measures in relation to the loan application, and submit the report to the credit evaluation personnel of the risk management departments at the respective branches. The risk management departments at the branches are then responsible for conducting an objective, prudent and independent evaluation on whether the application should be granted and furnishing an evaluation opinion for the authorized approvers' further consideration, pursuant to our credit evaluation procedures. For loan applications falling within the approval authority of our branches, the ultimate approvers are the risk directors dispatched by the head office or authorized approvers delegated by the risk directors in compliance with the relevant internal policies. Meanwhile, presidents at the branches are entitled to exercise veto rights against the approval decisions for these loans or demand a re-evaluation.

Credit Review and Approval at the Head Office Level

Corporate loan businesses exceeding the authority of the branches will be submitted to the regional credit approval centers or the Credit Review and Approval Department at the head office for review and approval; details of the authorization will be determined after we thoroughly consider factors including the applicant's industry, credit rating, security method, and loan amounts being applied for.



Notes: (1) Upon approval by the authorized approvers, the fast-track review and approval procedures can be adjusted to regular review and approval procedures.

(2) Refer to small and micro enterprises whose credit amount in the Bank not exceeding RMB10.0 million.

(3) Senior management entitled to exercise veto rights are only authorized to impose more stringent approval standards or reject an application already approved by the authorized approvers, but cannot approve an application already denied by the authorized approvers.

To enhance the professionality and impartiality of our credit risk identification and assessment process, we engage independent approvers, who are experts participating in the credit review and approval process. Our independent approvers are primarily responsible for: (i) performing their duties through taking part in the credit review and approval process and acting as the chair of our evaluation committee or as authorized approvers; (ii) requesting additional background from the business departments, the due diligence review staff and the credit evaluation committee or panel and examining the relevant internal records; and (iii) when necessary, and in enforcing our credit review and approval procedures, demanding a re-investigation, re-evaluation or rejection of the application.

We select independent approvers from qualified candidates with the requisite experience and expertise. As of December 31, 2019, we had seven independent approvers engaged by the head office, including three at the Credit Review and Approval Department and four at the regional credit approval centers.

Loan Disbursement Management

Execution of Loan Agreement

After the approval of a corporate loan application, we enter into a loan agreement and, if applicable, an agreement of collateral, pledges or guarantees with the borrower and the guarantor using our standard terms. We require at least two employees to be present at the execution of the loan or guarantee agreement. Any deviation from the standard terms must be reviewed and by the legal affairs departments at the branches or the head office in accordance with the Bohai Bank Legal Documents Review Measures (《渤海銀行法律性文件審查辦法》) and based on the review completed by the business departments.

Verification of Conditions Precedent

Our Credit Monitoring Department at the head office oversees the bank-wide disbursement management of corporate loans and advances, while business departments at the head office, branches and sub-branches are responsible for strictly implementing the applicable internal procedures. We have established a standardized procedure for corporate loan disbursement, including the verification of conditions precedent to ensure no material adverse changes have taken place since credit approval.

Our account managers handle post-approval matters such as the re-examination and registration of collateral and pledges, as well as ascertaining the consent of the guarantors and the sources of security deposits, to confirm that all conditions precedent specified in the credit approval documents are satisfied. These reviewers must promptly inform the respective credit approval departments of any abnormalities before fund disbursement may ensue.

Fund Disbursement

Upon the approval by the credit monitoring departments, the operational departments will commence loan disbursement in accordance with our internal procedures.

Post-disbursement Management

Our post-disbursement management consists of post-disbursement inspection, risk monitoring and alert, maturity and collection management, and loan classification and allowance.

Post-disbursement Inspection

We conduct routine inspections at the post-disbursement stage that comprise periodic on-site visits, routine off-site monitoring, and issuance of post-disbursement risk analysis reports. The frequency of our routine inspections varies mainly depending on the borrowers' financial condition and repayment status. Our account managers are required to conduct inspections on customers at a frequency determined based on their respective credit ratings, and on customers with loans classified as "substandard" or below at least on a monthly basis. We conduct on-site inspections on the collateral and guarantors at least every quarter.

During the regular on-site inspections, we look into factors closely related to the corporate borrowers' operations, including but not limited to (i) the business relationship with, and operational status of, their major customers and suppliers, existence of actual or potential disputes, and significant shifts in management or corporate structure; (ii) their financial conditions, especially fluctuations in sales, profits, cash flows, inventory, receivables, payables and borrowings; and (iii) non-financial factors such as macroeconomic trends and industrial development.

Our account managers also closely monitor the use of loan proceeds and significant cash flows used in the borrowers' accounts. They are required to keep a detailed inspection log on the borrower's use of proceeds (《信貸資金流向監控表》) and look out for signs of misappropriation indicative of, for example, transfer of proceeds across related parties, and short-term working capital loan proceeds funneled into long-term fixed-asset investment or vice versa. Upon noting fraudulent transactions or misappropriation of funds, we take intervening measures including suspension of scheduled fund disbursements and demand that the customers carry out immediate remedial actions within a specified period of time.

We also carry out off-site monitoring by (i) collecting monthly financial statements from the borrowers and quarterly financial statements from the guarantors, and (ii) obtaining and analyzing, on a monthly basis, information from the PBoC's Credit Inquiry System, National Enterprise Credit Information Publicity System (國家企業信用信息公示系統) and other third-party sources including the internet and the media. We regularly check borrowers' and guarantors' credit reporting records, including their loans and guarantees in other banks, in the PBoC's Credit Reference Center (中國人民銀行徵信中心). These resources provide useful information that sheds light on the credit history and criminal records of our potential customers. If we identify any issues, we will take appropriate measures according to the nature and severity of the problem, such as heightened monitoring, reduction or immediate withdrawal of credits, suspension of disbursement, and request for additional collateral or change of guarantors.

Risk Monitoring and Alert

Our credit monitoring departments at the head office and the branches are each responsible for post-disbursement inspections within the scope of their authorization. They maintain a list of key customers subject to enhanced monitoring and makes quarterly adjustments to the same, considering the customer's repayment status and asset quality, complexity of its business and corporate structure, and our credit line and risk exposure to the customer. The credit monitoring departments also appoint specialized personnel to conduct on-site and off-site inspections on the key customers, carry out annual inspections on the Bank's post-disbursement risk management performance and compose a quarterly report on the Bank's asset quality monitoring status.

Upon identifying factors that may negatively affect the operations of a borrower, we may initiate a credit reduction, suspension or withdrawal process. We may also, depending on the loan amount and extent of impact, take subsequent measures including adjusting borrower's credit rating, demanding immediate repayment, pursuing recovery from the guarantor, transferring creditor's rights and initiating litigation.

Maturity and Collection Management

In general, we require our account managers to notify the borrowers of upcoming repayment by written notice within one month before the due dates. Five business days before interest settlement, the account managers are required to notify the borrowers to make sufficient deposits into their bank accounts if the funds there are not enough to pay the relevant interest.

For overdue loans, we generally require our account managers to send written reminders to the customers in default and their guarantors, if any, within three business days after their failure to make the relevant payment. If we do not receive any responses to the written reminders, we may collect the payment in person, serve notarized notices or file lawsuits, as appropriate, to toll the statute of limitations.

Loan Classification and Allowance

Loan classification constitutes an important part of our post-disbursement monitoring measures. For risk management purposes, we divide our credit assets into ten levels in addition to the CBIRC's five-category standard, namely "normal" (level 1 to 3), "special mention" (level 1 to 3), "substandard" (level 1 & 2), "doubtful", and "loss", and designate loans classified as "substandard (level 1 & 2)", "doubtful" and "loss" as non-performing loans. Through refining our risk classification system, we have further enhanced the precision of our risk identification mechanism for our borrowers,whereby we implement differentiated risk management measures and make allowance for impairment losses accordingly. The factors we consider in classifying our loans include, without limitation, the repayment ability, credit history, and willingness of the borrowers, the profitability of the underlying projects, the collateral of the loans, the lengthy of default, and the type of borrowers.

Account managers at the branches conduct a preliminary classification for the corporate loans and advances based on the above factors, and submit the results to the credit monitoring departments (信貸監控部) at each branch, and then to our head office for final confirmation. Our head office has the authority to review and adjust the classification.

We closely monitor the quality of loans and may reclassify our corporate loans and advances based on the results of routine (quarterly) and *ad hoc* assessments. If a factor possibly resulting in downgrade of classification is triggered, our account managers are required to make timely submission of reclassification to the Credit Monitoring Department at our head office for final approval. If no initial agreement can be reached on certain loan reclassifications, the relevant branch may provide further explanations and supporting documents to substantiate its position. Pursuant to internal discussion between the head office and the branches, the determination of the head office prevails.

For details on how we make allowances for impairment losses on our loans, please see "Assets and Liabilities – Assets – Allowance for Impairment Losses on Loans to Customers".

Non-performing Assets Management

We attach great importance to the management of non-performing assets. The credit monitoring departments at our head office and branches are primarily responsible for overseeing and managing bank-wide handling of non-performing assets.

We recover non-performing assets through various means, including but not limited to cash collection, debt restructuring, legal proceedings and arbitration. We may also write off or reduce non-performing assets according to the requirements of MOF and make tax adjustments according to the applicable MOF rules. When managing loans subject to write-offs, we reserve our rights to collect from the debtors and proactively pursue our collection.

Cash Collection and Debt Restructuring. Our most common ways of collection involve direct requests and, if necessary, involuntary deductions from the borrowers' accounts. If such attempts are unsuccessful, and to the extent permitted by the applicable laws and regulations, we proactively negotiate with debtors with repayment capabilities to modify the terms of the loan agreement, such as extending the maturity date or offering a more flexible repayment schedule, so as to reduce the possibility of immediate default and mitigate short-term credit risks. For debtors going through major restructuring, we may also participate in the debt restructuring plans, where we agree to be paid through, among other options, trading our rights as creditors of the restructuring company for rights as a shareholder, and may afterwards collect income through these rights or exit through selling them in the market.

Legal Proceedings and Arbitrations. For debts that cannot be paid off in the foregoing manners, we may turn to legal proceedings or arbitrations, or apply for compulsory execution, to collect debts. For cases involving complicated factors, we engage lawyers with extensive experience to enforce debt collection, including the disposal of collateral and pledges, or apply for attachment or compulsory execution orders.

Portfolio Management

We have established credit risk management policies governing our loans to certain types of borrowers who are generally considered to carry higher risks under the prevailing market conditions and regulatory environment, including LGFVs, real estate industry, and industries associated with heavy pollution, high energy consumption or overcapacity (兩高一剩).

Credit Risk Management for Loans to LGFVs

As of December 31, 2017, 2018 and 2019, loans we granted to LGFVs amounted to RMB4,382.3 million, RMB7,359.6 million and RMB7,545.5 million, respectively, accounting for 1.3%, 1.9% and 1.6% of our corporate loans, respectively. As of the same dates, none of these loans were classified as non-performing.

We rigorously uphold the principle of containing the local governments' hidden debt burden. Following the directives of "prudent compliance, due diligence review and stringent supervision", we assess a borrower's financial soundness and sources of repayment in light of the market environment. As part of our cautious credit extension process, we also take into account our risk mitigation options given the projects' cash flow status and the condition of their collateral and pledges. More specifically:

- We prioritize our support to government institutional customers located in regions where the local governments are in a strong financial position;

- We prioritize our support for important construction projects which generate stable cash flows, such as large-scale infrastructure and public service projects with a relatively high marketization level and a transparent pricing mechanism (such as water supply, underground transportation, and affordable housing);

- We prefer financing plans with land and buildings as collateral; and
- We enhance our risk monitoring on the platform enterprises' operational status, collateral value, progress of construction and sales, and make timely risk alerts upon the discovery of risk factors affecting their ability to repay.

We closely monitor regulatory policies in relation to LGFVs and proactively adjust our internal risk management policies accordingly. We monitor status of the underlying projects and the cash flows generated by such projects and analyze statistics relating to our credit extension to LGFVs.

Credit Risk Management for Loans to Real Estate Industries

As of December 31, 2017, 2018 and 2019, corporate loans and advances we granted to real estate industries amounted to RMB77,793.2 million, RMB90,288.7 million and RMB109,253.9 million, respectively, accounting for 22.7%, 23.5% and 23.5% of our corporate loans and advances, respectively.

We extend real estate development loans in accordance with national guidelines and policies for real estate development, relevant laws and regulations, and our internal policies while upholding the principle of "volume control, risk diversification, quality-based selection, and structural optimization". We maintain a list-based real estate customer admission management system and prioritize our support to projects from leading nationwide or quality regional real estate developers situated in core districts within first-and second-tier cities. We pay heightened attention to compliance management within the real estate sector and only lend to developers who have obtained all necessary government approvals, permits and certificates, furnished the requisite project capital, and established a sound credit record.

In addition, we closely inspect the progress of each development project by conducting monthly on-site visits and routinely monitoring the online sales registration system. Accordingly, we release our funds strictly in accordance with the stage of construction and collect repayments in light of the progress of sales.

Credit Risk Management for Loans to Industries with Heavy Pollution, High Energy Consumption or Overcapacity (兩高一剩)

The State Council and the CBIRC have promulgated policies to restrict loans to industries with heavy pollution, high energy consumption or overcapacity. For details, please see "Supervision and Regulation – Regulation on Principal Commercial Banking Activities – Loans". In accordance with these policies, we maintain a strict list-based admission scheme, strive to reduce our risk exposure to these industries and strictly control new credit granted to entities or projects not in compliance with national industrial policies and market entry conditions.

To better control our risk exposure in this area, we conduct pre-loan investigation on whether a customer has engaged in excessive capital expenditure or whether its equipment, technology and production lines are subject to phase-out measures in accordance with national policies, before granting loans to enterprises in industries with heavy pollution, high energy consumption, and overcapacity. Meanwhile, we prudently support competitive industry leaders who have demonstrated strong profit-earning and innovative capacity and enterprises which are well-positioned to benefit from the long-term capacity-reduction reform.

As of December 31, 2017, 2018 and 2019, loans we granted to enterprises in industries commonly associated with heavy pollution, high energy consumption or overcapacity amounted to approximately RMB20,443.9 million, RMB15,760.4 million, and RMB12,699.6 million, respectively, accounting for 6.0%, 4.1% and 2.7%, respectively, of our corporate loans. None of the enterprises' manufacturing facilities or production lines fall within national phased-out or restricted categories. As of December 31, 2017, 2018 and 2019, the NPL ratio of our loans granted to these industries was 5.17%, 3.56% and 5.37%, respectively. For more details on credit risks arising from our loans to these and other industries, please see "Risk Factors – Risks Relating to Our Business – We face concentration risks from our credit exposure to certain industries, borrowers and geographic regions".

Credit Concentration Management

To control the credit concentration risks arising from the expansion of our credit businesses and to comply with relevant laws and regulations, we closely monitor the balance of loans granted to a single borrower on a quarterly basis and limit the balance of loans granted to the same borrower within 10% of our net capital. We impose limits on the total credit that can be granted to single or group customers, which we adjust based on national and local laws and regulations as well as our internal credit policies. Occasions of excess in credit limit are vigorously monitored, and a customer's credit line may be frozen if early indicators of over-utilization arise. For more details on our credit concentration ratios, please see "Supervision and Regulation – Other Risk Management Ratios".

In recent years, PRC Government has promulgated a series of regulations with an aim to mitigate and prevent concentration of credit risks across the PRC banking industry, including the Measures for the Administration of the Large Risk Exposures of Commercial Banks (《商業銀行大額風險暴露管理辦法》) and the Administrative Measures for Joint Credit Granting of Banking Financial Institutions (Provisional) (《銀行業金融機構聯合授信管理辦法(試行)》) issued by the CBRC on April 24, 2018 and May 22, 2018, respectively. These measures' issuance is conducive to preventing systematic financial risks and improving financial service quality and efficiency. Please also refer to "Risk Factors – Risks Relating to the PRC Banking Industry – The PRC banking industry is highly regulated, and we are susceptible to changes in regulations and government policies".

After the promulgation of the Measures for the Administration of the Large Risk Exposures of Commercial Banks (《商業銀行大額風險暴露管理辦法》), we began to upgrade our system designed to control significant credit exposures involving bank and non-bank customers. We also set up a series of measures and methods to manage large exposures, including those aiming at enhancing our ability to identify related customers and strengthening our internal credit limit control system. With respect to the Administrative Measures for Joint Credit Granting of Banking Institutions (Provisional) (《銀行業金融機構聯合授信管理辦法(試行)》), our tier-one branches have actively participated in joint credit granting pilot schemes organized by regional banking associations, including collecting the relevant client information and making submissions accordingly.

Credit Risk Management for Personal Loans

Our credit risk management procedures for personal loans include customer application, pre-loan investigations, credit review and approval, loan disbursement management and post-disbursement management.

Customer Application and Pre-loan Investigations

Our customers may apply for personal loans via the various channels we have designated and submit the requisite materials, after which our account managers verify the authenticity of the materials and conduct pre-loan investigation on the customers through a combination of on-site and off-site inspections. In pre-loan investigations, we take into account the customers' family condition, occupation, income, credit history, and financial and debt situation. For personal business loans, we pay particular attention to the industry outlook, operational status, assets and liabilities, and solvency of the enterprises which our customers operate, and closely supervise the use of proceeds. For personal loans secured by collateral or pledges, we generally designate a third-party appraiser to verify the value of the collateral and pledges. For guaranteed personal loans, we also investigate the guarantors' background, credit history, financial conditions and guarantee ability.

Based on their due diligence work, our account managers analyze in depth the legitimacy, necessity and rationality of the loan demand, reliability of repayment source, potential credit risks and other relevant factors. They then prepare a due diligence report that sets forth their opinions on credit limit, term and interest, and other issues pertinent to the personal loan application. Where necessary, we utilize data furnished by third-party credit reporting agencies, or consult the credit database at the PBoC's Credit Information Center (中國人民銀行徵信中心), to further ascertain a potential borrower's background and credit history.

Credit Review and Approval

We determine our credit approval authorization among various internal departments and branches based on the risk levels of each personal loan product. For personal loan businesses within the authority of a branch, which comprise the majority of our personal loans, each branch has designated personnel responsible for conducting credit review for personal loans upon receiving the relevant investigation reports and other loan-related information concerning the borrower. After the review is completed, independent approvers (as the authorized approvers for our personal loan business) whose qualifications are affirmed by the head office will take charge of the approval process. If required by the relevant internal review procedures, applications will be reviewed by the retail credit business evaluation committee before they are submitted to the independent approvers. Presidents at the branches are entitled to exercise veto rights against the approval decisions for these loans or demand a re-evaluation.

For personal loan businesses exceeding the authority of a branch, the Retail Risk Management Department at our head office is responsible for credit review and approval. In general, a customer's full loan application package (including pre-loan investigation and review reports) will be delivered by the branches to the retail credit business evaluation committee at the head office for evaluation, before being submitted to the independent approvers, who are the authorized approvers ultimately responsible for the approval of personal loans. The authority of the independent approvers is determined according to our internal authorization procedures, in light of the type and amount of loans under review. Senior management at the head office are entitled to exercise veto right against the approval decisions.

Loan Disbursement Management

Upon the approval of a personal loan, we verify whether all conditions precedent have been fulfilled, before entering into a loan agreement with the customer. We have set up an independent disbursement review position responsible for verifying whether the conditions precedents specified in our credit approval opinions have been fulfilled (if applicable, whether procedures relevant to the handling of collateral and pledges have been complied with) and proceeding with fund disbursement after the review is completed.

Post-disbursement Management

We rely largely on our account managers and post-disbursement management staff to implement post-disbursement management measures. We carry out routine post-disbursement management and inspections as well as account screening and off-site inspections to monitor risks arising from our personal loan business. In addition, we take prompt disposal measures in response to risk alert signals so as to prevent and mitigate the relevant risks and reduce the default losses.

Our post-disbursement procedures for personal business loans, compared to residential and commercial mortgage loans and personal consumption loans, are more stringent. We scrutinize, through inspections conducted at least on a quarterly basis, the borrower's status of operation, financial conditions, liquidity, use of proceeds, and other factors which may affect his ability to repay. For residential and commercial housing loans, in addition to monitoring changes in the borrowers' financial condition, we also conduct regular examination on the collateral properties to capture material changes in their value.

Our risk monitoring and alert, loan classification, maturity and collection management and non-performing assets management for personal loans are similar to how we manage our corporate loans and advances.

Credit Risk Management for Off-Balance Sheet Commitments

Our off-balance sheet commitments consisted primarily of bank acceptances, letter of credit and letter of guarantee as of December 31, 2019. For more details on the fluctuations in our off-balance sheet commitments during the Track Record Period, please see "Financial Information – Off-Balance Sheet Commitments".

We endeavor to ensure that our credit risk management for off-balance sheet commitments is held to a standard no less stringent than that for our loan businesses. We strictly review the background of this type of transactions and verify the authenticity of the underlying materials and trading documents. We also require strict compliance with our internal procedures to ensure that no transaction prohibited by the current laws and regulations will be approved.

Specifically, we have taken the following measures to enhance our management of credit risks arising from off-balance sheet commitments:

- Establishing a routine monitoring mechanism. Our head office conducts regular inspections on our customers' ability to perform their payment obligations and issues risk alerts accordingly.

- Strengthening risk management in key areas. We concentrate on risks arising from, and carry out focused assessments on, key industries subject to national macro-control policies and heightened supervision from the regulatory authorities, as well as industries sensitive to economic cycles. We also pay special attention to economic trends in key development regions, conduct on-site research in a timely manner, and enhance our ability to mitigate the relevant risks.

- Proactive identification and timely reporting of default risks. Utilizing monitoring tools such as regular screening of a customer's risk profile, we constantly evaluate and review a customer's ability to perform its obligations. Our system automatically generates pre-due reminders at the beginning of each month in light of the maturity status of our off-balance sheet commitment business, pursuant to which our business departments assess the customer's repayment status and prepare for fund collection accordingly.

- Prompt risk-mitigation measures upon potential default. If a customer is found to be in a situation which may lead to potential default, we may, in conjunction with our early warning measures, take a variety of measures, such as demanding full, effective collateral or pledges, freezing the customer's unused credit line, lowering the customer's credit rating and credit limit, or adding conditions to the customer's credit approval requirements.

If the default continues, we may classify the relevant advances as non-performing in accordance with the standards applicable to our corporate loans and advances, make allowances for impairment losses, and carry out collections. For details, please see "– Credit Risk Management – Credit Risk Management for Corporate Loans and Advances – Post-disbursement Management".

Related Party (and Connected Person) Credit Risk Management

To control risks arising from related party and connected transactions and ensure our compliance with relevant laws and regulations, we have specified in our internal policies the standards for identifying related parties and connected persons, the review and approval procedures for related party and connected transactions and the reporting and registration requirements for such transactions.

We vigorously implement our internal control procedures to identify all our business relationships with the related parties and connected persons and to maintain a centralized monitoring and management system for related party and connected transactions. According to our internal policies, our credit extensions to the related parties and connected persons shall not lead to conflicts of interest. The pricing of the related party and connected transactions must be objective and fair without prejudice to the interests of us or our independent shareholders. If we extend loans to our related parties and connected persons, the interest rates shall be consistent with the market rates and the terms of the loans shall not be more favorable than those for independent borrowers of the same type during the same period; in addition, we do not grant unsecured loans to related parties. We continue to optimize the credit investigation on our related parties and connected persons, review and approval processes to further enhance our related party and connected transaction management.

Credit Risk Management for Our Financial Market Business

Our financial market business is exposed to credit risks associated with interbank market transactions, debt securities investment, and SPV investment.

Credit Risk Management for Interbank Market Transactions

We assign an aggregate credit limit to each domestic bank and non-bank financial institutions that we make transactions with. Our credit review departments are responsible for reviewing and approving the credit lines for our interbank institutional customers, in accordance with the credit risk management policies and procedures formulated by the Risk Management Department.

We maintain strict eligibility criteria for our interbank counterparties and only cooperate with counterparties with solid qualification. Our Interbank Finance Department (金融同業部) takes the lead in organizing annual bank-wide re-evaluation on our interbank customers' capital strength, business operations, financial condition, liquidity status, compliance with regulatory indicators, risk events and other factors that could affect their ability to honor their contractual obligations. Regular evaluation on our customers enables us to identify potential risk alert signals and adjust our counterparties' interbank credit lines in a timely manner.

Credit Risk Management for Debt Securities Investment and SPV Investment

We have implemented a variety of risk management measures to control the risks associated with our investments in different types of financial products.

Debt Securities Investment

We uphold the principle of prudence in managing credit risks arising from our investments in debt securities. For debt securities issued by enterprises, we apply a stringent credit review and approval procedure and post-investment monitoring mechanism similar to that for corporate loans and advances. The ultimate debtors of corporate debt securities are subject to our unified credit extension management. Corporate debt securities investment must be reviewed and approved by the Credit Review and Approval Department. Meanwhile, our Assets and Liabilities Management Department monitors the debt securities investment's impact on our capital adequacy, liquidity, and the maturity structure of our assets and liabilities.

SPV Investment

We have established a comprehensive risk management system for our investments in trust plans, asset management plans and wealth management products. Specifically, we have adopted the following measures to manage the credit risks relating to our SPV investment.

Unified Credit Risk Management System. For SPV investment, we adopt the same credit risk management standard as in our loan business. For investment plans with a single borrower, we apply stringent credit review and approval procedures under our unified credit risk management system to evaluate the creditworthiness of the borrower. We manage credit line for ultimate financing party in a holistic view, which means we set up overall credit line for every borrower we serve, regardless of the financing methods we provide.

Counterparty Management. We have generated a list of approved banks and financial institutions, which is subject to review and update, pursuant to a range of admission management measures we have formulated for securities firms, asset management companies, funds, trusts, and insurance companies. When choosing a counterparty, we conduct comprehensive evaluation on a broad range of factors and our Interbank Finance Department (金融同業部) at the head office conducts annual review on the list and makes adjustments where appropriate.

Due Diligence on Ultimate Borrowers. For SPV investment, we apply a stringent due diligence procedure for ultimate borrowers, similar to that implemented for corporate loans and advances. We require our business departments to conduct due diligence on the ultimate financing parties prior to each investment. Business departments who originate the application should conduct comprehensive due diligence investigation on the operational status, financial data, credit history, reputation, growth prospect, and negative media exposure of the ultimate borrowers and their guarantors, prepare a due diligence report, and conduct necessary review on the counterparties.

Review and Approval. We conduct credit risk review and approval in relation to SPV products in a similar way as we do for other credit businesses, so that we have a centralized control on their credit risks. For details, please see "– Credit Risk Management – Credit Risk Management for Corporate Loans and Advances – Credit Review and Approval".

Inspections and Monitoring. The credit monitoring departments at our head office and each branch and sub-branch are responsible for carrying out post-investment inspections and monitoring, including supervising the financial market business departments' regular examinations on the ultimate borrowers' operations and financial condition. We actively monitor the financial and market indicators relating to the ultimate borrowers and issue risk alerts if any material adverse event is discovered.

We also require the business origination departments to perform regular inspections on the financial institutions admitted to our list of counterparties, which typically involve a comprehensive review of the counterparties' operational status, financial condition, reputation, and negative media exposure. Upon the identification of material non-compliance incidents in which the counterparties may be involved, or material deterioration in a counterparty's operations and credit status, our Interbank Finance Department at the head office may suspend or revoke the counterparty's admission into our list of approved banks and financial institutions.

Classification. We classify our financial assets based on the same standards applicable to our corporate loans and advances. For details, please see "– Credit Risk Management – Credit Risk Management for Corporate Loans and Advances – Post-disbursement Management – Loan Classification and Allowance".

Information Technology System for Credit Risk Management

We are committed to strengthening our digitalized credit risk management system ("CRMS"), leveraging our competitive in-house technology capacity and support from third-party developers. Our credit risk management system covers the entire credit extension process, including customer application and admission, pre-loan investigation, credit review and approval, and post-disbursement procedures such as risk classification and assessment, post-loan management, and risk alerts. For example, at the pre-loan stage, our information technology system is capable of matching loan applications to the applicable approval procedures based on the amount of credit requested, which reduces the risk of unauthorized approval. It also automatically identifies group customers, which then helps us conclude the group customer verification process and better manage their credit lines. Furthermore, our account managers and management departments at all levels can access real-time information of overdue loans through the CRMS and, accordingly, implement mitigation measures in a more effective manner.

In addition, utilizing an extensive data warehouse, we have further arranged our credit data and established a "risk monitoring data mart" encompassing the corporate lending and personal lending businesses, to fulfill our needs for credit monitoring and analysis. More specifically, we collect, through this data mart, customer credit risk data according to the CBIRC's requirements together with our customers' key data including basic information, financial information, and business transactional records, based on which we have built various data models for asset scale measurement, asset quality analysis, credit review and approval, and customer risk evaluation. These models enable our credit review and approval personnel to identify customer risk in a more effective manner and further identify, through data mining, a client's potential risk exposure and relationship with his related parties and connected persons, in order to provide substantive information support for our credit review and approval work.

MARKET RISK MANAGEMENT

Market risk is the risk of losses to our on- and off-balance sheet businesses arising from adverse movements in the market prices. We are exposed to market risks primarily in our trading books and banking books. Our market risk management (including management of interest rate risk in the banking book) is governed by a sound and prudent principle, and its overall goal is to: control the Bank's market risk level within its tolerance, by organically combining the identification, assessment, monitoring and control of market risks with the Bank's operational and management activities including strategic planning, business decision-making and financial budgeting.

We strictly follow the requirements from the CBIRC's *Guidance on Market Risk Management of Commercial Bank, Guidelines for the Management of Interest Rate Risk in the Banking Book of Commercial Banks* and other applicable PRC policies and regulations to adopt an independent, comprehensive market risk management mode. Our Board of Directors is responsible for reviewing and approving the market risk management strategies, policies and procedures, so as to define the acceptable market risk level. The Asset & Liability Management Committee under the senior management is responsible for developing, reviewing and overseeing the policies, procedures and workflows relating to market risk, and delineates market risk limits based on the risk appetite outlined by the Board of Directors.

We have established a comprehensive market risk management system covering market risk identification, measurement, monitoring and control in our banking and trading books. We identify market risk by regularly conducting gap analysis, duration analysis, foreign exchange exposure analysis and scenario analysis. Besides, we have in place a dynamic analytical framework which evaluates our market risks both from an overall income perspective and from an economic value perspective, which enhances the insightfulness and accuracy of our forecast on the movement of interest rates, the basis of asset and liability management.

Interest Rate Risk

Interest rate risk arises primarily from fluctuations in the prevailing interest rates and the mismatch in the re-evaluation dates or the maturity dates of our interest rate sensitive on- and off-balance sheet assets and liabilities, which may result in reduction in our net interest income and the value of our assets. PRC Government has gradually liberalized interest rates in China in recent years. Since July 20, 2013, commercial banks have been allowed to set interest rates on loans at their own discretion according to their commercial principles. Since October 24, 2015, commercial banks have been allowed to set interest rates for RMB-denominated deposits at their own discretion. Furthermore, in August 2019, the PBoC announced to reform the mechanism used to establish the loan prime rate ("**LPR**"). According to the PBoC, commercial banks must set interest rates on new loans by mainly referring to the LPR and use LPR as the benchmark for setting floating loan interest rates. For more information on the LPR reform, see "Supervision and Regulation – Pricing of Products and Services". As a result of the gradual liberalization of interest rates, the fluctuation of the interest rates has gradually changed from policy-oriented to market-oriented, and which thus requires that commercial banks make forecasts and judgments in relation to interest rate fluctuations with higher precision.

Impact on Deposits and Loans

Changes in interest rates on our deposits and loans mainly affect our interest rate spread. As interest rate spread is our main source of operating profit, the PBoC's adjustments to the benchmark deposit interest rate and the changes in LPR will affect our revenue structure and profitability. When interest rate rises, interest income from new loans and floating-rate loans being repriced will increase, as will interest expenses on deposits; our net interest income will thus increase if the growth of interest income from loans surpasses the growth of interest expenses on deposits, and vice versa. Similarly, when interest rate drops, interest income from new loans and floating-rate loans being repriced will decrease, as will interest expenses on deposits; our net interest income will thus increase if the loss of interest income from loans falls short of the reduction of interest expenses on deposits, and vice versa. Furthermore, fluctuations in interest rate may also lead to changes in the behavior of our fixed-rate business customers, which in turn affects the Bank's interest income and expenses.

Impact on Debt Securities and Trust plans, Asset Management Plans and Wealth Management Products

The fluctuation of market prices of debt securities and financial assets is correlated to changes in the macroeconomics condition, market supply and demand, and market expectations of future interest rates. The market trend in the last few years indicated that valuation of debt securities, trust plans, asset management plans and wealth management products tend to fall when investors expect the interest rates to increase. As a result, an increase in interest rate may result in a decrease in the valuation of our existing assets and hence affect our profits and other comprehensive income; to the contrary, a drop in interest rate will lift the valuation of our assets, thereby boosting our profits and other comprehensive income. Furthermore, an increase in interest rate may also lead to tighter liquidity, which may in turn drive up the fund cost of investing in debt securities and trust plans, asset management plans and wealth management products; while a drop in interest rate will consequently reduce fund costs.

Management of Interest Rate Risk in the Banking Book

We have formulated and implemented policies and procedures in relation to interest rate risks in the banking book, which allow us to manage the interest rate risk. We set the pricing of our deposit and loan products following relevant laws and regulations. We use the LPR, funding costs, credit risk costs and other indicators to build our loan pricing model, and determine the prices of our products by considering the demand and business operations of our customers, the industry in which our customers operate and the prices of their competitors' products as well as the business relationship between our customers and us.

We closely follow the macroeconomic policies and the financial market conditions, and conduct continuous monitoring and analysis in order to constantly enhance our ability to forecast interest rate fluctuations. We primarily apply quantitative methodologies such as gap management, sensitivity analysis and duration analysis to monitor and analyze interest rate risk in the banking book regularly and make dynamic adjustments to our assets and liabilities' repricing periods and maturity structure based on movement in the market interest rate, to ensure that our interest rate risk in the banking book is within the regulatory limit and in line with risk appetite set by the Board of Directors.

Exchange Rate Risk

Exchange rate risk arises primarily from exchange rate fluctuations, as well as mismatches in the currency denomination of our on- and off-balance sheet assets and liabilities and mismatches in the currency positions of our foreign currency transactions, which may result in a loss of profits and a reduction of value of assets. Exchange rate risks faced by banks mainly include trading risk and conversion risk. Trading risk represents the possibility that banks may suffer losses as a result of a change in exchange rate while making payment in foreign currencies. Conversion risk represents the possibility that banks may suffer unrealized losses as a result of changes in exchange rates while converting foreign currencies into the reporting currency.

Given the size of our foreign exchange business, we have limited exposure to exchange rate risk. As of December 31, 2017 and 2018 and 2019, the amount of foreign currencies we held was equivalent to RMB35,545.6 million, RMB28,138.4 million and RMB46,055.4 million, respectively. We have put together various policies and operational procedures regarding our foreign exchange businesses, such as foreign currency settlement, sales and payment, and foreign currency trading.

LIQUIDITY RISK MANAGEMENT

Liquidity risk is the risk of our failure to obtain sufficient funds in a timely manner or at a reasonable cost to pay debts when they become due, to meet our other payment obligations, or to realize asset growth or otherwise develop our business. Internal and external factors affecting our liquidity risks include changes in the maturity profiles of our assets and liabilities and asset quality, as well as changes in macroeconomic trends and monetary policy. The primary objective of our liquidity risk management is to reasonably manage our asset and liability structure and future cash flows, to fulfill the fund payment needs of each business line and to keep liquidity risks at a manageable level, and to reduce extra costs arising from liquidity risk management.

We strictly follow the CBIRC's Administrative Measures on Liquidity Risk Management of Commercial Banks (《商業銀行流動性風險管理辦法》) and other applicable laws and regulations. The primary measures we have taken to manage liquidity risks include:

- Establishing a liquidity risk management system and an organizational structure where our Board of Directors bears the ultimate responsibilities for liquidity risk management, the Risk Management Committee under the Board of Directors performs its relevant duties and makes periodic reports to the Board, and our senior management implement our liquidity risk management system and measures approved by the Board of Directors, timely evaluates our liquidity risk level and management status and makes relevant reports to the Board of Directors;

- Carrying out intra-bank stress testing on a quarterly basis to evaluate our resistance to potential liquidity risks, implementing forward-looking liquidity risk management, conducting annual stress tests in accordance with the regulatory authorities' requirements, and formulating effective risk mitigation measures according to the test results;

- Optimizing liquidity risk monitoring measures, including through strengthening our dynamic stimulation and static monitoring of liquidity risks, adopting proactive cash management measures, establishing a sound liquidity risk alert system, periodically setting, updating, monitoring and reporting on our liquidity risk limits, and accurately assessing and controlling our liquidity risks;

- Formulating a liquidity risk contingency plan, conducting periodic emergency drills to illuminate the responsibilities of all internal departments across the Bank in time of emergency, and improving our emergency response procedures and measures;

- Building a liquidity reserve assets portfolio, managing our asset placement schedules and emphasizing the criticality of steady fund retrieval upon maturity of the businesses; continually expanding our debt-incurrence channels, obtaining steady fund inflow through active debt management, and improving bank-wide asset-liability maturity structure; reinforcing our relationship with interbank clients and enhancing our financing capability in under tight market liquidity; and

- Timely evaluating and updating our liquidity risk management policies and procedures in accordance with changes in the regulatory policy and our business development needs.

OPERATIONAL RISK MANAGEMENT

Operational risk is the risk of losses arising from inadequate or defective internal procedures, personnel and systems, or external events. We categorize the primary operational risks into 12 types, namely risks relating to internal fraud, external fraud, ineffective procedure, wrongful sales, compliance, finance, taxes, personal health and safety, physical assets, legal affairs, personnel, and suppliers, and formulate management policies and procedures accordingly.

We follow the Guidelines on the Operational Risk Management of Commercial Banks (《商業銀行操作風險管理指引》) promulgated by the CBRC in formulating our operational risk management policies. Our Internal Control and Compliance Department at the head office takes the lead in organizing the corresponding departments, branches, and sub-branches in managing and controlling our potential operational risks. We endeavor to strengthen the three lines of defense against operational risk by strictly observing regulatory requirements and internal rules, regularly inspecting our branches and outlets, and introducing control measures and procedures with greater precision and feasibility.

Operational Risk Reporting System

We attach equal importance to the early prevention and rectification of operational risks. Based on the regulatory requirements and our specific circumstances, we coordinate bank-wide efforts in monitoring non-compliance incidents that may arise from the key business departments, branches and sub-branches, as well as our employees' abnormal behaviors, with an aim to effectively reduce operational risks. We have set out the channel, frequency and content of operational risk reporting. We follow the principles of "promptness, comprehensiveness, reliability, accuracy, criticality and consistency (及時性、全面性、可靠性、準確性、重要性、一致性)" when implementing our operational risk reporting measures.

Each business line, department, branch and sub-branch is required to timely and accurately notify the respective internal control and compliance department and management at each level of its operational risk management status for the relevant period, based on which the internal control and compliance departments may compile operational risk reports.

Standardized Policies and Operational Procedures

We continue to optimize our policies and operational procedures, and conduct inspections and monitoring on key control points. We have established an operational risk management mechanism covering our business processes in our head office, branches and sub-branches. These procedures encompass, among other aspects, credit review and approval, loan disbursement and post-disbursement management. We provide a continuous training scheme to strengthen our employees' skills and require our employees to strictly comply with the applicable rules, procedures and responsibilities in their daily work.

Compliance Risk Management

Compliance risk refers to the risk of being subject to any legal sanctions, regulatory penalties, or significant financial loss and reputational loss as a result of failure to comply with any applicable laws, regulations and rules. Our Board of Directors is responsible for reviewing and approving our compliance risk management policies and assume ultimate responsibility for our operational and management activities in compliance with relevant applicable laws and regulations. Our senior management is responsible for formulating compliance risk management policies, whereas the internal control and compliance departments at our head office and the branches assist our senior management in leading the daily management of our compliance risk. Each of the business lines and business departments is principally responsible for its respective compliance with the applicable laws and regulations and compliance risk management.

We carry out compliance risk management mainly through the following measures:

- Compliance review on internal procedures. We review all internal policies and procedures from a compliance and operational risk perspective and conduct periodic review on our key risk management policies, internal control standards and risk control measures, and making amendments as appropriate. The Internal Control and Compliance Department at our head office closely follows the latest developments in the applicable laws, rules and standards and continuously evaluate the effectiveness of our internal policies and procedures;

- Compliance risk monitoring and identification. We carry out regular compliance and operational risk screening and focused-assessment on the weak links and high-risk business segments within our operations, and supervising the timely rectification of the deficiencies identified; and

- Compliance culture and education. We endeavor to enhance the compliance awareness for our employees through regular training, case studies, and issuance of timely risk alerts.

Legal Risk Management

Legal risk refers to the risk of legal liability arising from violation of laws and regulations, breach of contracts, infringement of legal rights on others or otherwise in connection with any contract or business activities in which we are involved.

Our Legal Affairs Department and the legal affairs departments at the branch level are responsible for the management of our legal risk. We carry out legal risk management primarily through the following measures:

- Comprehensive internal legal review. We pay close attention to the latest developments in applicable laws and regulations, so as to provide competent legal services in support of our continuous evaluation on our internal policies and procedures' effectiveness. Rules, policy and procedures governing every aspect of our business operations must be submitted to the legal affairs departments at the respective levels for legal review before initiation of a new business;

- Contract review and management of form agreements. All contracts and transactional legal documents must be reviewed and approved by the legal affairs departments at the respective levels before they are signed by external parties. We prepare form agreements for frequent transactions and adjustments to the forms are subject to a stringent internal review process imposed by the legal affairs departments at the respective levels;

- Legal enquiry mechanism. If a department encounters difficulties in relation to a material dispute, potential controversy or other legal complications, it is required to submit a written enquiry to the legal affairs departments at the respective levels, pursuant to which the legal affairs departments will make a response. Meanwhile, our Legal Affairs Department utilizes channels such as bank-wide working conferences and internal WeChat platform to facilitate and promote communication among legal personnel at the head office and the branches;

- Strengthening litigation management. We formulate internal procedures relating to litigation management, discuss and prepare action plans upon commencement of a litigation, and maintain a database of past and pending litigations based on which our Legal Affairs Department studies our propensity toward legal disputes and recommends risk mitigation measures; and

- Legal risk alert system. We publish legal risk alerts and quarterly legal risk management updates (《法律風險管理工作動態》) to ensure that our business departments, branches and sub-branches are well-informed of the latest legal developments, and provide legal trainings in conjunction with these developments.

Anti-money Laundering

In line with the PRC Anti-money Laundering Law and other applicable rules and regulations promulgated by the PBoC, we have established a sound anti-money laundering management framework. The Bohai Bank Money Laundering and Terrorist Financing Risk Management Policy (《渤海銀行洗錢和恐怖融資風險管理政策》) has enumerated the duties and responsibilities of the Board of Directors, the senior management, as well as our various departments and branches and sub-branches at all levels. The Internal Control and Compliance Department at our head office takes the lead in managing our anti-money laundering performance, and is primarily responsible for (i) leading the formulation of relevant internal rules and working plans; (ii) monitoring and making necessary adjustments to the key anti-money laundering indicators, coordinating the evaluation on our money laundering risks, and proposing money laundering risk control measures and related recommendations; and (iii) supervising the implementation of the relevant policies and measures and making timely reports to the senior management and the regulatory authorities.

Furthermore, we have developed comprehensive internal policies and procedures which enable us to effectively identify, evaluate, monitor, control and report anti-money laundering risks. These policies and procedures encompass customer identification, client data and transaction record keeping, identification of suspected terrorism financing activities, risk classification, and reporting of large transactions and doubtful transactions. More specifically, we conduct customer due diligence and collect relevant information and transaction records pursuant to applicable laws and regulations and our internal policies. We also continue to optimize our data model for identifying doubtful transactions and provide frequent training to our employees to keep them informed of the latest developments in domestic and international anti-money laundering laws.

Based on our internal rules and policies, we classify our customers into three levels based on their potential money laundering risk, namely low risk, medium risk, and high risk. Within ten days of acquiring a new customer, we conduct both a computerized classification and a manual assessment, the latter involving due diligence examination on the customer's background and transaction history. If the results of the manual assessment contradict the initial classification, especially if doubtful activities are identified, we may conduct the requisite investigations until a final determination is made. Meanwhile, we closely monitor changes in the existing customers' key information and adjust their risk levels as appropriate. For high risk customers, we conduct semi-annual reassessment which focuses on changes in their ultimate owners and beneficiaries, source of funds, financial condition and cash flows, and operational status, and will impose corresponding transactional restrictions upon the discovery of such customers' suspected involvement in, or their transactions' potential connections with, illegal activities.

INFORMATION TECHNOLOGY RISK MANAGEMENT

Information technology risks include operational risks, legal risks, reputation risks and other risks caused by natural factors, human factors, technical loopholes and management failure arising from our use of information technology. The Information Technology Committee is responsible for overseeing our information technology risks. Through building and operating a risk management system which can identify, evaluate, control or mitigate, monitor, assess and make reports in relation to information technology risks, we aim to ensure that our information technology risk exposure is contained within the Bank's risk appetite. We strive to continuously improve our information technology infrastructure and our information technology management system in line with national standards and regulatory requirements.

Information Security Management

We have established a comprehensive management structure for information security which covers the security management of our staff, terminals, system construction, system operation and maintenance. To ensure the security of information technology, we have hired professionals to oversee our information security system and established a range of information security management measures to prevent any unauthorized online intrusion, attack, data leakage or third-party tampering on our information system. We also maintain security of our information system through various technologies such as encryption, anti-virus software and firewalls and we continuously update such technologies to enhance our information security. In addition, we have established a standardized information security risk monitoring and assessment mechanism, which requires us to carry out periodic internal and external information security risk assessments and enables us to promptly deal with red flag issues.

We attach great importance to further digitalizing, and enhancing the statistical and data analytical capability of, our bank-wide management system. In addition, we conduct regular training for our employees to enhance their awareness on information security and further improve the implementation of our information technology risk management.

Business Continuity Management

As a critical component of our bank-wide business continuity management system, we rely on the support of our information technology systems to safeguard our voluminous transactions and a sound decision-making process. As such, disruptions in our information technology system may severely damage our operations. As part of our business continuity management measures, we have established a disaster backup and recovery system comprising two "intra-city dual active (同城雙活)" data centers and one off-site backup data center for disaster recovery, to ensure the continuity of our operations in the event of any interruption or breakdown of our host computer, storage, internet, database, intra-connection and application systems. We have also established detailed contingency plans to tackle the potential breakdown of our information system and carry out annual emergency drills for business continuity.

Information Technology Audit

We carry out comprehensive internal audits over our information technology risk management at least once every three years. Our Audit Department has designated a position specializing in information technology risk audits, to formulate and implement information technology internal audit plans, inspects and evaluate the sufficiency and effectiveness of our information technology system and internal control systems, and carries out audit work on the entire information technology cycle and on all material incidents.

REPUTATIONAL RISK MANAGEMENT

Reputational risk refers to the risk of negative comments on us due to our operations, management, and other activities or external events. We take our reputation seriously and have established an effective reputational risk management mechanism to "monitor and identify, evaluate and alert upon, control and manage, revisit and reflect on our reputational risk, and are capable of handling crisis in relation to our reputational risk and taking proper remedial measures to restore our reputation, so as to reduce to the extent possible and negative impact we may suffer due to such reputation-related incidents.

We have established a tiered organizational framework for reputational risk management. Our Board of Directors assumes the ultimate responsibility of our reputational risk management, the Board of Supervisors supervises the Board of Directors and the senior management's discharge of their reputational risk management duties, and the senior management are responsible for managing our reputational risks according to the reputational risk management policies approved by the Board of Directors to ensure that our actual risk level is within the Bank's risk appetite. Our President at the head office is primarily accountable for bank-wide reputational risk management. Presidents of the branches are primarily responsible for reputational risk management at each branch.

We closely monitors customer complaints and media breakouts and take prompt reactions according to their impact and severity. We have established a 24/7 reputational risk monitoring system to timely identify all kinds of negative media exposure, actively collect, organize, and analyze information in relation to our reputation, and conduct periodic risk screening. We handle reputation-related incidents by adopting a reporting mechanism based on the specific circumstances, and taking corresponding measures in light of the type and severity of the incidents. Under our emergency response plan constructed for different risk levels, our President takes the lead in assembling an emergency response team upon the occurrence of significant reputational risk incidents, and oversees our emergency response measures. Meanwhile, we proactively utilize the press communications and other publication platforms to promote our positive image and corporate values.

STRATEGIC RISK MANAGEMENT

Strategic risks are risks that may arise if our present or future profitability, reputation and market position could be harmed by inappropriate strategic positioning, improper implementation of strategies or failure to make timely and necessary adjustments to strategies in line with changes in business environment.

We play heightened attention to our development strategy and its related risks. We monitor the market trends in a dynamic manner, and reasonably reinforce and evaluate our implementation of the strategies to effectively ensure our adaptability to the continued market reform. Our Office of Strategic Development and Investment Management under the Board of Directors is responsible for managing strategic risks. We control our strategic risk primarily by (i) dynamically monitoring changes in the external operating environment, and reasonably formulating, adjusting and implementing our development strategy in light of our objective development status; (ii) conducting in-depth study of development trends in the financial industry and advancing our external equity investment plans and regional development planning; (iii) forming specialized strategy advancement and execution teams to promote the implementation of our major strategic plans, while providing supervision and management advice and practical guidance, and coordinating the resolution of related disputes; and (iv) periodically examining the strategies' implementation status and composing objective evaluation reports for submission to the Board of Directors and the senior management.

COUNTRY RISK MANAGEMENT

Country risk is the risk of losses incurred in certain countries or regions due to local economic, political and social changes or local borrowers' inability and unwillingness to repay debts arising therefrom. It may be triggered by economic deterioration, political and social turmoil, nationalization or expropriation of property, government repudiation of foreign debts, foreign exchange control or currency depreciation in the country or region.

Country risk is included as part of our comprehensive risk management system. We have specified the targets, duties, procedures, rating methods and risk limits of country risk management, and established a system for reporting and overseeing the risk. As RMB-denominated businesses make up the vast majority of our operating income, and most of our foreign counterparties reside in developed countries, we had a limited and controllable exposure to country risk.

INTERNAL AUDIT

We consider internal audit essential to the sustainable development of our business operations. Our internal audit work strictly follows the principles of independence and objectivity, and we have established an independent and vertical internal audit system that mainly comprises of the Board of Directors, the Audit and Consumer Rights Protection Committee, the Audit Department and the regional audit centers. The Board of Directors undertakes ultimate responsibility to ensure the independence and effectiveness of our internal audit. The Audit and Consumer Rights Protection Committee guides, evaluates and assesses our internal audit work while our Audit Department and the regional audit centers carry out internal auditing work at both the head office and the branch and sub-branch level.

Our audit departments uphold a "risk oriented" principle, formulates our annual audit plans considering various factors including the outcome of risk evaluation and the regulatory requirements, and carries out audit work strictly in accordance with the annual audit plans after they are approved by the Audit and Consumer Rights Protection Committee. The audit departments also provide timely audit opinions and recommends appropriate remedial and accountability measures based on the issues or deficiencies identified, and closely monitors the status of the rectification, in an effort to enhance the audit objects' internal control and risk management.

CONNECTED TRANSACTIONS

Upon Listing, the transactions we have entered into with our connected persons (as defined in the Listing Rules) will constitute connected transactions for us under Chapter 14A of the Listing Rules. We expect such transactions will continue following the Listing, thereby constituting continuing connected transactions under the Listing Rules.

CONNECTED PERSONS

The entities, which will be our connected persons for the purposes of the Listing Rules, mainly include:

Name	Connected relationship
TEDA Holding and its associates including but not limited to:	As of the Latest Practicable Date, TEDA Holding, a substantial shareholder, held 25% equity interests in our Bank. TEDA Holding will continue to be a substantial shareholder of our Bank following the Listing and therefore will become a connected person of our Bank.
Tianjin Trust	As of the Latest Practicable Date, Tianjin Trust is owned as to more than 30% by a subsidiary of TEDA Holding. As such, Tianjin Trust is an associate of TEDA Holding and will become a connected person of our Bank following the Listing.
Northern International Trust Co., Ltd. (北方國際信託股份有限公司) ("**Northern International Trust**")	As of the Latest Practicable Date, Northern International Trust is owned as to more than 30% by TEDA Holding. As such, Northern International Trust is an associate of TEDA Holding and will become a connected person of our Bank following the Listing.
Tianjin TEDA Gediao Property Management Co., Ltd. (天津泰達格調物業管理有限公司) ("**Gediao Property Management**")	As of the Latest Practicable Date, Gediao Property Management is an indirect wholly-owned subsidiary of TEDA Holding. As such, Gediao Property Management is an associate of TEDA Holding and will become a connected person of our Bank following the Listing.
China Lianhe Credit Rating Co., Ltd. (聯合資信評估有限公司) ("**Lianhe Credit Rating**")	As of the Latest Practicable Date, Lianhe Credit Rating is an indirect non-wholly owned subsidiary of Tianjin TEDA International Holding (Group) Co., Ltd. (天津市泰達國際控股(集團)有限公司) ("**TEDA International**"). TEDA International is owned as to more than 30% by TEDA Holding. As such, Lianhe Credit Rating is an associate of TEDA Holding and will become a connected person of our Bank following the Listing.
SCB and its associates including but not limited to:	As of the Latest Practicable Date, SCB, a substantial shareholder, held 19.99% equity interests in our Bank. SCB will continue to be a substantial shareholder of our Bank following the Listing and therefore will become a connected person of our Bank.
Standard Chartered Bank (China) Limited (渣打銀行(中國)有限公司) ("**SCB China**")	As of the Latest Practicable Date, SCB China is a wholly-owned subsidiary of SCB. As such, SCB China is an associate of SCB and will become a connected person of our Bank following the Listing.
Standard Chartered Bank ("**SCB UK**")	As of the Latest Practicable Date, SCB UK is an indirect wholly-owned subsidiary of Standard Chartered PLC, and therefore a fellow subsidiary of SCB's holding company. As such, SCB UK is an associate of SCB and will become a connected person of our Bank following the Listing.

FULLY EXEMPT CONTINUING CONNECTED TRANSACTIONS

Our Bank is a commercial bank established in the PRC and regulated by the CBIRC and the PBoC. Our Bank provides commercial banking services and products in our ordinary and usual course of business to members of the public in the PRC, which include our connected persons (such as Directors, Supervisors, substantial shareholders, president and/or their respective associates). Set forth below are details of such connected transactions between our Bank and our connected persons. These transactions are entered into on normal commercial terms (or commercial terms that are better for us) in the ordinary and usual course of our business, and thus are fully exempt from all reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

We also enter into certain transactions with our connected persons and/or their respective associates from time to time in our ordinary and usual course of business (such as leasing arrangements) on normal commercial terms (or on commercial terms that are better for us) and which are expected to constitute *de minimis* transactions under Chapter 14A of the Listing Rules. The transactions contemplated under those arrangements constitute a continuing connected transaction of our Bank which is fully exempt from all disclosure, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

(i) Commercial banking services and products provided in the ordinary and usual course of business – Loans and other credit facilities to connected persons

We extend loans and other credit facilities (including but not limited to short-term loans, medium-and long-term loans, bill discounting, mortgages, credit cards, subscription of bonds and inter-bank lending) in the ordinary and usual course of business to certain of our connected persons on normal commercial terms (or commercial terms that are better for us) with reference to prevailing market interest rates. We expect that we will continue to provide loans and other credit facilities to our connected persons following the Listing, which will constitute continuing connected transactions for us under Chapter 14A of the Listing Rules.

The above loans and other credit facilities provided by us to our connected persons are in the ordinary and usual course of our business and on normal commercial terms (or commercial terms that are better for us) with reference to prevailing market interest rates. Therefore, these transactions will be fully exempt continuing connected transactions under Rule 14A.87(1) of the Listing Rules, namely financial assistance provided by us in our ordinary and usual course of business to a connected person on normal commercial terms (or commercial terms that are better for us), and thus will be fully exempt from all reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

(ii) Commercial banking services and products provided in the ordinary and usual course of business – Deposits taking

We take deposits from certain of our connected persons in the ordinary and usual course of business at normal interest rates and on normal commercial terms (or commercial terms that are better for us). We expect that our connected persons will continue to place deposits with us following the Listing, which will constitute continuing connected transactions for us under Chapter 14A of the Listing Rules.

The deposits placed by our connected persons are on normal commercial terms (or commercial terms that are better for us) with reference to prevailing market interest rates and not secured by our assets. Therefore, these transactions will be fully exempt continuing connected transactions under Rule 14A.90 of the Listing Rules, namely financial assistance received by us from a connected person in the form of deposits on normal commercial terms (or commercial terms that are better for us) and not secured by our assets, and thus will be fully exempt from all reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

(iii) Commercial banking services and products provided in the ordinary and usual course of business – Other banking services and products to connected persons

We provide various commercial banking services and products (including but not limited to settlement services, bank acceptance bill services, agency services and wealth management services) in the ordinary and usual course of business to certain of our connected persons on normal commercial terms (or commercial terms that are better for us) at normal fee standards. We expect that we will continue to provide such banking services and products to our connected persons following the Listing, which will constitute continuing connected transactions under Chapter 14A of the Listing Rules.

These transactions are conducted in the ordinary and usual course of our business and on normal commercial terms (or commercial terms that are better for us). As the highest applicable percentage ratios of the above transactions are expected to be less than 0.1%, these transactions are expected to constitute *de minimis* transactions under Chapter 14A of the Listing Rules. Therefore, pursuant to Rule 14A.76(1) of the Listing Rules, these transactions will constitute fully exempt continuing connected transactions and will be fully exempt from all reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

(iv) Trust plan services provided by associates of TEDA Holding

We enter into asset management and trust plan agreements with financial institutions in our ordinary and usual course of business. We apply funds from our wealth management products as trust properties, and Tianjin Trust or Northern International Trust serves as the trustees of the trust schemes and renders trust plan services for such trust assets. Tianjin Trust and Northern International Trust, as trustees, receive annual trust fees at a fixed rate.

The above transactions are conducted in the ordinary and usual course of business and on normal commercial terms (or commercial terms that are better to us). As the highest applicable percentage ratios of the above transactions calculated on an annual basis is expected to be less than 0.1%, these transactions constitutes *de minimis* transactions under Chapter 14A of the Listing Rules. Therefore, pursuant to Rule 14A.76(1) of the Listing Rules, these transactions are exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

(v) Derivative financial instruments transactions entered into with SCB and its associates

We entered into various derivative financial instruments transactions (including interest rate swaps) with connected persons (mainly SCB and its associates) in the ordinary and usual course of business determined based on arm's length negotiation with reference to the prevailing market rates. We expect that we will continue to enter into such derivative financial instruments transactions with our connected persons following the Listing, which will constitute continuing connected transactions under Chapter 14A of the Listing Rules.

These transactions are conducted in the ordinary and usual course of our business and on normal commercial terms (or commercial terms that are better for us). As the highest applicable percentage ratios of the above transactions are expected to be, on an annual basis, less than 0.1%, these transactions are expected to constitute *de minimis* transactions under Chapter 14A of the Listing Rules. Therefore, pursuant to Rule 14A.76(1) of the Listing Rules, these transactions will constitute fully exempt continuing connected transactions and will be fully exempt from all reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

(vi) Property Sub-Lease Agreements with SCB

Our Bank entered into a sub-lease and a rent subsidy agreement with SCB (together the "**Sub-Lease Agreements**"), pursuant to which SCB sub-leases premises located in Suites 1201-09 and 1215-16, 12/F, Two International Finance Centre, No. 8 Finance Street, Central, Hong Kong to our Bank as office for a term commencing from August 1, 2019 and expiring on July 30, 2022 (both days inclusive) at an aggregate annual rent of HK$28,612,050 and an aggregate annual service charges of HK$2,345,250. Such service charges consist of management fee which include internal cleaning charges and air-conditioning charges.

Our Bank has been granted an option to renew the sub-lease for a further term commencing from August 1, 2022 and expiring on July 30, 2025 (both days inclusive) at the then prevailing rent in accordance with the terms of the Sub-Lease Agreements.

The Sub-Lease Agreements were negotiated on arm's length basis and were conducted on normal commercial terms. As the highest applicable percentage ratios of the above transactions calculated in aggregate are expected to be, on an annual basis, less than 0.1%, the continuing transactions contemplated under the Sub-Lease Agreements constitute *de minimis* transactions, and therefore are exempt from the reporting, annual review, announcement and independent shareholders' approval requirements pursuant to Rule 14A.76(1) of the Listing Rules.

(vii) Property management services rendered by Gediao Property Management

Our Tianjin Guangkai Sub-branch (天津廣開支行) is situated at Tianjiang Gediao Garden Lanting (天江格調花園蘭庭), Tianjin, the PRC.

Gediao Property Management was appointed to render property management services to Tianjiang Gediao Garden Lanting by the property owners' committee. Pursuant to the property service agreement entered into between the property owners' committee and Gediao Property Management, Gediao Property Management shall render property management services to

Tianjiang Gediao Garden Lanting from April 1, 2019 to March 31, 2021, and the property management fees shall be payable by the property owners to Gediao Property Management. Our Bank, as one of the property owners of the relevant premises, is required to pay an aggregate annual fee of approximately RMB85,000 to Gediao Property Management.

Gediao Property Management also assists to gather electricity fees charged by electricity provider from all on-street shops, and renders ancillary services, including maintenance of electric wires and transformer, at an extra service fee.

The property service agreement was negotiated by the property owners' committee, over which our Bank, as one of the property owners, has no control.

As the highest applicable percentage ratios of the above transactions calculated in aggregate are expected to be, on an annual basis, less than 0.1%, the continuing transactions contemplated under the property service agreement constitute *de minimis* transactions, and therefore are exempt from the reporting, annual review, announcement and independent shareholders' approval requirements pursuant to Rule 14A.76(1) of the Listing Rules.

(viii) Credit rating services rendered by Lianhe Credit Rating

Our Bank entered into three credit rating engagement agreements with Lianhe Credit Rating, pursuant to which Lianhe Credit Rating would render credit rating services for our (i) 2019 Undated Capital Bonds at the consideration of RMB350,000, (ii) 2020 Financial Bonds at the consideration of RMB350,000, and (iii) 2020 Small and Micro Financial Bonds at the consideration of RMB250,000, respectively, for initial rating, and RMB70,000 each year for follow up rating fees.

As the highest applicable percentage ratios of the above transactions calculated in aggregate are expected to be, on an annual basis, less than 0.1%, the continuing transactions contemplated under the credit rating engagement agreements constitute *de minimis* transactions, and therefore are exempt from the reporting, annual review, announcement and independent shareholders' approval requirements pursuant to Rule 14A.76(1) of the Listing Rules.

COOPERATION WITH SCB GROUP

(a) Strategic Investor Support Agreement with SCB

On August 16, 2005, we have entered into a strategic investor support agreement (the "**Strategic Investor Support Agreement**") with SCB and other promoters, pursuant to which, SCB will utilize the global resources of the Standard Chartered Bank to provide timely strategic investor support to our Bank, and to assist our Bank in establishing and improving each relevant system so as to achieve the best practice.

Scope of Cooperation

Strategic Planning

Pursuant to the Strategic Investor Support Agreement, as long as the Standard Chartered Bank is a direct or indirect investor of our Bank, SCB shall provide strategic advice and guidance to our Bank especially on formation of business strategy and risk management, maintain persistent communication between senior management of our Bank and SCB, provide strategic advice to the management team of our Bank on business operation, provide advice on system development and upgrading, and provide advice to our Bank on intermediary businesses that would generate management fees and non-interest income.

Technological Support

SCB shall, under applicable circumstances, provide technological support on our Bank's operation. The scope of technological support shall include, but not limited to, corporate governance structure setting, internal corporate structure setting, and design and purchase of technology infrastructure.

(b) MOU with SCB UK

On May 15, 2020, we have entered into a non-legally binding memorandum of understanding ("**MOU**") with SCB UK (together with its branches, subsidiaries and affiliates, the "**SCB Group**") with the intention to continue and enhance cooperation between our Bank and SCB Group in various business lines and jointly explore business opportunities expected to arise from the Belt and Road Initiative.

Pursuant to the MOU, the scope of business cooperation may include, among others, syndicated loan, project financing, debt capital markets, financial market, transaction banking, asset management business and global custodian business.

Our Bank and SCB UK also agree to enhance information exchange on countries where we or any entity of the SCB Group has expertise or insights, subject to the compliance of applicable laws and regulations, internal procedures and confidentiality obligations. Such information to be shared may include, among others, macroeconomic situation, financial market investment research, key industry research and views of chief economists.

(c) Rating Advisory Agreement with SCB

On May 18, 2020, we have entered into an agreement with SCB (the "**Rating Advisory Agreement**"), pursuant to which SCB is engaged by our Bank as rating advisor to assist us in obtaining credit rating from one or more specified rating agencies. SCB agrees not to receive any fee from us for rendering rating advisory services pursuant to the Rating Advisory Agreement. If our Bank undertakes an international capital markets issuance after having obtained a satisfactory credit rating, SCB will be offered the opportunity to pitch for the role of global coordinator or joint global coordinator of any such international capital markets transaction, for a period up to one year from the date the rating has been communicated to us or 18 months from the date of the Rating Advisory Agreement.

To the extent if any transactions contemplated under the Strategic Investor Support Agreement, the MOU, and/or the Rating Advisory Agreement constitute connected transactions and/or continuing connected transactions under Chapter 14A of the Listing Rules after the Listing, we will comply with the relevant requirements of the Listing Rules as and when appropriate.

BOARD OF DIRECTORS

Our Board of Directors consists of eighteen Directors, including four executive Directors, eight non-executive Directors and six independent non-executive Directors. Our Directors were elected for a term of three years and are subject to re-election, provided that the cumulative term of an independent non-executive Director shall not exceed six years in accordance with PRC laws and regulations. The following table sets forth certain information regarding our Directors.

Name	Age	Position(s) held at our Bank as of the Latest Practicable Date	Time of joining our Bank	Date of appointment as a Director[1]	Responsibilities
Executive Directors					
Mr. LI Fuan (李伏安)	57	Executive Director and chairman of the Board of Directors	June 2015	June 26, 2015	Responsible for the overall management and strategies of the Bank, and in charge of all general affairs of the Board of Directors and the audit department
Mr. QU Hongzhi (屈宏志)	50	Executive Director	December 2019	January 23, 2020	Responsible for the operation and management of the Bank and in charge of the general office and assets and liabilities management department of our Bank
Mr. LI Yi (李毅)	52	Executive Director	June 2009	June 2, 2016	In charge of the corporate business department, group customer department, inclusive finance department, custody service department and transaction banking department of the Bank
Mr. DU Gang (杜剛)	49	Executive Director	March 2019	January 23, 2020	In charge of the internal control and compliance department, legal affairs department, human resource department, administrative department and security department of the Bank, and assisting in the management of the assets and liabilities management department

Name	Age	Position(s) held at our Bank as of the Latest Practicable Date	Time of joining our Bank	Date of appointment as a Director(1)	Responsibilities
Non-executive Directors					
Mr. FUNG Joi Lun Alan (馮載麟)	72	Non-executive Director and vice chairman of the Board of Directors	May 2010	August 16, 2010	Responsible for assisting the chairman with chairing the Board and participating in providing strategic advice on corporate developments and making recommendations on major operational and managerial decisions of our Bank
Mr. ZHANG Bingjun (張秉軍)	56	Non-executive Director	February 2013	April 28, 2013	Responsible for participating in providing strategic advice on corporate developments and making recommendations on major operational and managerial decisions of our Bank
Mr. CUI Xuesong (崔雪松)	41	Non-executive Director	December 2019	January 23, 2020	Responsible for participating in providing strategic advice on corporate developments and making recommendations on major operational and managerial decisions of our Bank
Ms. YUAN Wei (元微)	46	Non-executive Director	March 2019	December 25, 2019	Responsible for participating in providing strategic advice on corporate developments and making recommendations on major operational and managerial decisions of our Bank

Name	Age	Position(s) held at our Bank as of the Latest Practicable Date	Time of joining our Bank	Date of appointment as a Director[(1)]	Responsibilities
Mr. YE Baishou (葉柏壽)	58	Non-executive Director	April 2014	June 13, 2014	Responsible for participating in providing strategic advice on corporate developments and making recommendations on major operational and managerial decisions of our Bank
Mr. HU Aimin (胡愛民)	46	Non-executive Director	February 2018	September 25, 2018	Responsible for participating in providing strategic advice on corporate developments and making recommendations on major operational and managerial decisions of our Bank
Mr. ZHANG Xifang (張喜芳)	47	Non-executive Director	November 2019	January 15, 2020	Responsible for participating in providing strategic advice on corporate developments and making recommendations on major operational and managerial decisions of our Bank
Mr. ZHANG Yunji (張雲集)	65	Non-executive Director	February 2009	February 6, 2009	Responsible for participating in providing strategic advice on corporate developments and making recommendations on major operational and managerial decisions of our Bank

Name	Age	Position(s) held at our Bank as of the Latest Practicable Date	Time of joining our Bank	Date of appointment as a Director[(1)]	Responsibilities
Independent non-executive Directors					
Mr. MAO Zhenhua (毛振華)	56	Independent non-executive director	April 2016	June 2, 2016	Responsible for supervising and providing independent advice on the operation and management of our Bank
Mr. CHI Guotai (遲國泰)	64	Independent non-executive director	April 2016	June 2, 2016	Responsible for supervising and providing independent advice on the operation and management of our Bank
Mr. MU Binrui (牟斌瑞)	63	Independent non-executive director	May 2018	September 25, 2018	Responsible for supervising and providing independent advice on the operation and management of our Bank
Mr. TSE Yat Hong (謝日康)	50	Independent non-executive director	December 2019	June 11, 2020	Responsible for supervising and providing independent advice on the operation and management of our Bank
Mr. WANG Ren (汪韌)	47	Independent non-executive director	December 2019	June 11, 2020	Responsible for supervising and providing independent advice on the operation and management of our Bank
Mr. ZHU Ning (朱寧)	46	Independent non-executive director	December 2019	June 11, 2020	Responsible for supervising and providing independent advice on the operation and management of our Bank

Note:

1. The date of appointment as a Director here represents the date on which the relevant Director obtained the qualification approval from CBIRC.

Executive Directors

Mr. LI Fuan (李伏安), aged 57, is an executive Director and the chairman of the Board of Directors of the Bank. He is primarily responsible for the overall management and strategies of the Bank, and in charge of all general affairs of the Board of Directors and the audit department.

Mr. Li has more than 34 years of experience in banking industry. Prior to joining our Bank in June 2015, he worked in the CBRC (currently known as CBIRC) from July 2003 to June 2015, as a deputy director (副主任) of the policy and legal department (政策法規部) from July 2003 to November 2005, a deputy director from November 2005 to July 2006 and the director (主任) from July 2006 to December 2010 in the banking innovation supervision department (業務創新監管協作部), the head (局長) of Henan Supervision Bureau (河南監管局) from December 2010 to May 2014, and the director of non-bank financial institutions supervision department (非銀行金融機構監管部) from May 2014 to June 2015. Prior to that, Mr. Li worked in the PBoC from July 1985 to July 2003, and consecutively served as a staff member (科員), a senior staff member (副主任科員), and a principal staff member (主任科員) in the banking section II (銀行二處) of the internal control division (稽核司) from July 1985 to April 1994, a principal staff member from April 1994 to August 1994 and a deputy division director from August 1994 to August 1996 of off-site supervision division (非現場監督處) of the internal control and supervision bureau (稽核監督局), a deputy division director from August 1996 to August 1997 and a division director from August 1997 to August 1998 of foreign funds financial institutions division (外資金融機構處) of the internal control and supervision bureau, the division director (處長) from August 1998 to December 2000 in the foreign banks supervision division (外資銀行監管處) and a researcher (調研員) from December 2000 to August 2001 in the foreign banks supervision division I (外資銀行監管一處) of the first division of banks supervision (銀行監管一司), the division director (處長) of supervision and regulation division (監管制度處) of division of banks regulation (銀行管理司) from August 2001 to July 2002, and an assistant inspector (助理巡視員) of division of banks regulation from July 2002 to July 2003.

Mr. Li obtained a bachelor's degree in political economics from Wuhan University (武漢大學) in Hubei Province, the PRC, in July 1985. He obtained a master's degree from Southwestern University of Finance and Economics (西南財經大學) in Sichuan Province, the PRC, in July 1997, majoring in business administration. He has completed the fellowship program with a concentration in management administration and finance provided by Boston University in Boston, the United States, in May 2001. Mr. Li further obtained a doctorate's degree in management science and engineering in Dalian University of Technology (大連理工大學) in Liaoning Province, the PRC, in December 2010. He was awarded the title of senior economist by PBoC in September 1997.

Mr. QU Hongzhi (屈宏志), aged 50, is an executive Director and the president of our Bank. He is primarily responsible for the operation and management of our Bank, and in charge of the general office and assets and liabilities management department of our Bank.

Mr. Qu has over 28 years of experience in banking industry. Prior to joining our bank, he worked at Jiangsu branch of China Construction Bank Co., Ltd. (中國建設銀行股份有限公司) (a company listed on the Shanghai Stock Exchange with stock code 601939, and on the Hong Kong Stock Exchange with stock code 939) ("**CCB**") as vice president (副行長) from

September 2018 to December 2019. He worked at Tianjin branch of CCB from July 2012 to September 2018, and served as the assistant to the president (行長助理) from July 2012 to November 2013, and as the vice president from December 2013 to September 2018. From August 2006 to October 2012, Mr. Qu served as the president of Heping sub-branch (和平支行) of Tianjin branch, CCB. Prior to that, he was the president of Nankai sub-branch (南開支行) of Tianjin branch, CCB from July 2005 to August 2006. Mr. Qu was the general manager of asset security department (資產保全部) and legal matters department (法律事務部) at Tianjin branch of CCB from February 2005 to July 2005. Prior to that, he worked as the vice president of Heping sub-branch and Jinhong sub-branch (津宏支行) of Tianjin branch, CCB from March 2000 to February 2005. From July 1991 to March 2000, Mr. Qu worked at Hebei sub-branch (河北支行) and Beichen sub-branch (北辰支行) of Tianjin branch, CCB, and consecutively served as a cadre in the office (辦事處幹部), a cadre in the business section (業務科幹部), a deputy director in the operation department (營業部), the director (主任) of the president's office and the section chief (科長) of operation and management section (經營管理科).

Mr. Qu obtained a bachelor's degree from Tianjin University in Tianjin, the PRC, in July 1991, majoring in construction project management (基本建設管理工程). He obtained a master's degree from Nankai University in Tianjin, the PRC, in June 2006, majoring in finance. He further obtained a doctorate's degree in management from Tianjin University in Tianjin, the PRC, in January 2015, majoring in accounting. Mr. Qu was awarded the title of senior economist by CCB in December 2006.

Mr. LI Yi (李毅), aged 52, is an executive Director and a vice president of the Bank. He is in charge of the corporate business department, group customer department, inclusive finance department, custody service department and transaction banking department of our Bank.

Mr. Li has more than 27 years of experience in banking industry. He joined our Bank in June 2009 and worked as the chief risk officer of our Bank from August 2009 to May 2018. From August 1992 to June 2009, he worked for Bank of China Ltd. (中國銀行股份有限公司) (a company listed on the Shanghai Stock Exchange with stock code 601988, and on the Hong Kong Stock Exchange with stock code 3988) ("**BOC**"). Mr. Li was a cadre (幹部) in the section I of the joint ventures credit loans division (合資信貸處一科) from August 1992 to September 1996, a deputy section chief (副科長) of section I of the joint ventures credit loans division (合資信貸處一科), a deputy section chief of section IV of the credit loans business division (信貸業務處四科), and then a deputy section chief of the sino-foreign joint ventures credit loans section (三資企業信貸科) from September 1996 to November 1999, the section chief (科長) of the corporate business division (公司業務處) from November 1999 to November 2001, a vice president (副行長) of Chaoyang District sub-branch from November 2001 to October 2004, the president (行長) of Tongzhou District sub-branch from October 2004 to July 2006, a general manager (總經理) of the risk management department (風險管理部) from July 2006 to August 2007 in BOC Beijing branch. From August 2007 to June 2009, Mr. Li served as an assistant to president (行長助理) and chief risk officer for credit loans (信貸風險總監) in BOC Gansu branch.

Mr. Li obtained a bachelor's degree in law from Wuhan University in Hubei Province, the PRC, in July 1990, majoring in administrative management. He further obtained a master of business administration degree from Tianjin University (天津大學) in Tianjin, the PRC, in June 2014. Mr. Li was awarded the title of economist by BOC Beijing branch in December 1995.

Mr. DU Gang (杜剛), aged 49, is an executive Director and a vice president of our Bank. He is in charge of the internal control and compliance department, legal affairs department, human resource department, administrative department and security department of our Bank, and assisting in the management of the assets and liabilities management department.

Mr. Du has more than 23 years of experience in banking industry. Prior to joining our Bank, Mr. Du worked at CBRC (currently known as CBIRC) from September 2009 to March 2019, served as a researcher (調研員) in the market admission division (市場准入處) of the banking supervision department II (銀行監管二部) from September 2009 to August 2010, the secretary (division level) (正處級秘書) of the general department (party committee office) (辦公廳(黨委辦公室)) from August 2010 to May 2014, a deputy inspector (副巡視員) of the banking supervision department II from May 2014 to January 2015, a deputy inspector of the national joint stock commercial bank supervision department (全國性股份制商業銀行監管部) from January 2015 to March 2018, a deputy director level cadre (副局級幹部) from March 2018 to September 2018, and a deputy inspector of the national joint stock commercial bank supervision department from September 2018 to March 2019. Prior to that, Mr. Du served as a financial specialist (金融專家) at the China and Mongolia Department of the World Bank (世界銀行中蒙局) from April 2008 to September 2009. Mr. Du worked at the training division II (培訓二處) of the training center in CBRC from September 2003 to April 2008, and served as a cadre (幹部) from September 2003 to December 2003, a deputy division director (副處長) from December 2003 to November 2006, and the division director (處長) from November 2006 to April 2008. Prior to that, Mr. Du worked at the PBoC from August 1996 to September 2003, and consecutively served as a cadre (幹部) of the head office and worked at the PBoC Jiaxing branch in Zhejiang Province (浙江省嘉興市分行) from August 1996 to September 1997, a senior staff member (副主任科員) of the foreign affairs division (外資處) of the audit and supervision bureau (稽核監督局) from September 1997 to August 1998, a senior staff member of the foreign bank supervision division (外資銀行監管處) of the banking supervision department I (銀行監管一司) from August 1998 to September 2000, a principal staff member (主任科員) of the foreign bank supervision division I (外資銀行監管一處) of the banking supervision department I from September 2000 to October 2001, and a principal staff member of the foreign bank supervision division II (外資銀行監管二處) of the banking supervision department I from October 2001 to September 2003.

Mr. Du obtained a master's degree in economics at the graduate students department finance research center of the PBoC head office (中國人民銀行總行金融研究所研究生部), in Beijing, the PRC, in April 1996, majoring in international finance.

Non-executive Directors

Mr. FUNG Joi Lun Alan (馮載麟), aged 72, is a non-executive Director and vice chairman of the Board of Directors of the Bank. He is primarily responsible for assisting the chairman with chairing the Board and participating in providing strategic advice on corporate developments and making recommendations on major operational and managerial decisions of our Bank.

Mr. Fung has more than 49 years of experience in banking industry. He has been the head of strategic development (戰略發展總監) (Greater China) of SCB (a subsidiary of Standard Charted Plc. (a company listed on the Hong Kong Stock Exchange with stock code 2888, London Stock Exchange with stock code STAN, Bombay Stock Exchange and National Stock Exchange of India Ltd. with stock code STAN)) from August 2010 to December 2018, responsible for leading and implementing strategic plans and cross-border projects within the Greater China region. Mr. Fung has joined SCB since August 1970 and he assumed numerous positions during his tenure, among which he was the regional head of operations, East Asia (東亞區運營總監) from October 1995 to June 1996, and he was responsible for the operational management and risk control of Korea, Japan, Philippines, Taiwan region, Brunei, Australia and Vietnam branches in the position. He was also appointed as the chief operating officer of the China region (中國區首席運營總監) from March 2006 to May 2010, responsible for leading a department offering major support functions, as well as strategic and cross-border projects plans.

Mr. Fung obtained a bachelor's degree of social sciences, majoring in economics, accounting and business administration from the University of Hong Kong (香港大學) in Hong Kong in November 1970. He obtained the qualification as an associate of the Chartered Institute of Bankers, England in December 1974. Mr. Fung was conferred on the Magnolia Silver Award (白玉蘭紀念獎) in appreciation of his valuable support to Shanghai's development and outstanding contribution to friendly cooperation by the Director General of Foreign Affairs Office (外事辦公室主任) in Shanghai Municipal People's Government (上海市人民政府) in September 2010.

Mr. Fung was the director of the company shown in the table below before its dissolution.

Name of the Company	Place of establishment	Position	Status	Date of dissolution
SCMBA (Hong Kong) Limited	Hong Kong	Director	Dissolved	June 3, 2004

Mr. Fung confirmed that SCMBA (Hong Kong) Limited was dissolved after exiting certain business. Mr. Fung confirmed that he did not incur any debt and/or liabilities because of such dissolution, and that the dissolution did not have any negative effect on our Bank.

Mr. ZHANG Bingjun (張秉軍), aged 56, is a non-executive Director of the Bank. He is primarily responsible for participating in providing strategic advice on corporate developments and making recommendations on major operational and managerial decisions of our Bank.

Mr. Zhang has more than 35 years of experience in investment and corporate management. He has been working for TEDA Holding since June 2006, as the general manager from June 2006 to November 2011, and has been the chairman of the board since January 2011. Mr. Zhang has also been the executive director and chairman of the board of directors of Binhai Investment Company Limited (濱海投資有限公司) (a company listed on the Hong Kong Stock Exchange with stock code 2886) since February 2011. Prior to that, Mr. Zhang worked as a deputy general manager in Tianjin Zhonghuan Electronic Information Group Co., Ltd. (天津中環電子信息集團有限公司) from January 2006 to June 2006. He was the general manager from April 1997 to June 2006 and the chairman of the board of directors from July 1999 to March 2014 of TOEC Group Co., Ltd. (天津光電集團有限公司). Mr. Zhang worked for Tianjin

Optic-Electronics Telecom Co., Ltd. (天津光電通信公司), and consecutively served as a technical cadre (技術幹部), the deputy head of sub-factory (分廠副廠長), the director (主任) of technology development center, a deputy general manager, and then the chief engineer from August 1984 to April 1997.

Mr. Zhang obtained a bachelor's degree in engineering from Northwestern Institute of Telecommunication Engineering (西北電訊工程學院) (currently known as Xidian University (西安電子科技大學)) in Shaanxi Province, the PRC, in July 1984. He is a senior engineer (高級工程師(正高級)) granted by Tianjin Personnel Bureau (天津市人事局) in December 1999.

Mr. Zhang was the legal representative, director or responsible person of the companies shown in the table below before their respective revocation of business license.

Name of the Company	Place of establishment	Position	Status	Date of revocation of business license
Tianjin Ventech Electronics Co., Ltd. (天津萬泰克電子有限公司)	PRC	Legal representative and chairman of the board of directors	Business license revoked	December 31, 2008
Tianjin Yuhe Technology Co., Ltd. (天津雨和科技有限公司)	PRC	Vice chairman of the board of directors	Business license revoked	December 31, 2008

Mr. Zhang confirmed that the lack of necessary files to deregister Tianjin Ventech Electronics Co., Ltd. and Tianjin Yuhe Technology Co., Ltd. was the reason of revocation of business licenses of these two companies as an alternative way to deregistration, and that the close of business of these two companies is also because of the change of strategic plan of TOEC Group Co., Ltd. (天津光電集團有限公司) as the parent company. Mr. Zhang confirmed that he did not incur any debt and/or liabilities because of such revocation of business license, and that the revocation of business license did not have any negative effect on our Bank.

Mr. CUI Xuesong (崔雪松), aged 41, is a non-executive Director of the Bank. He is primarily responsible for participating in providing strategic advice on corporate developments and making recommendations on major operational and managerial decisions of our Bank.

Mr. Cui has more than 18 years of experience in corporate management. He has been working for TEDA Holding since October 2009, as a staff from October 2009 to March 2011 and as a deputy manager from March 2011 to June 2014 of the investment management department, and as the manager of asset management department from June 2014 to September 2018, and has been the assistant to the general manager since September 2019. Prior to that, he worked in TEDA Chemical Industrial Area Corp. (天津開發區化學工業區總公司) from July 2005 to October 2009, as a staff in the planning and development department (規劃發展部) from July 2005 to April 2006, as a deputy director of the office (辦公室副主任) from April 2006 to March 2009, and then as the head of the enterprise-invitation department (招商部部長) from March 2009 to October 2009. From June 2001 to July 2005, Mr. Cui worked in Tianjin University, as a staff member (科員) of section of secretary to school office (兩辦秘書科) from

June 2001 to March 2003, as a staff member of section of student management (學生管理科) in department of student affairs (學工部) from March 2003 to December 2003, and then a deputy section chief (副科長) of organizational section (組織科) from December 2003 to July 2005.

The table below sets forth (i) the current directorship held by Mr. Cui, and (ii) the past directorship of Mr. Cui in listed companies in the last three years:–

Name of the Company	Place of Establishment/ incorporation	Nature of Business	Position	Term of Service
Tianjin TEDA International (Group) Co., Ltd. (天津市泰達國際控股(集團)有限公司), a subsidiary of TEDA Holdings	PRC	Investment in the financial and other sectors, and other business	Director	September 2019 to present
Chengdu TEDA Rongxing Real Estate Co., Ltd. (成都泰達蓉興置業有限公司)	PRC	Property development	Chairman of the board of directors	December 2017 to November 2019
Tianjin TEDA Co., Ltd. (天津泰達股份有限公司), listed on the Shenzhen Stock Exchange (stock code: 000652)	PRC	Investment and asset management, and property leasing and management	Director	April 2018 to December 2019
TEDA Hong Kong Property Company Limited (泰達香港置業有限公司)	Hong Kong	Utilities	Director	October 2017 to present
Tianjin Binhai TEDA Aircraft Carrier Tourism Group Co., Ltd. (天津濱海泰達航母旅遊集團股份有限公司), listed on the National Equities Exchange and Quotation (stock code: 872829)	PRC	Development and management of tourism attraction facilities	Vice chairman of the board of directors	November 2016 to November 2019
Tianjin TEDA Asset Operating and Management Co., Ltd. (天津泰達資產運營管理有限公司)	PRC	Asset management services	Chairman of the board of directors	August 2016 to present
Tianjin TEDA East Gas Co., Ltd. (天津泰達東方油氣有限公司)	PRC	Liquefied petroleum gas storage and sale	Vice chairman of the board of directors	May 2016 to present
Tianjin PEPSI-COLA Beverage Company Limited (天津百事可樂飲料有限公司)	PRC	Food manufacturing and sale, and market promotion	Director	June 2013 to present
Tianjin Binhai Energy & Development Co., Ltd. (天津濱海能源發展股份有限公司), listed on the Shenzhen Stock Exchange (stock code: 000695)	PRC	Heating power production and supply	Director	May 2014 to June 2018

Name of the Company	Place of Establishment/ incorporation	Nature of Business	Position	Term of Service
Tianjin Binhai TEDA Logistics (Group) Corporation Limited (天津濱海泰達物流集團股份有限公司), listed on the Hong Kong Stock Exchange (stock code: 8348)	PRC	Logistics services	Non-executive director	June 2014 to July 2018

Mr. Cui obtained a bachelor's degree from Tianjin University in Tianjin, the PRC, in June 2001, majoring in bioengineering. He further obtained a master's degree from Tianjin University in Tianjin, the PRC, in March 2005, majoring in management science and engineering. Mr. Cui was awarded the titles of senior engineer and senior economist by Tianjin Human Resources and Social Security Bureau in April 2015 and December 2016, respectively.

Ms. YUAN Wei (元微), aged 46, is a non-executive Director of the Bank. She is primarily responsible for participating in providing strategic advice on corporate developments and making recommendations on major operational and management decisions of our Bank.

Ms. Yuan has more than 15 years of experience in finance. She has been working for COSCO SHIPPING Development Co., Ltd. (中遠海運發展股份有限公司) (a company listed on the Shanghai Stock Exchange with stock code 601866 and on the Hong Kong Stock Exchange with stock code 2866) (formerly known as China Shipping Container Lines Co., Ltd. (中海集裝箱運輸股份有限公司)) since May 2016, and consecutively served as a deputy general manager (副總經理) of financial business department (金融業務部) and chief representative of Beijing representative office (北京辦首席代表), a deputy general manager of financial affairs department (金融事業部) and the general manager of financial investment department (金融投資部) of financial affairs department. She has also been working for COSCO Shipping Captive Insurance Co., Ltd. (中遠海運財產保險自保有限公司) as the investment director (投資總監) since March 2017. Prior to that, she was the manager in the mergers and acquisitions management section (併購管理室) in asset operation department (資本運營部) of China COSCO Shipping Corporation Limited (中國遠洋海運集團有限公司) from February 2016 to May 2016. Ms. Yuan worked as a staff and as a deputy manager in the financial management section (金融管理室) for China Ocean Shipping (Group) Company (中國遠洋運輸(集團)總公司) from January 2005 to February 2016.

Ms. Yuan obtained a bachelor's degree in economics from Tianjin Institute of Finance & Economics (天津財經學院) (currently known as Tianjin University of Finance & Economics (天津財經大學)) in Tianjin, the PRC, in July 1996, majoring in international economic cooperation (國際經濟合作). She obtained a master's degree from Tianjin Institute of Finance & Economics in Tianjin, the PRC, in June 1999, majoring in international trading. Ms. Yuan further obtained a doctorate's degree from Central University of Finance and Economics (中央財經大學) in Beijing, the PRC, in June 2006, majoring in finance. She was awarded the title of senior economist by Ministry of Transport of the PRC in November 2006. Ms. Yuan passed the Futures Professional Qualification Examination organized by China Futures Association in June 2005.

Mr. YE Baishou (葉柏壽), aged 58, is a non-executive Director of the Bank. He is primarily responsible for participating in providing strategic advice on corporate developments and making recommendations on major operational and managerial decisions of our Bank.

Mr. Ye has more than 24 years of experience in finance and corporate management. He has been the chairman of the board of directors for SDIC Capital Co., Ltd. (國投資本股份有限公司) (formerly known as SDIC Essence (Holdings) Co., Ltd. (國投安信股份有限公司) and Zhongfang Investment Development Co., Ltd. (中紡投資發展股份有限公司)) (a company listed on the Shanghai Stock Exchange with stock code 600061) since May 2017. He is also currently the chairman of the board of directors for UBS SDIC Fund Management Co., Ltd. (國投瑞銀基金管理有限公司) and SDIC Trust Co., Ltd. (國投泰康信託有限公司).

Mr. Ye assumed various positions in State Development & Investment Corp. Ltd. (國家開發投資集團有限公司) since September 2005, as deputy director (副主任) of finance planning department (計劃財務部) from September 2005 to October 2005, deputy director from October 2005 to September 2007 and then director (主任) of finance and accounting department (財務會計部) from September 2007 to December 2013, and then director (主任) of finance and accounting department and deputy chief economist (副總經濟師) from December 2013 to August 2014. From August 2014 to May 2017, he served as vice chairman of the board of directors from August 2014 to July 2015, and then chairman of the board of directors from July 2015 to May 2017 for SDIC Capital Holdings Co., Ltd. (國投資本控股有限公司). Prior to that, Mr. Ye was the chairman of the board of directors of Shenzhen Kangtai Biological Products Co., Ltd. (深圳康泰生物製品股份有限公司) (a company listed on the Shenzhen Stock Exchange with stock code 300601) from December 2003 to December 2005. He also worked for State Development & Investment Corp., Ltd. from May 1995 to October 2003, as a cadre (幹部) in finance and accounting department from May 1995 to October 1997, the division director (處長) of the funds division (資金處) from October 1997 to September 2000, the division director of the finance division (財務處) from September 2000 to March 2001, a deputy director (副主任) of finance and accounting department from March 2001 to October 2002, and then a deputy director (副主任) of finance planning department from October 2002 to October 2003.

Mr. Ye obtained a bachelor's degree in economics from Jiangxi Institute of Finance and Economies (江西財經學院) (currently known as Jiangxi University of Finance and Economics (江西財經大學)) in Jiangxi Province, the PRC, in July 1983, majoring in finance (財政). He was certified as a senior accountant (正高級會計師) by senior professional technical qualification review committee of the SDIC Group (國投集團高級專業技術資格評審委員會) in September 2019.

Mr. HU Aimin (胡愛民), aged 46, is a non-executive Director of the Bank. He is primarily responsible for participating in providing strategic advice on corporate developments and making recommendations on major operational and managerial decisions of our Bank.

Mr. Hu has more than 24 years of experience in corporate management and the financial industry. He has been working as the general manager of industry and finance integrated development center (產業金融業發展中心) in China Baowu Steel Group Corporation Limited (中國寶武鋼鐵集團有限公司) (formerly known as Shanghai Baosteel Group Co., Ltd. (寶鋼集團有限公司)) and a director of Hwabao Investment Co., Ltd. (華寶投資有限公司) since July 2019, a supervisor of Xinjiang Tianshan Steel United Co., Ltd. (新疆天山鋼鐵聯合有限公司) since March 2020, the chairman of the board of directors of Hwa Bao Securities Co., Ltd. (華

寶證券有限公司) since December 2019, a director of Hwa Bao Trust Co., Ltd. (華寶信託有限責任公司) since November 2019, a director of Baowu Group Guangdong Shaoguan Steel Co., Ltd. (寶武集團廣東韶關鋼鐵有限公司) since September 2019, the general manager and a director of Hwabao Investment Co., Ltd. since August 2019, a director of New China Life Insurance Company Ltd. since June 2016, and also a director of Zhongjin Ruide (Shanghai) Shareholding Investment Management Co., Ltd. (中金瑞德(上海)股權投資管理有限公司) since January 2016. Prior to that, he worked in Shanghai Baosteel Packaging Co., Ltd. (上海寶鋼包裝股份有限公司) as a senior vice chief executive officer from July 2018 to July 2019 and a director from June 2019 to October 2019. From August 1995 to July 2018, Mr. Hu also worked for China Baowu Steel Group Corporation Limited, and consecutively served as a senior manager (高級管理師) in the asset operation department (資產經營部), a professional researcher (專業研究員), the director for investment, merger and acquisition (投資併購主管) and a deputy general manager and the general manager in the capital operation department (資本運營部), and then the general manager in the investment management department (投資管理部).

Mr. Hu is or has been a director of the listed companies shown in the table below.

Name of the Company	Place of Establishment	Nature of Business	Position	Term of Service
Shanghai Baosteel Packaging Co., Ltd. (上海寶鋼包裝股份有限公司), listed on the Shanghai Stock Exchange (stock code: 601968)	PRC	Design and sale of packaging products, and technology services, consulting, development and transfer of rights of packaging materials	Director	June 2019 to October 2019
New China Life Insurance Company Ltd. (新華人壽保險股份有限公司), listed on the Shanghai Stock Exchange (stock code: 601336) and Hong Kong Stock Exchange (stock code: 1336)	PRC	Life insurance business	Director	June 2016 to present

Mr. Hu obtained a bachelor's degree in economics from Jiangxi Institute of Finance and Economies (江西財經學院) (currently known as Jiangxi University of Finance and Economics (江西財經大學)) in Jiangxi Province, the PRC, in July 1995, majoring in corporate management. He is a holder of Corporate Legal Counsel (企業法律顧問) Certificate granted by the then National Ministry of Human Resources (人事部), then State Economic and Trade Committee (國家經濟貿易委員會), and Ministry of Justice (司法部) in January 1999.

Mr. ZHANG Xifang (張喜芳), aged 47, is a non-executive Director of the Bank. He is primarily responsible for participating in providing strategic advice on corporate developments and making recommendations on major operational and managerial decisions of our Bank.

Mr. Zhang has more than 24 years of experience in financial industry. He has been a vice executive officer (執行副總裁) and an executive director of China Oceanwide Holdings Group Co., Ltd. (中國泛海控股集團有限公司) since February 2019, and the chairman of the board of directors of Oceanwide Investment Group Co., Ltd. (泛海投資集團有限公司) ("**Oceanwide Investment**") since June 2019. He has been a director since January 2017 and was a vice executive officer from May 2016 to February 2019 in Oceanwide Holdings Co., Ltd. (泛海控股股份有限公司) (a company listed on the Shenzhen Stock Exchange with stock code 000046). Mr. Zhang worked as the vice chairman of the board of directors in Oceanwide Investment from June 2018 to June 2019. He was the chief executive officer from January 2016 to June 2019 and a director from February 2016 to June 2019, and he has been the chairman of the board of supervisors since June 2019 of Oceanwide Equity Investment Management Co., Ltd. (泛海股權投資管理有限公司). Prior to that, Mr. Zhang served as the chairman of the board of directors in Yingda Insurance Asset Management Co., Ltd. (英大保險資產管理有限公司) from December 2014 to January 2016. He was also the general manger and a director of Yingda Taihe Property Insurance Co., Ltd. (英大泰和財產保險股份有限公司) from November 2014 to December 2015. Prior to that, Mr. Zhang worked for State Grid Yingda International Holdings Group Ltd. (國網英大國際控股集團有限公司) as a deputy general manager from December 2010 to November 2014. From February 2009 to December 2010, he served as a deputy general manager for State Grid Asset Management Co., Ltd. (國網資產管理有限公司). Mr. Zhang worked for State Grid Corporation of China (國家電網公司) from December 2005 to November 2010, consecutively as the head of the operation division (運行處處長) and then the deputy director (副主任) in finance and asset management department (金融資產管理部). Prior to that, he worked for China Power Finance Co., Ltd. (中國電力財務有限公司) from January 2000 to December 2005, as the manager of corporate financing department from January 2000 to March 2003, the manager of institution management department (機構管理部) from March 2003 to September 2004, the director (主任) of directly-subordinate institution management department (直屬機構管理部) from September 2004 to April 2005, the director (主任) of development planning department (發展策劃部) from April 2005 to December 2005. He also served as a deputy director (副主任) of the development research center (發展研究中心) in China Power Finance Co., Ltd. from November 2005 to December 2005. From July 1995 to January 2000, he worked for China Power trust and Investment Co., Ltd. (中國電力信託投資有限公司), as a staff and then the responsible person of Fujian business department (福建業務部) from July 1995 to October 1997, a deputy manager from October 1997 to May 1998 and the assistant to manager from May 1998 to May 1999 in investment development department, and the responsible person from May 1999 to November 1999 and then the manager from November 1999 to January 2000 in corporate finance department.

The table below sets forth (i) the current directorship and supervisorship held by Mr. Zhang, and (ii) the past directorship of Mr. Zhang in listed companies in the last three years:–

Name of the Company	Place of Establishment/ incorporation	Nature of Business	Position	Term of Service
Asia-Pacific Property and Casualty Insurance Co., Ltd. (亞太財產保險有限公司)	PRC	Insurance business	Director	January 2019 to present

Name of the Company	Place of Establishment/ incorporation	Nature of Business	Position	Term of Service
Ocean Industrial Stock Co., Ltd. (泛海實業股份有限公司)	PRC	Self-owned asset investment, real estate property investment and development, property management and leasing, and other services	Director	February 2018 to present
Wuhan Central Business Zone Stock Co., Ltd. (武漢中央商務區股份有限公司)	PRC	Real estate development and sale; project investment, and Infrastructure project	Director	November 2017 to present
China Oceanwide Holdings Limited (中泛控股有限公司), listed on the Hong Kong Stock Exchange (stock code: 715.HK)	Bermuda	Real estate and financial investment, property development and operation of power plants	Executive director	August 2017 to present
Wuhan Central Business Zone Operation and Development Co., Ltd. (武漢中央商務區運營發展有限公司)	PRC	Property leasing and management, hotel management, conference and exhibition services, and other services	Chairman of the board of directors	June 2017 to present
China Minsheng Trust Co., Ltd. (中國民生信託有限公司)	PRC	Trust and investment business, and other financial business	Vice chairman of the board of directors and director	December 2019 to present (as vice chairman of the board of directors) and August 2016 to present (as director)
China Tonghai International Financial Ltd. (中國通海國際金融有限公司), listed on the Hong Kong Stock Exchange (stock code: 0952.HK) (formerly known as Quam Limited (華富國際控股有限公司) and China Oceanwide International Financial Limited (中國泛海國際金融有限公司) until May 2018)	Bermuda	Securities and futures trading, ration services, securities margin financing and debts, fund and wealth management services	Executive director	February 2017 to present
Minsheng Securities Co., Ltd. (民生證券股份有限公司)	PRC	Securities investment, financial consulting related to securities trading, and other services	Director	November 2016 to present

Mr. Zhang obtained a bachelor's degree in economics from Central Institute of Finance and Banking (中央財政金融學院) (currently known as Central University of Finance and Economics (中央財經大學)) in Beijing, the PRC, in June 1995, majoring in accounting. He obtained a master's degree in business management from Tsinghua University (清華大學) in Beijing, the PRC, in January 2009. Mr. Zhang was awarded the title of senior economist by assessment committee on senior professional and technical qualifications of State Grid Corporation of China (國家電網公司高級專業技術資格評審委員會) in December 2007. He is a holder of the AMAC Fund Qualification Certificate granted by Asset Management Association of China in December 2016. Mr. Zhang is also a holder of Secretary to the Board of Directors Certificate granted by the Shenzhen Stock Exchange in March 2017.

Mr. Zhang was the supervisor of the company shown in the table below before its revocation of business license.

Name of the Company	Place of establishment	Position	Status	Date of revocation of business license
China Telecom Power Development Co., Ltd. (中電信電力開發有限責任公司)	PRC	Supervisor	Business license revoked	August 23, 2005

Mr. Zhang confirmed that the revocation of business license of China Telecom Power Development Co., Ltd. was due to the close of business as required by regulatory authorities. Mr. Zhang confirmed that he did not incur any debt and/or liabilities because of such revocation of business license, and that the revocation of business license did not have any negative effect on our Bank.

Mr. ZHANG Yunji (張雲集), aged 65, is a non-executive Director of the Bank. He is primarily responsible for participating in providing strategic advice on corporate developments and making recommendations on major operational and managerial decisions of our Bank.

Mr. Zhang has more than 38 years of experience in finance and banking industry. He is currently the chairman of the board of directors of Tianjin Shanghui Investment Holding Company Limited (天津商匯投資(控股)有限公司) and Rongxinhui (Tianjin) Finance Lease Co., Ltd. (融鑫匯(天津)租賃有限公司). Mr. Zhang was the chairman of the board of directors and the general manager of Tianjin Rongsheng Xinye Investment and Development Co., Ltd. (天津融昇鑫業投資發展有限公司) from October 2008 to July 2019. Prior to that, he worked in Tianjin Branch of Industrial and Commercial Bank Ltd. (a company listed on the Shanghai Stock Exchange with stock code 601398, and on the Hong Kong Stock Exchange with stock code 1398) ("**ICBC**") from January 2000 to June 2008, as the general manager of the market development department (市場拓展部) since January 2000 to January 2001, as the general manager of the operation department (營業部) from January 2001 to September 2005, as the assistant to the president (行長助理) from March 2004 to September 2005, and as the vice president (副行長) from September 2005 to June 2008. Mr. Zhang consecutively served as the vice president (副行長) and president (行長) of the ICBC Xiqing Sub-branch (西青支行) from March 1997 to January 2000. From August 1985 to March 1997, he worked in the ICBC Nankai Sub-branch (南開支行), and consecutively as a deputy section chief (副科長) in the business credit loan section (商業信貸科), a deputy section chief (副科長) and the section chief in the industrial credit loan section (工業信貸科), and then the deputy president (副行長). Mr. Zhang consecutively served as an accountant at Chengdu Road Branch Office (成都道分理處) in Heping District (和平區) Sub-branch and a credit loan officer (信貸員) in the business credit loan section (商業信貸科) at Nankai District Office (南開區辦) of PBoC from March 1979 to August 1983.

Mr. Zhang obtained a master's degree in business administration from Macau University of Science and Technology (澳門科技大學) in Macau in March 2003.

Mr. Zhang was the shareholder and the only director of the company shown in the table below before its dissolution.

Name of the Company	Place of establishment	Position	Status	Date of dissolution
Hong Kong Ronghai Co., Ltd. (香港融海有限公司)	Hong Kong	Shareholder and director	Dissolved	May 27, 2016

Mr. Zhang confirmed that the dissolution of Hong Kong Ronghai Co., Ltd. was a normal business decision due to market changes and the deterioration of its operational and financial conditions. Mr. Zhang confirmed that he did not incur any debt and/or liabilities because of such deregistration, and that the deregistration did not have any negative effect on our Bank.

Independent Non-executive Directors

Mr. MAO Zhenhua (毛振華), aged 56, is an independent non-executive Director of our Bank. He is primarily responsible for supervising and providing independent advice on the operation and management of our Bank.

Mr. Mao has more than 27 years of researching experience in economics and in management. He has been working as the chairman of the board of directors of China Chengxin Credit Management Co., Ltd. (中國誠信信用管理股份有限公司) (formerly known as China Chengxin Securities Rating Co., Ltd. (中國誠信證券評估有限公司)) since October 1992, the joint head (聯席所長) of the Economic Research Institute of Renmin University of China (中國人民大學經濟研究所) since July 2006, and the dean (院長) of Dong Fureng Economic and Social Development Research Institute of Wuhan University (Beijing) (武漢大學董輔礽經濟社會發展研究院 (北京)) since April 2013. Mr. Mao served as a director from September 2006 to September 2019, and has been the chief economist of China Chengxin International Credit Rating Co., Ltd. (中誠信國際信用評級有限責任公司) since June 2016.

Mr. Mao has been a director of the companies shown in the table below.

Name of the Company	Place of Establishment/ incorporation	Nature of Business	Position	Term of Service
Airstar Bank Limited (天星銀行有限公司) (formerly known as Insight Fintech HK Limited (洞見金融科技有限公司))	Hong Kong	Financial services	Director	January 2020 to present

Name of the Company	Place of Establishment/ incorporation	Nature of Business	Position	Term of Service
Shengang Securities Co., Ltd. (申港證券股份有限公司)	PRC	Asset management, securities brokerage, securities underwriting and sponsoring and proprietary trading in securities	Director	July 2016 to present
China Infrastructure & Logistics Group Ltd. (中國通商集團有限公司) (formerly known as CIG Yangtze Ports PLC (中國基建港口有限公司), listed on the Hong Kong Stock Exchange (stock code: 1719))	Cayman Islands	Port construction and operation, port and warehouse leasing, and logistics services and supply chain management and trading services	Independent non-executive director	January 2016 to present
Meilleure Health International Industry Group Limited (美瑞健康國際產業集團有限公司) (formerly known as U-Home Group Holdings Limited (宇業集團控股有限公司) and Jiaw Bio-Pharm Holdings Limited (積華生物醫藥控股有限公司), listed on the Hong Kong Stock Exchange (stock code: 2327))	Bermuda	Packaging, purchase, sale, design and manufacturing of goods	Non-executive director	October 2015 to present
China Chengxin Credit Technology Co., Ltd. (中誠信徵信有限公司)	PRC	Collection and rating of credibility of corporations	Director	September 2013 to February 2017, and January 2018 to present
Zhong Chengxin Securities Rating Co., Ltd. (中誠信證券評估有限公司)	PRC	Credit rating in securities market	Chairman of the board of directors and then a director	August 2000 to December 2010 (as chairman of the board of directors) and December 2010 to present (as director)
China Chengxin Investment Group Co., Ltd. (中誠信投資集團有限公司)	PRC	Bonds rating, credit management, credit investigation services and investment management	Chairman of the board of directors	February 2002 to present

Mr. Mao obtained a doctorate's degree from Wuhan University in economics in Hubei Province, the PRC, in January 1999, majoring in political economics. He was awarded the title of senior economist by Department of Agriculture of the PRC in July 1995.

Mr. Mao was the director or shareholder of the companies shown in the table below before their respective deregistration, dissolution or striking off.

Name of the Company	Place of establishment	Position	Status	Date of deregistration, dissolution or striking off
Ocean International Investment Holding Co., Ltd. (大洋國際投資集團有限公司)	Hong Kong	Shareholder and director	Dissolved	November 2002
Everlite (HK) Investment Ltd. (恒輝(香港)投資有限公司)	Hong Kong	Director	Striking off	September 10, 2004
KW Finance Limited (formerly known as ACE Nobel Limited)	Hong Kong	Director	Deregistered (撤銷註冊)	June 12, 2015
Luxe Fund Investment Ltd. (裕川投資有限公司)	Hong Kong	Shareholder and director	Dissolved	May 25, 2007

Mr. Mao confirmed that the deregistration of KW Finance Limited, the dissolution of Ocean International Investment Holding Co., Ltd. and Luxe Fund Investment Ltd., and the striking off of Everlite (HK) Investment Ltd., were out of normal business decisions and due to their respective operational conditions. Mr. Mao confirmed that he did not incur any debt and/or liabilities because of such deregistration, dissolution, and striking off and that the deregistration, dissolution, striking off and the cease of business did not have any negative effect on our Bank.

Mr. CHI Guotai (遲國泰), aged 64, is an independent non-executive Director of our Bank. He is primarily responsible for supervising and providing independent advice on the operation and management of our Bank.

Mr. Chi has more than 36 years of teaching and research experience in banking management field. He has been working for Dalian University of Technology (大連理工大學) since May 1994, and has been working as an associate professor and then a professor in the School of Economics and Management. He has also been a doctoral advisor of Dalian University of Technology since March 2004. Prior to that, Mr. Chi worked in Heilongjiang College of Financial Staff (黑龍江金融職工學院) from January 1984 to May 1994, and has served as a lecturer (講師), and then an associate professor in the banking management department (銀行管理系).

Mr. Chi obtained a bachelor's degree in engineering from Jiamusi Institute of Agricultural Machinery (佳木斯農業機械學院) in Heilongjiang Province, the PRC, in July 1982, majoring in machinery (機械製造). He obtained a master's degree in engineering from Dalian University of Technology in Liaoning Province, the PRC, in August 1997. Mr. Chi further obtained a doctorate's degree in management from Dalian University of Technology in July 2004, majoring in management science and engineering.

Mr. Chi ranked 29th in the 2006-2018 Journals and Dissertations by University Humanities and Social Sciences Scholars (Economics) (高校社科學者(經濟學)期刊論文) by Academic Journal (學術志) in January 2019. He ranked 20th in terms of academic impact as a Chinese university accounting scholar (中國高校會計學者學術影響力) evaluated by the Research Group for Assessment on academic impact of university accounting scholars (高校會計學者學術影響力評價課題組) in October 2016. Mr. Chi's *Optimization Theories, Models and Application for Asset and Liabilities of Banks* (銀行資產負債管理優化理論、模型與應用) was awarded the second prize in the Sixth Liaoning Province Philosophy of Social Sciences Award – Achievement Award (第六屆遼寧省哲學社會科學獎.成果獎) by Liaoning Municipal People's Government (遼寧省人民政府) in December 2018. His *Comprehensive Evaluation Theories, Methods and Applications Based on Scientific Development* (基於科學發展的綜合評價理論、方法與應用) was awarded the third prize in Sixth University Scientific Research Excellent Achievement Award (Humanities and Social Sciences) (Works Category) (第六屆高等學校科學研究優秀成果(人文社會科學)著作類) by the Ministry of Education of the PRC in March 2013.

Mr. MU Binrui (牟斌瑞), aged 63, is an independent non-executive Director of our Bank. He is primarily responsible for supervising and providing independent advice on the operation and management of our Bank.

Mr. Mu has more than 24 years of experience in banking industry. He has been an independent non-executive director of China Yongda Automobiles Services Holdings Limited (中國永達汽車服務控股有限公司) (a company listed on the Hong Kong Stock Exchange with stock code 3669) since January 2019. Mr. Mu served as an independent non-executive director of Huabang Financial Holdings Limited (華邦金融控股有限公司) (formerly known as Goldenmars Technology Holdings Limited (晶芯科技控股有限公司)) (a company listed on the Hong Kong Stock Exchange with stock code 3638) from January 2017 to March 2018. He worked for the head office of Bank of Communications Co., Ltd. (a company listed on the Hong Kong Stock Exchange with stock code 3328 and on the Shanghai Stock Exchange with stock code 601328) ("**BOCOM**") from June 1995 to September 2016, as the division chief (處長) from June 1995 to November 1996 in foreign exchange business management division (外匯業務管理處) of foreign business department (國外業務部), consecutively as a deputy general manager of foreign business department, marketing department (市場營銷部) and credit management department (授信管理部) from November 1996 to October 2004, as the general manager of credit management department from October 2004 to February 2016, and as a deputy chief credit executive officer (副首席信貸執行官) from March 2013 to September 2016.

Mr. Mu graduated from Renmin University of China through long distance learning in Beijing, the PRC, in March 2005, majoring in finance. He was awarded the title of senior economist by BOCOM in December 1997. Mr. Mu was awarded the certificate of special government allowance by the State Council in February 2013.

Mr. TSE Yat Hong (謝日康), aged 50, is an independent non-executive Director of our Bank. He is primarily responsible for supervising and providing independent advice on the operation and management of our Bank.

Mr. Tse has over 26 years of experience in accounting, finance and corporate management for listed companies. He has been an independent non-executive director of Sky Light Holdings Limited (天彩控股有限公司) (a company listed on the Hong Kong Stock Exchange with stock code 3882) since December 2017, and an independent non-executive director of China Huirong Financial Holdings Limited (中國匯融金融控股有限公司) (a company listed on the Hong Kong Stock Exchange with stock code 1290) since October 2013. From January 2009 to December 2017, Mr. Tse was a non-executive director of Shenzhen Expressway Company Limited (深圳高速公路股份有限公司) (a company listed on the Hong Kong Stock Exchange with stock code 0548 and on the Shanghai Stock Exchange with stock code 600548) ("**Shenzhen Expressway**"). He was a joint company secretary of Shenzhen Expressway from September 2004 to September 2007. Mr. Tse worked at Shenzhen International Holdings Limited (深圳國際控股有限公司) (a company listed on the Hong Kong Stock Exchange with stock code 152) as the chief financial officer from June 2000 to May 2019, and as a company secretary from August 2000 to March 2008. He worked at PricewaterhouseCoopers Ltd. from January 1994 to May 2000, during which he served as an associate and then an audit manager.

Mr. Tse obtained a bachelor of science degree from Monash University in Melbourne, Australia, in April 1992. He has been a Fellow of the Hong Kong Institute of Certified Public Accountants since February 2007, and a Fellow of Certified Public Accountants (FCPA) of CPA Australia since May 2012.

Mr. WANG Ren (汪韌), aged 47, is an independent non-executive Director of our Bank. He is primarily responsible for supervising and providing independent advice on the operation and management of our Bank.

Mr. Wang has over 19 years of experiences in the financial industry. He has been the group's vice president and chief investment officer of Forchn Holdings Group (富春控股集團), and an executive vice chairman of the board of directors of Forchn International Pte. Ltd. (富春國際私人有限公司) since February 2018. Prior to that, he was the chief financial officer and the president of investment bank (投資銀行總裁) of China Minsheng Financial Holding Corporation Limited (中國民生金融控股有限公司) (a company listed on the Hong Kong Stock Exchange with stock code 0245) from May 2016 to November 2017. Mr. Wang was a managing director, the president of Asia and joint head of Asia Investment Banking and Capital Markets at Jefferies Hong Kong Limited from November 2011 to May 2016. Prior to that, he worked at UBS AG from September 2002 to August 2011 in Hong Kong, and most recently served as a managing director, and joint head of the financial institutions group in Asia (亞洲金融機構部主管) in the investment banking department. Prior to joining UBS AG, he assumed the position of associate (經理) in the investment banking department of Salomon Smith Barney Inc. of Citigroup in New York. From July 1995 to June 1997, Mr. Wang was a consultant at the Beijing office of Andersen Consulting LLP (currently known as Accenture Plc.) (a company listed on the New York Stock Exchange with stock code ACN).

Mr. Wang obtained a bachelor's degree in engineering from Tsinghua University in Beijing, the PRC, in July 1995, majoring in management information system (管理信息系統). He obtained a master of business administration degree from Massachusetts Institute of Technology ("**MIT**") Sloan School of Management in Massachusetts, the United States of America, in June 1999, majoring in business administration. Mr. Wang has been a member of the MIT Sloan Asian Executive Board since 2016.

Mr. ZHU Ning (朱寧), aged 46, is an independent non-executive Director of our Bank. He is primarily responsible for supervising and providing independent advice on the operation and management of our Bank.

Mr. Zhu has over 14 years of teaching and research experience in finance. He has been the vice dean and a professor in finance of Shanghai Advanced Institute of Finance (上海高級金融學院) in Shanghai Jiao Tong University (上海交通大學) from July 2010. Prior to joining Shanghai Jiao Tong University, Mr. Zhu was employed by the University of California, Davis and had no less than five years of conducting research related to finance, accounting and management.

Mr. Zhu has been or was a director of the listed companies shown in the table below.

Name of the Company	Place of Establishment/ incorporation	Nature of Business	Position	Term of Service
China Huarong Asset Management Co., Ltd. (中國華融資產管理股份有限公司), listed on the Hong Kong Stock Exchange (stock code: 2799)	PRC	Financial management	Independent non-executive director	March 2019 to present
Utour Group Co., Ltd. (眾信旅遊集團股份有限公司), listed on the Shenzhen Stock Exchange (stock code: 002707)	PRC	Tourism, concurrent-business insurance agency, and internet information services	Independent director	May 2018 to present
Molecular Data Inc., listed on Nasdaq Stock Market (symbol: MKD)	Cayman Islands	Chemical e-commerce platform	Independent director	December 2019 to present
Everbright Securities Company Limited (光大證券股份有限公司), listed on the Shanghai Stock Exchange (stock code: 601788) and Hong Kong Stock Exchange (stock code: 6178)	PRC	Securities brokerage, securities investment and consultation, financial advisor, and other financial services	Independent non-executive director	February 2013 to October 2017
Industrial Securities Co Ltd (興業證券股份有限公司), listed on the Shanghai Stock Exchange (stock code: 601377)	PRC	Securities brokerage, securities investment and consultation, financial advisor, and other financial services	Independent director	February 2016 to January 2018
Leshi Internet Information & Technology (Beijing) Co., Ltd. (樂視網信息技術(北京)股份有限公司), listed on the Shenzhen Stock Exchange (stock code: 300104)	PRC	Internet information services, and production of certain types of radio and television programmes	Independent director	October 2015 to June 2017
Healthcare Co., Ltd. (夢百合家居科技股份有限公司), listed on the Shanghai Stock Exchange (stock code: 603313)	PRC	Sale of chemical products	Independent director	December 2012 to April 2017

Mr. Zhu obtained a bachelor's degree in economics from Peking University in Beijing, the PRC, in July 1997, majoring in international finance. He obtained a master's degree in science from Cornell University in Ithaca, the United States of America, in May 1999. Mr. Zhu further obtained a doctorate's degree in philosophy from Yale University in New Haven, the United States of America, in December 2003, majoring in management.

BOARD OF SUPERVISORS

The PRC Company Law requires a joint stock company to establish a board of supervisors that is responsible for various matters as required by applicable laws and regulations, including but not limited to, inspecting the financial affairs of the company and supervising the performance of corporate duties by the directors and members of senior management. Our Board of Supervisors currently consists of six Supervisors, including three employees' representative Supervisors and three external Supervisors. Our Supervisors are elected for a term of three years and may be subject to re-election, and the cumulative term of an external Supervisor shall not exceed six years. The following table sets forth certain information about our Supervisors.

Name	Age	Position(s) held at our Bank as of the Latest Practicable Date	Time of joining our Bank	Date of appointment as a Supervisor	Responsibilities
Mr. WANG Chunfeng (王春峰)	54	Chairman of the Board of Supervisors and employees' representative Supervisor	July 2019	November 2019 (as chairman of the Board of Supervisors); July 2019 (as employees' representative Supervisor)	Responsible for the overall work of the Board of Supervisors and supervising the performance of duties by the Directors and members of senior management, supervising and examining financial activities, operation decisions, risk management and internal control of our Bank, convening and presiding over the meetings of the Board of Supervisors and reporting to the Shareholders' general meeting on behalf of the Board of Supervisors
Mr. FENG Jiankuan (馮建寬)	59	Vice chairman of the Board of Supervisors and employees' representative Supervisor	May 2015	December 2019 (as vice chairman of the Board of Supervisors); November 2019 (employees' representative Supervisor)	Responsible for supervising the performance of duties by the Directors and members of senior management, supervising and examining financial activities, operation decisions, risk management and internal control of our Bank

Name	Age	Position(s) held at our Bank as of the Latest Practicable Date	Time of joining our Bank	Date of appointment as a Supervisor	Responsibilities
Mr. FAN Zhigui (范志貴)	59	Employees' representative Supervisor	July 2011	December 2019	Responsible for supervising the performance of duties by the Directors and members of senior management, supervising and examining financial activities, operation decisions, risk management and internal control of our Bank
Mr. QI Ershi (齊二石)	67	External Supervisor	April 2016	April 2016	Responsible for supervising the performance of duties by the Directors and members of the senior management, supervising and examining financial activities, operation decisions, risk management and internal control of our Bank
Mr. DIAO Qinyi (刁欽義)	65	External Supervisor	April 2016	April 2016	Responsible for supervising the performance of duties by the Directors and members of senior management, supervising and examining financial activities, operation decisions, risk management and internal control of our Bank
Mr. HUI Yung Chris (許勇)	51	External Supervisor	December 2019	December 2019	Responsible for supervising the performance of duties by the Directors and members of senior management, supervising and examining financial activities, operation decisions, risk management and internal control of our Bank

Mr. WANG Chunfeng (王春峰), aged 54, is the chairman of the Board of Supervisors and an employees' representative Supervisor of our Bank. He is primarily responsible for the overall work of the Board of Supervisors and supervising the performance of duties by the Directors and members of senior management, supervising and examining financial activities, operation decisions, risk management and internal control of our Bank, convening and presiding over the meetings of the Board of Supervisors and reporting to the Shareholders' general meeting on behalf of the Board of Supervisors.

Mr. Wang has more than 24 years of experience in corporate governance, economics, finance and securities related fields. He has been an employees' representative Supervisor of our Bank since July 2019, and the chairman of the Board of Supervisors since November 2019. Prior to joining our Bank in July 2019, Mr. Wang worked at Bohai Securities Co., Ltd. (渤海證券股份有限公司, formerly known as Bohai Securities Co., Ltd. (渤海證券有限責任公司)) from May 2004 to July 2019, and served as the president (總裁) from May 2004 to December 2014, and the chairman of the board of directors from December 2014 to July 2019. Prior to that, Mr. Wang worked at Tianjin Municipal Development Planning Commission (天津市發展計劃委員會) as a deputy director (副主任) from June 2003 to May 2004. He worked at Bohai Securities Co., Ltd. as a vice president (副總裁) (temporary assignment) (掛職) from December 2001 to June 2003. Prior to that, Mr. Wang worked at Tianjin University from October 1995 to December 2001, and served as a deputy director (副所長) and an associate professor (副教授) from October 1995 to November 1996, and a director (所長), a professor (教授) and a doctoral supervisor (博士生導師) at the Institute of Systems Engineering, School of Management (管理學院系統工程研究所), and the director (主任) of the Financial Engineering Research Center (金融工程研究中心) in Tianjin University from November 1996 to December 2001. Mr. Wang also served as the secretary general (秘書長) of Tianjin University Beiyang Education Foundation (天津大學北洋教育基金會) from February 2001 to December 2001. He worked as a postdoctorate in chemical engineering and industrial chemistry postdoctoral research station (化學工程和工業化學博士後科研流動站) of Tianjin University from September 1994 to October 1995. Mr. Wang worked at 197 Factory of the Ordnance Industry Corporation (兵器工業總公司一九七廠) as an assistant engineer (助理工程師) from August 1987 to September 1989.

Mr. Wang obtained a bachelor's degree from Beijing Institute of Technology (北京工業學院) (currently known as Beijing Institute of Technology (北京理工大學)) in Beijing, the PRC, in July 1987, majoring in automatic control. He obtained a master's degree from the Institute of Systems Engineering, Tianjin University, in Tianjin, the PRC, in April 1992, majoring in systems engineering. Mr. Wang further obtained a doctorate's degree from the Institute of Systems Engineering, Tianjin University, in Tianjin, the PRC, in October 1994, majoring in systems engineering.

Mr. FENG Jiankuan (馮建寬), aged 59, is the vice chairman of the Board of Supervisors and an employees' representative Supervisor of our Bank. He is primarily responsible for supervising the performance of duties by the Directors and members of senior management, supervising and examining financial activities, operation decisions, risk management and internal control of our Bank.

Mr. Feng has more than 28 years of experience in economic, financial and banking industry. He was a member of the party committee (黨委委員) and a secretary of the discipline inspection committee (紀委書記) of our Bank from May 2015 to September 2019. Prior to joining our Bank in May 2015, Mr. Feng worked at Tianjin Rural Commercial Bank Co., Ltd (天津農村商業銀行股份有限公司) as the union president (工會主席) from July 2010 and May 2015. He worked at Tianjin Rural Cooperative Bank (天津農村合作銀行) as the union president (工會主席) from September 2005 to July 2010. He worked at the Finance (Comprehensive Economics) Working Committee under the Tianjin Municipal Committee (天津市委金融(綜合經濟)工作委員會) as the director of office (辦公室主任) from September 2001 to September 2005. He worked at the Comprehensive Economic Management Working Committee under the Tianjin Municipal Committee (天津市委綜合經濟管理工作委員會) from November 1991 to September 2001, and served as a principal staff member (主任科員) of the organization division (組織處) from November 1991 to July 1996, a deputy division director (副處長) of the organization division from July 1996 to September 1998, the division director (處長) of the publicity division (宣傳處) from September 1998 to May 2001, and the director of office (辦公室主任) from May 2001 to September 2001. He worked at the Working Committee under the Tianjin Municipal Planning Committee (天津市委計劃工作委員會) from December 1989 to July 1996, and served as a senior staff member (副主任科員) of the cadre organization division (組幹處) from December 1989 to November 1991, and a principal staff member (主任科員) of the cadre organization division from November 1991 to July 1996. Mr. Feng worked at the party committee of Tianjin Defense Science and Technology Industry (天津市國防科技工業黨委) as a secretary of the party committee office (黨委辦公室) and a senior staff member (副主任科員) from May 1986 to December 1989.

Mr. Feng graduated from Tianjin Radio & TV University (天津廣播電視大學) in Tianjin, the PRC, in July 1986, majoring in industrial enterprise operational management. He completed the postgraduate studies (研究生班學習) from the Tianjin Municipal Party School of the Communist Party of China (天津市委黨校) in Tianjin, the PRC, in July 2000, majoring in Marxist philosophy.

Mr. FAN Zhigui (范志貴), aged 59, is an employees' representative Supervisor of our Bank. He is primarily responsible for supervising the performance of duties by the Directors and members of senior management, supervising and examining financial activities, operation decisions, risk management and internal control of our Bank.

Mr. Fan has more than 38 years of experience in banking industry. Mr. Fan has been a director (主任) of our office of the Board of Supervisors (監事會辦公室) since May 2019. He worked at our Shijiazhuang branch (石家莊分行) form July 2011 to May 2019, and served as a proposed president and then the president. He was also a vice president (副會長) of Hebei Province Banking Association (河北省銀行業協會) from March 2016 to May 2019. Prior to joining our Bank in July 2011, Mr. Fan worked at the Shijiazhuang branch of Shanghai Pudong Development Bank (上海浦東發展銀行) as a vice president from August 2008 to July 2011. Mr. Fan worked at ICBC from December 1984 to July 2008, and served as a deputy section chief (副科長) at the planning section (計劃科) of ICBC Qinhuangdao City central sub-branch (秦皇島市中心支行) from December 1984 to September 1986, and a deputy section chief at the information section (信息科) of ICBC Qinhuangdao City central sub-branch from September 1986 to June 1992. Mr. Fan served as the section chief (科長) at the business loan section (商業信貸科) of ICBC Qinhuangdao branch (秦皇島分行) from June 1992 to November 1994, the president of ICBC Changli County sub-branch (昌黎縣支行) from November 1994 to June 1996, and a vice president of ICBC Qinhuangdao branch from June 1996 to October 1999. Mr. Fan worked at ICBC Chengde branch (承德分行) as a vice president from October 1999 to February 2000. He worked at ICBC Qinhuangdao branch as a secretary of the party committee

(黨委書記) from February 2000 to July 2003. He worked at ICBC Qinhuangdao branch as the president from March 2000 to July 2003. Mr. Fan worked at ICBC Hebei Province branch (河北省分行) as the director of the office (辦公室主任) from July 2003 to March 2005. He worked at ICBC Handan branch (邯鄲分行) as a secretary of the party committee from March 2005 to July 2008. He worked at ICBC Handan branch as the president from May 2005 to July 2008. Prior to that, Mr. Fan worked at the PBoC from August 1981 to December 1984, and served as a general staff at the planning section of the Tangshan City central sub-branch (唐山市中心支行) from August 1981 to May 1983, and a general staff (綜合員) at the planning section of PBoC Qinhuangdao City central sub-branch (秦皇島市中心支行) from May 1983 to December 1984.

Mr. Fan graduated from Changchun Taxation College (長春税務學院) (currently known as Jilin University of Finance and Economics (吉林財經大學)) through long distance learning in Jilin Province, the PRC, in August 2003, majoring in finance. He was awarded the title of senior economist by ICBC in August 1997.

Mr. QI Ershi (齊二石), aged 67, is an external Supervisor of our Bank. He is primarily responsible for supervising the performance of duties by the Directors and members of senior management, supervising and examining financial activities, operation decisions risk management and internal control of our Bank.

Mr. Qi has more than 34 years of teaching and researching experience in economics and management, and working experience in corporate management. He has been working at Tianjin University since May 1985, and has been serving as a professor (教授) and doctoral supervisor (博導) at the College of Management and Economics (管理與經濟學部) since January 2010. Prior to that, Mr. Qi served as the head (院長), professor and doctoral supervisor at the College of Management from January 1999 to January 2010, and consecutively as a lecturer, associate professor, professor and doctoral supervisor at the College of Management from May 1985 to January 1999.

The table below sets forth the past directorship of Mr. Qi in a listed company in the last three years:

Name of the Company	**Place of Establishment**	**Nature of Business**	**Position**	**Term of Service**
Shenzhen Capstone Industrial Co., Ltd. (深圳大通實業股份有限公司), listed on the Shenzhen Stock Exchange (stock code: 000038)	PRC	Advertising media business	Independent director	March 2013 to November 2016

Mr. Qi obtained a bachelor's degree in mechanical engineering from Xi'an Jiaotong University (西安交通大學) in Shaanxi Province, the PRC, in February 1982, majoring in forge (鍛壓). He obtained a master's degree from Tianjin University, in Tianjin, the PRC, in June 1985, majoring in management science and engineering.

Mr. DIAO Qinyi (刁欽義), aged 65, is an external Supervisor of our Bank. He is primarily responsible for supervising the performance of duties by the Directors and members of senior management, supervising and examining financial activities, operation decisions, risk management and internal control of our Bank.

Mr. Diao has more than 39 years of experience in banking industry. He has been working at Angang Group Company Limited (鞍鋼集團有限公司) as an external director (外部董事) since June 2016. He has also been working at CITIC-Prudential Life Insurance Company Ltd. (信誠人壽保險有限公司, currently known as 中信保誠人壽保險有限公司) as a director since December 2015. Prior to that, Mr. Diao worked at Agricultural Bank of China Limited (中國農業銀行股份有限公司) (a company listed on the Shanghai Stock Exchange with stock code 601288, and on the Hong Kong Stock Exchange with stock code 1288) ("**ABC**") from October 1987 to May 2015, and successively served as a vice president and then the president at Longkou city sub-branch (龍口市支行) in Shandong Province, a deputy division director (副處長) of the planning division (計劃處) at Shandong branch (山東省分行), the general manager of the capital management department (資金組織部) at Shandong branch, a standing vice general manager (常務副總經理) of the sales department (營業部) at Shandong branch, a vice president at Shandong branch, the president at Shandong branch, the general manager of the credit management department (信貸管理部) and the credit review and approval center (信貸審查審批中心) (tier-two department) (二級部) (director level) (正局級) at the head office, the chief operating officer (運營管理總監) at the head office, the chief investment officer (投資總監) at the head office, and the chief compliance officer (合規總監) at the head office.

Mr. Diao graduated from Yantai University (煙台大學) in Shandong Province, the PRC, in July 1997, majoring in law. He completed the postgraduate coursework (研究生課程進修班) in scientific socialism in Shandong University (山東大學) in Shandong Province, the PRC, in October 1998. He was appointed to the senior economist professional technical position by ABC in January 2011. He obtained the qualification certification of independent directors for listed companies (上市公司獨立董事資格證書) from the Shenzhen Stock Exchange in May 2017.

Mr. HUI Yung Chris (許勇), aged 51, is an external Supervisor of our Bank. He is primarily responsible for supervising the performance of duties by the Directors and members of senior management, supervising and examining financial activities, operation decisions, risk management and internal control of our Bank.

Mr. Hui has more than 28 years of experience in banking and financial industry. Mr. Hui has been an executive director of Hong Kong Taigu (China) Group Co., Ltd (香港太谷(中國)集團有限公司) and its subsidiary, Weigu (Guangdong) Biological Engineering Technology Co., Ltd. (味谷(廣東)生物工程科技有限公司), since February 2020. He has been an independent non-executive director of Clarity Medical Group Holding Limited (清晰醫療集團控股有限公司) since March 2019. Prior to joining our Bank in December 2019, Mr. Hui worked at Wanda Hotel Development Company Limited (萬達酒店發展有限公司) (a company listed on the Hong Kong Stock Exchange with stock code 169) from November 2017 to February 2019 as a non-executive director. He worked at Wanda Commercial Properties Company Limited (萬達商業地產股份有限公司) as the secretary of the board of directors from September 2015 to February 2019. Prior to that, Mr. Hui worked at J&Partners GP Limited as a founding partner (創始合夥人) from December 2011 to September 2015. He worked at New China Trust Co., Ltd. (新華信託股份有限公司) as a director from November 2009 to October 2010. Mr. Hui worked at Barclays Capital Asia Limited (巴克萊亞洲有限公司) as a managing director (董事總經理) from July 2001 to July 2010, during which period he has also been the head (主管) of the investment banking department in China and Hong Kong (中國和香港投資銀行部). He worked at the Hong Kong branch of Deutsche Bank AG (德意志銀行) as a director in the global markets (全球市場), debt capital markets South Asia department (東南亞債務資本市場部) from March 1996 to July 2001. Prior to that, Mr. Hui worked at Merrill Lynch (Asia Pacific) Limited (美林(亞太)有限公司) from May 1994 to February 1996, and has been a vice president (副總裁) of the debt transaction group (債務交易組). He worked at the Hong Kong branch of Citibank N.A. (花旗銀行) from July 1991 to January 1994, and has been a manager of the financial engineering department (金融工程部).

Mr. Hui obtained a bachelor's degree in business administration from The Chinese University of Hong Kong (香港中文大學) in Hong Kong, in December 1991, majoring in integrated business administration programme (finance concentration).

SENIOR MANAGEMENT

The following table sets out certain information regarding our senior management.

Name	Age	Position(s) held at our Bank as of the Latest Practicable Date	Time of joining our Bank	Date of appointment as a member of senior management[(1)]	Responsibilities
Mr. QU Hongzhi (屈宏志)	50	President	December 2019	January 2020	Responsible for the operation and management of our Bank, and in charge of the general office and assets and liabilities management department of our Bank
Mr. LI Yi (李毅)	52	Vice president	June 2009	August 2009[(2)]	In charge of the corporate business department, group customer department, inclusive finance department, custody service department and transaction banking department of our Bank
Mr. WU Siqi (吳思麒)	55	Vice president	June 2006	March 2016	In charge of the personal banking department, consumer finance department, wealth management department, credit cards services department, FinTech department, business operation department and financial department of our Bank
Mr. DU Gang (杜剛)	49	Vice president	March 2019	April 2019	In charge of the internal control and compliance department, legal affairs department, human resource department, administrative department and security department of our Bank, and assisting in the management of the assets and liabilities management department
Mr. ZHAO Zhihong (趙志宏)	54	Secretary to the Board of Directors and chief risk officer	September 2015	June 2016[(3)]	In charge of the office of the Board of Directors, risk management department, credit review and approval department, credit monitoring department, retail risk management department, information technology department and strategic development and investment management office of our Bank

Note:

1. The date of appointment as a member of senior management here represents the date on which the relevant person obtained the qualification approval from CBIRC.

2. The date of appointment here represents the date on which Mr. Li Yi obtained the qualification approval from CBIRC to serve as the chief risk officer of our Bank. Mr. Li Yi obtained the qualification approval from CBIRC to serve as a vice president of our Bank in March 2010.

3. The date of appointment here represents the date on which Mr. Zhao Zhihong obtained the qualification approval from CBIRC to serve as the secretary to the Board of Directors of our Bank. Mr. Zhao Zhihong was appointed as the chief risk officer of our Bank by the Board of Directors at the Board meeting held on February 4, 2020.

For biographical details of **Mr. QU Hongzhi (屈宏志)**, **Mr. LI Yi (李毅)** and **Mr. DU Gang (杜剛)**, please see "– Executive Directors" of this section.

Mr. WU Siqi (吳思麒), aged 55, is a vice president of our Bank. He is in charge of the personal banking department, consumer finance department, wealth management department, credit cards services department, FinTech department, business operation department and financial department of our Bank.

Mr. Wu has more than 36 years of experience in banking industry. Mr. Wu concurrently served as the president (總裁) of the Beijing management department (北京管理部) of our head office from January 2013 to November 2018. He worked at our Beijing Branch from December 2012 to September 2016, and served as the proposed president (行長 (擬任)) from December 2012 to April 2013, and then the president from April 2013 to September 2016. He served as an employees' representative Supervisor of the second session of our Board of Supervisors from February 2009 to February 2013. Mr. Wu served as the president of our Shenzhen branch from February 2010 to December 2012. He served as the president of our Binhai New District branch from June 2009 to February 2010. He worked at our office of the Board of Supervisors (監事會辦公室) from June 2007 to June 2009, as a deputy director (副主任) from June 2007 to August 2007, and as the director (主任) from August 2007 to June 2009. Mr. Wu served as an employees' representative Supervisor of the first session of our Board of Supervisors from December 2007 to February 2009. He served as a deputy director of our office of the Board of Directors and Supervisors (董監事會辦公室) from June 2006 to June 2007. Prior to joining our Bank in June 2006, Mr. Wu was a secretary (division level) (正處級秘書) of the office of the board of supervisors (監事會辦公室) of China Development Bank (國家開發銀行) from August 2005 to June 2006. He served as an office secretary (division level) (辦公室正處級秘書)) of Agricultural Development Bank of China (中國農業發展銀行) ("**ADBC**") from September 2003 to August 2005. He was a secretary (deputy division level) 秘書 (副處級) of the board of supervisors (監事會) of The Export-Import Bank of China (中國進出口銀行) from June 2000 to September 2003. Mr. Wu was a cadre of the research division of the office (辦公室研究處) at ADBC from June 1999 to June 2000. He worked at the human resources and education division (人事教育處) of ADBC Sichuan branch from January 1995 to June 1999, and served as a cadre (幹部) from January 1995 to May 1995, a deputy section chief (副科長) of the general section (綜合科) from May 1995 to November 1996, a deputy section chief (principal staff member (主任科員)) of the general section from November 1996 to October 1997, and a deputy division director (副處長) from October 1997 to June 1999. Prior to that, Mr. Wu worked at ABC from July 1988 to January 1995, and served as a mentor (教員) at the local school of cadres (幹校) at Da county (達縣) in Sichuan Province from July 1988 to November 1990, a cadre (幹部) of local central sub-branch (地區中心支行) at Da county in Sichuan

Province from November 1990 to June 1992, and a staff member (科員) at the financial research center (金融研究所) of the Sichuan branch from June 1992 to January 1995. Mr. Wu was a cadre (幹部) at the Sichuan Nanjiang Qiaoba Credit Cooperative (四川省南江縣橋壩信用社) from January 1983 to September 1986.

Mr. Wu graduated from Sichuan Radio & TV University (四川廣播電視大學) in Sichuan Province, the PRC, in July 1988, majoring in finance. He obtained a master's degree in business administration from Asia International Open University (Macao) (亞洲(澳門)國際公開大學) in Macau, through distance learning in October 2003. He was awarded the title of senior economist by ADBC in December 1997.

Mr. ZHAO Zhihong (趙志宏), aged 54, is the secretary to the Board of Directors and the chief risk officer of our Bank. He is in charge of the office of the Board of Directors, risk management department, credit review and approval department, credit monitoring department, retail risk management department, information technology department and strategic development and investment management office of our Bank.

Mr. Zhao has more than 32 years of experience in banking industry. Mr. Zhao has been the assistant to the president (行長助理) of our Bank since January 2018 and the director (主任) of the strategic development and investment management office of our Bank since September 2015. Mr. Zhao served as the strategic development president (戰略發展總裁) of our Bank from September 2015 to January 2018. Prior to joining our Bank in September 2015, Mr. Zhao worked at CCB from July 1987 to September 2015, and served as a cadre (幹部) of the credit department (信貸部) from July 1987 to September 1987, a cadre at the Beijing Urban Construction Development Special Sub-branch (北京城建開發專業支行) from September 1987 to November 1988, a cadre of the construction loan division (建貸處) of the credit department (信貸部) from November 1988 to October 1991, a staff member (科員) of the technical reform loan division (技改貸款處) of the credit department from October 1991 to August 1994, a staff member of the general division (綜合處) of the credit department I (信貸一部) from August 1994 to April 1996. Mr. Zhao worked at the credit management department (信貸管理部) from April 1996 to August 1999, and served as a staff member of the credit risk management division (貸款風險管理處) from April 1996 to October 1996, a principal staff member (主任科員) of the general business division (業務綜合處) from October 1996 to July 1997, and a deputy division director (副處長) of the general business division from July 1997 to August 1999. He worked at the credit risk management department (信貸風險管理部) from August 1999 to March 2003, and served as a deputy division director of sub-branches supervision division III (分行監管三處) from August 1999 to July 2000, the division director (處長) of the risk study division (風險研究處) from July 2000 to September 2001, and a manager (經理) of the general division (綜合處) from September 2001 to March 2003. Mr. Zhao worked at the risk management department (風險管理部) from March 2003 to July 2006, and served as a manager of the authorization management division (授權管理處) from March 2003 to November 2003, a senior manager (高級經理) of the authorization management division from November 2003 to December 2003, and a senior risk manager (資深風險經理) from December 2003 to July 2006. He was a senior risk manager and then a deputy general manager (副總經理) of the quality and efficiency control department (質量效率管理部) from July 2006 to December 2008, a deputy general manager of the product and quality management department (產品與質量管理部) from December 2008 to March 2013, during which period Mr. Zhao was in charge of the daily operation of the product and quality management department from February 2011 to October 2011, and the team leader (組長) of the procedure management team for the new generation core system construction project (新一代核心系統建設項目流程管理組) from

February 2013 to September 2015, during which period Mr. Zhao also served as a deputy general manager of the product innovation and management department (產品創新與管理部) from April 2013 to September 2015.

Mr. Zhao obtained a bachelor's degree from the Beijing Institute of Economics and Business (北京財貿學院) (currently known as Capital University of Economics and Business (首都經濟貿易大學)) in Beijing, the PRC, in July 1987, majoring in finance. He obtained a master's degree from Shandong University (山東大學) in Shandong Province, the PRC, in December 2004, majoring in applied mathematics. He obtained a doctorate's degree from Dalian University of Technology (大連理工大學) in Liaoning Province, the PRC, in April 2011, majoring in management science and engineering. He was awarded the title of senior economist by CCB in December 1997.

JOINT COMPANY SECRETARIES

Mr. ZHAO Zhihong (趙志宏) is one of the joint company secretaries of our Bank. For biographical details of Mr. Zhao, please see "– Senior Management" above in this section.

Ms. So Shuk Yi Betty (蘇淑儀), was appointed on February 10, 2020 as one of the joint company secretaries of our Bank, which will become effective from the date of listing of our H Shares on the Main Board of the Stock Exchange. Ms. So currently serves as a vice president of SWCS Corporate Services Group (Hong Kong) Limited (方圓企業服務集團(香港)有限公司) ("**SWCS**"), a corporate service provider.

Ms. So obtained a master's degree in Chinese and Comparative Law from the City University of Hong Kong in November 2004 and a master's degree in business administration from the University of Leicester (long distance learning course) in July 1999. Ms. So was admitted as an associate of The Chartered Governance Institute in the United Kingdom in October 1997 and an associate of The Hong Kong Institute of Chartered Secretaries in October 1997.

COMMITTEES UNDER THE BOARD OF DIRECTORS

Our Board of Directors currently has the following committees: the Risk Management Committee, the Related Party Transaction Control Committee (subordinated to the Risk Management Committee), the Audit and Consumer Rights Protection Committee, the Nomination and Remuneration Committee, and the Development Strategy and Inclusive Finance Committee. These committees operate in accordance with their respective terms of reference established by our Board of Directors.

Risk Management Committee

Our Board has established a Risk Management Committee with written terms of reference. The Risk Management Committee consists of seven Directors, being Mr. MU Binrui, Mr. FUNG Joi Lun Alan, Mr. ZHANG Xifang, Mr. ZHANG Yunji, Mr. QU Hongzhi, Mr. LI Yi and Mr. CHI Guotai. The chairperson of the Risk Management Committee is Mr. MU Binrui. The primary duties of the Risk Management Committee are as follows:

- setting the basis and methodology for determining our risk tolerance level;

- reviewing our risk appetite and risk management policies, systems and fundamental principles;

- scrutinizing our disposal of assets and provision of external guarantees outside the ordinary course of business;

- supervising our senior management's performance in relation to risk control, periodically hearing reports on our risks and risk management status prepared by our senior management, making recommendations in relation to risk management and internal control where appropriate, as well as reporting to our Board of Directors and notifying our senior management and Board of Supervisors if necessary;

- hearing reports on compliance with relevant laws, regulatory requirements, our policies and rules, anti-money laundering related work arrangements and self-evaluation prepared by our senior management if necessary;

- authorizing the subordinated Related Party Transaction Control Committee to discharge its responsibilities in relation to our related party transaction control; and

- performing other responsibilities as authorized by our Board of Directors.

Related Party Transaction Control Committee

Our Board has established a Related Party Transaction Control Committee with written terms of reference, subordinated to our Risk Management Committee. The Related Party Transaction Control Committee consists of seven Directors, being Mr. MU Binrui, Mr. FUNG Joi Lun Alan, Mr. ZHANG Xifang, Mr. ZHANG Yunji, Mr. QU Hongzhi, Mr. LI Yi and Mr. CHI Guotai. The chairperson of the Related Party Transaction Control Committee is Mr. MU Binrui. The primary duties of the Related Party Transaction Control Committee are as follows:

- assisting the Board of Directors in performing responsibilities in relation to related party transactions and connected transactions;

- reviewing our management measures on related party transactions and connected transactions before submitting to our Board of Directors, as well as preparing special annual report in relation to the implementation of such management measures and submitting it to our Board of Directors;

- reviewing and approving the lists of related parties and connected persons, and reporting them to our Board of Directors and Board of Supervisors;

- examining related party transactions and connected transactions in accordance with relevant laws and regulations, relevant requirements of the stock exchange where our Shares are listed, and fair dealing commercial principles;

- reviewing and approving the information disclosure of our related party transactions and connected transactions, and supervising the authenticity, accuracy and completeness of the information disclosure in relation to such transactions; and

- performing other responsibilities as authorized by our Board of Directors or Risk Management Committee.

Audit and Consumer Rights Protection Committee

Our Board of Directors has established an Audit and Consumer Rights Protection Committee with written terms of reference in compliance with the requirements under the Listing Rules. The Audit and Consumer Rights Protection Committee consists of seven Directors, being Mr. TSE Yat Hong, Mr. CUI Xuesong, Mr. FUNG Joi Lun Alan, Mr. YE Baishou, Mr. MU Binrui, Mr. WANG Ren and Mr. ZHU Ning. The chairperson of the Audit and Consumer Rights Protection Committee is Mr. TSE Yat Hong. The primary duties of the Audit and Consumer Rights Protection Committee are as follows:

- reviewing our internal audit charter and medium and long-term audit plans;
- overseeing internal audit with authorization from our Board of Directors;
- enabling communication between our internal and external auditors;
- reviewing and approving appointment and removal of the head of internal audit department, and evaluating and supervising the performance of the head of internal audit department and the internal audit department;
- hearing reports on major audit findings from internal auditors, external auditors and relevant regulatory authorities, and supervising corresponding actions taken by our senior management;
- examining our financial conditions, accounting policies and procedures, financial reporting procedures, and designating working groups to conduct independent investigations and assessments to monitor its implementation, as well as reporting to our Board of Directors and notifying our senior management and Board of Supervisors if necessary;
- directing annual audit of our Bank, designating working groups to independently check the financial results, and preparing evaluation reports on the authenticity, completeness and accuracy of the audited financial results;
- designating working groups to independently assess our internal control and risk management rules and supervising the observance and effectiveness thereof;
- holding discussions on our internal control system and reporting relevant issues to our Board of Directors;
- making recommendations to our Board of Directors on matters relating to the appointment, re-appointment and removal of external auditors;
- formulating our strategies, policies and goals in relation to consumer rights protection and supervising their effective implementation by our senior management;
- hearing special reports on consumer rights protection periodically, supervising and evaluating the comprehensiveness, promptness, and effectiveness of our consumer rights protection work and the performance of the senior management in this respect;

- reviewing resolutions in relation to consumer rights protection to be submitted to our Board of Directors and making relevant recommendations; and

- performing other responsibilities as authorized by our Board of Directors and in accordance with applicable laws and regulations.

Nomination and Remuneration Committee

Our Board has established a Nomination and Remuneration Committee with written terms of reference in compliance with the requirements under the Listing Rules. The Nomination and Remuneration Committee consists of seven Directors, being Mr. MAO Zhenhua, Mr. LI Fuan, Mr. ZHANG Bingjun, Mr. HU Aimin, Mr. CHI Guotai, Mr. WANG Ren and Mr. ZHU Ning. The chairperson of the Nomination and Remuneration Committee is Mr. MAO Zhenhua. The primary duties of the Nomination and Remuneration Committee are as follows:

Nomination Duties

- reviewing the procedures and standards for selecting and appointing directors and members of senior management, making relevant recommendations and submitting it to our Board of Directors for review;

- nominating candidates for directors and members of senior management, making preliminary assessments on their qualifications, and making recommendations to our Board of Directors;

- reviewing the standards for and reports on evaluation of directors and members of senior management, as well as reports on mutual evaluation of independent directors; and

- performing other responsibilities as authorized by the Board of Directors and in accordance with applicable laws and regulations.

Remuneration Duties

- reviewing our remuneration proposals for directors, senior management and other key staff members, making recommendations on the establishment of a formal and transparent procedures for developing remuneration policy and submitting it to the Board of Directors for review;

- reviewing our employees' remuneration policies and retirement plans;

- reviewing our performance assessment criteria and policies; and

- performing other responsibilities as authorized by the Board of Directors and in accordance with applicable laws and regulations.

Development Strategy and Inclusive Finance Committee

Our Board of Directors has established a Development Strategy and Inclusive Finance Committee with written terms of reference. The Development Strategy and Inclusive Finance Committee consists of seven Directors, being Mr. LI Fuan, Mr. CUI Xuesong, Mr. FUNG Joi

Lun Alan, Ms. YUAN Wei, Mr. YE Baishou, Mr. QU Hongzhi and Mr. DU Gang. The chairperson of the Development Strategy and Inclusive Finance Committee is Mr. LI Fuan. The primary duties of the Development Strategy and Inclusive Finance Committee are as follows:

- reviewing our development strategies and medium and long-term development plans;
- assessing our development strategies on a regular basis;
- reviewing our proposals for material changes in shareholding, financial reorganization, merger, division and dissolution;
- reviewing our proposals for capital management, listing or other fund raising arrangements, use of proceeds, increase or reduction of registered share capital and share repurchase;
- reviewing our plans for annual budget, final accounts, risk capital allocation, profit distribution and recovery of losses and other financial plans that materially affect our business operations and development, as well as giving opinions or making recommendations as to whether these plans are in line with our development strategies;
- reviewing our annual operational and investment plans, as well as giving opinions or making recommendations as to whether these plans are in line with our development strategies;
- reviewing our policies in relation to risk management, capital management and other policies that may materially affect our business operations and development, as well as giving opinions or making recommendations as to whether these plans are in line with our development strategies;
- assessing our proposals for external investments that are outside the ordinary course business and other issues that may materially affect our business development, as well as making relevant recommendations;
- formulating our plans for the development of our inclusive finance business, designing related management policy and supervising its implementation; and
- performing other responsibilities as authorized by our Board of Directors.

COMMITTEES UNDER THE BOARD OF SUPERVISORS

Our Board of Supervisors has established a nomination committee and a supervision committee. The committees operate in accordance with terms of reference established by our Board of Supervisors.

Nomination Committee

Our Board of Supervisors has established a nomination committee with written terms of reference. The nomination committee consists of three Supervisors, being Mr. QI Ershi, Mr. WANG Chunfeng and Mr. FAN Zhigui. The chairperson of the nomination committee is Mr. QI Ershi. The primary duties of the nomination committee are as follows:

- formulating standards and procedures for selecting and appointing supervisors, and preliminarily examining the qualifications of supervisor candidates, and making recommendations to our Board of Supervisors;
- overseeing the election procedure of directors;
- making comprehensive performance evaluation of directors, supervisors and senior management;
- performing off-office audits on directors and senior management; and
- reviewing our remuneration policies and assessing the scientificity and reasonableness of our remuneration plans for senior management.

Supervision Committee

Our Board of Supervisors has established a supervision committee with written terms of reference. The supervision committee consists of three Supervisors, being Mr. DIAO Qinyi, Mr. FENG Jiankuan and Mr. HUI Yung Chris. The chairperson of the supervision committee is Mr. DIAO Qinyi. The primary duties of the supervision committee are as follows:

- supervising the Board of Directors in the forming of sound operating concept and value standards, and a development strategy consistent with our Bank's circumstances;
- formulating a supervision plan for our Bank's financial activities and implement relevant inspections; and
- monitoring and inspecting our Bank's business decisions, internal control and risk management.

BOARD DIVERSITY POLICY

The Bank will adopt a board diversity policy (the "**Board Diversity Policy**") before Listing setting out the approach to achieve and maintain diversity on the Board in compliance with the Listing Rules, pursuant to which the Bank seeks to achieve Board diversity through consideration of a number of factors, including but not limited to gender, age, cultural and education background, ethnicity, professional experience, skills, knowledge, length of service and any other factors that the Board may consider relevant and applicable from time to time.

Furthermore, the Nomination and Remuneration Committee will review the Board composition at least once annually taking into account the benefits of all relevant diversity aspects, and adhering to the Board Diversity Policy when making recommendation to the Board on appointment of new Directors. The Nomination and Remuneration Committee will also review the Board Diversity Policy, as appropriate, to ensure its continued effectiveness and the

Bank will take opportunities to increase the proportion of female members over time when selecting and making recommendation on suitable candidates for Board appointments so as to ensure that appropriate gender diversity is achieved with reference to stakeholders' expectation and international and local recommended best practices.

The Board comprises 18 members, including four executive Directors, eight non-executive Directors and six independent non-executive Directors. Our Directors have a balanced mix of experience, including banking, corporate management, economics and finance. Furthermore, the Board has a relatively wide range of age, ranging from 41 years old to 72 years old. The Board has both male and female representation on the Board. Our Directors consider that the current composition of the Board satisfies the principals under the Board Diversity Policy.

COMPENSATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The compensation and remuneration of our Directors, Shareholders' representative Supervisors and external Supervisors are determined by our Shareholders' general meetings and the compensation and remuneration of members of the senior management are determined by the Board of Directors. Our remuneration policies are formulated by the Nomination and Remuneration Committee and submitted to the Board of Directors for review. Apart from the secretary to the Board of Directors and the chief risk officer, the remuneration package for members of our senior management, the chairman of the Board of Directors, the chairman of the Board of Supervisors and the vice chairman of the Board of Supervisors comprises annual basic salary, annual performance-based salary and incentive payments during the tenure, while the remuneration package for the secretary to the Board of Directors, the chief risk officer and other employees comprises annual fixed salary, performance-based bonuses and benefits. Our non-executive Directors, independent non-executive Directors, Shareholders' representative Supervisors and external Supervisors receive allowances from us. When reviewing and determining the Bank's remuneration packages, our Shareholders' general meetings and the Board of Directors take into consideration factors such as relevant work experience, level of education, competency and salaries paid by other comparable companies. We also participate in various defined contribution plans organized by relevant government authorities and welfare schemes for our employees, including basic pension insurance, medical insurance, unemployment insurance, work-related accident insurance, maternity insurance and housing provident and enterprise annuity plan.

Remuneration is paid in various forms of consideration or compensation in exchange for services rendered by employees or termination of employment relationship, including short-term remuneration, post-employment benefits and other long-term remuneration. Our short-term remuneration includes salaries, bonuses, allowances and subsidies, staff welfare, medical insurance, work-related accident insurance, maternity insurance, housing provident, union running and education costs, short-term paid absences. Our post-employment benefits mainly include defined contribution plans.

The aggregate amounts of remuneration paid by us to our Directors and Supervisors for the years ended December 31, 2017, 2018 and 2019 were approximately RMB9.3 million, RMB15.7 million and RMB11.1 million respectively.

The aggregate amounts of remuneration paid by us to our five highest paid individuals for the years ended December 31, 2017, 2018 and 2019 were approximately RMB33.2 million, RMB31.5 million, and RMB29.7 million respectively.

It is estimated that remuneration equivalent to approximately RMB16.9 million in aggregate will be paid to the Directors and Supervisors by our Bank for the year ending December 31, 2020 based on the arrangements in force as of the date of this prospectus and historical data in 2019.

No remuneration was paid by us to our Directors, Supervisors or the five highest paid individuals as inducement to join or upon joining us or as a compensation for loss of office during the Track Record Period. Furthermore, none of our Directors or Supervisors had waived or agreed to waive any remuneration during the same periods.

Save as disclosed above and deferred payments of remuneration as required by applicable laws and regulations, no other payments have been paid or are payable, in the years ended December 31, 2017, 2018 and 2019, respectively, by us to the Directors or Supervisors.

DIRECTORS' AND SUPERVISORS' INTEREST

Save as disclosed above, each of our Directors, Supervisors and members of the senior management (i) did not hold other positions in our Bank as of the Latest Practicable Date; (ii) had no other relationship with any of our Directors, Supervisors and senior management 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. For our Directors' and Supervisors' interests in the Shares within the meaning of Part XV of the SFO, please see "Appendix VII – Statutory and General Information" to this prospectus.

As of the Latest Practicable Date, several of our non-executive Directors held directorship and/or interest as a substantial shareholder at various financial institutions as follows:-

- Mr. YE Baishou was the chairman of the board of directors for UBS SDIC Fund Management Co., Ltd., SDIC Trust Co., Ltd. and SDIC Capital Co., Ltd.

- Mr. ZHANG Xifang was the executive director of China Minsheng Trust Co., Ltd., a director of Minsheng Securities Co., Ltd., an executive director of China Tonghai International Financial Ltd., and a director of Asia-Pacific Property and Casualty Insurance Co., Ltd.

Our Directors are of the view that, there is no competition or only minimal potential competition between those financial institutions and our Bank arising from our Directors' positions in those financial institutions, since (i) they are not involved in the daily operation and management of our Bank, and (ii) we have appointed six independent non-executive Directors, representing one-third of the members of our Board of Directors to balance any potential conflict of interests in order to safeguard the interests of our Bank and the Shareholders as a whole.

Save as disclosed herein, none of our Directors are interested in any business, apart from our business, which competes or is likely to compete, either directly or indirectly, with our business which require to be disclosed under Rule 8.10(2) of the Listing Rules.

Save as disclosed herein, to the best of the knowledge, information and belief of our Directors and Supervisors, having made all reasonable inquiries, there were no additional matters with respect to the appointment of our Directors or Supervisors that need to be brought to the attention of the Shareholders and there were no additional information relating to our Directors or Supervisors that are required to be disclosed pursuant to Rules 13.51(2)(h) to (v) of the Listing Rules as of the Latest Practicable Date.

COMPLIANCE ADVISOR

We have appointed Haitong International Capital Limited as our compliance advisor pursuant to Rule 3A.19 and Rule 19A.05 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, our compliance advisor will advise us in the following circumstances:

- before the publication of any regulatory announcement, circular or financial report;
- where a transaction, which might be a notifiable or connected transaction, is contemplated, including share issues and share repurchases;
- where our Bank proposes to use the proceeds of the Global Offering in a manner different from that detailed in this prospectus or where our business activities, developments or results deviate from any forecast, estimate or other information in this prospectus; and
- where the Hong Kong Stock Exchange makes an inquiry of our Bank regarding unusual movements in the price or trading volume of our H Shares, the possible development of a false market in our H Shares or any other matters.

Pursuant to Rule 19A.06(3) of the Listing Rules, our compliance advisor will, on a timely basis, inform us of any amendment or supplement to the Listing Rules that are announced by the Hong Kong Stock Exchange. Our compliance advisor will also inform us of any amendment or supplement to the applicable laws and guidelines.

The terms of the appointment of our compliance advisor will commence on the Listing Date and end on the date when we distribute the annual report of our financial results for the first full financial year commencing after the Listing Date.

As of the Latest Practicable Date, the total issued share capital of our Bank was RMB14,450,000,000 divided into 11,561,445,000 Domestic Shares with a nominal value of RMB1.00 each and 2,888,555,000 unlisted Foreign Shares with a nominal value of RMB1.00 each. So far as the Directors are aware, immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised), the following persons will have or be deemed or taken to have interests and/or short positions in the Shares or underlying Shares which would be required to be disclosed to our Bank and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or will, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at the general meetings of our Bank:

				Immediately following the completion of the Global Offering (assuming no exercise of the Over-allotment Option)		Immediately following the completion of the Global Offering (assuming full exercise of the Over-allotment Option)	
Name of Shareholder	**Nature of interest**	**Class of Shares**	**Number of Shares directly or indirectly held**	**Approximate % of interest in our Bank**	**Approximate % of the relevant class of Shares**	**Approximate % of interest in our Bank**	**Approximate % of the relevant class of Shares**
TEDA Holding[(1)] . .	Beneficial owner	Domestic Shares	3,612,500,000	20.85%	31.25%	20.34%	31.25%
Standard Chartered PLC (渣打集團有限公司)[(2)]	Interest in controlled corporation	Unlisted Foreign Shares/H Shares	2,888,555,000	16.67%	50.07%	16.26%	46.59%
SCB.	Beneficial owner	Unlisted Foreign Shares/H Shares	2,888,555,000	16.67%	50.07%	16.26%	46.59%
China COSCO Shipping Corporation Limited (中國遠洋海運集團有限公司)[(3)]	Interest in controlled corporation	Domestic Shares	1,975,315,000	11.40%	17.09%	11.12%	17.09%
China Shipping Group Company Limited (中國海運集團有限公司)[(3)]	Interest in controlled corporation	Domestic Shares	1,975,315,000	11.40%	17.09%	11.12%	17.09%
COSCO SHIPPING Development Co., Ltd. (中遠海運發展股份有限公司)[(3)]	Interest in controlled corporation	Domestic Shares	1,975,315,000	11.40%	17.09%	11.12%	17.09%
China Shipping Investment Co., Ltd. (中海集團投資有限公司) . . .	Beneficial owner	Domestic Shares	1,975,315,000	11.40%	17.09%	11.12%	17.09%

Name of Shareholder	Nature of interest	Class of Shares	Number of Shares directly or indirectly held	Immediately following the completion of the Global Offering (assuming no exercise of the Over-allotment Option)		Immediately following the completion of the Global Offering (assuming full exercise of the Over-allotment Option)	
				Approximate % of interest in our Bank	Approximate % of the relevant class of Shares	Approximate % of interest in our Bank	Approximate % of the relevant class of Shares
SDIC[4]	Beneficial owner	Domestic Shares	1,686,315,000	9.73%	14.59%	9.49%	14.59%
China Baowu Steel Group Corporation Limited (中國寶武鋼鐵集團有限公司)[5]	Beneficial owner	Domestic Shares	1,686,315,000	9.73%	14.59%	9.49%	14.59%
LU Zhiqiang (盧志強)[6]	Interest in controlled corporations	Domestic Shares	1,370,706,739	7.91%	11.86%	7.72%	11.86%
HUANG Qiongzi (黃瓊姿)[6]	Interest in controlled corporations	Domestic Shares	1,370,706,739	7.91%	11.86%	7.72%	11.86%
Tohigh Holdings Co., Ltd. (通海控股有限公司)[6]	Interest in controlled corporations	Domestic Shares	1,370,706,739	7.91%	11.86%	7.72%	11.86%
Oceanwide Group Co., Ltd. (泛海集團有限公司)[6]	Interest in controlled corporations	Domestic Shares	1,370,706,739	7.91%	11.86%	7.72%	11.86%
China Oceanwide Holdings Group Co., Ltd. (中國泛海控股集團有限公司)[6]	Interest in controlled corporation	Domestic Shares	1,370,706,739	7.91%	11.86%	7.72%	11.86%
Oceanwide Industry	Beneficial owner	Domestic Shares	1,370,706,739	7.91%	11.86%	7.72%	11.86%
China Huadian Group Co., Ltd. (中國華電集團有限公司)[7]	Interest in controlled corporations	Domestic Shares	1,156,000,000	6.67%	10.00%	6.51%	10.00%
China Huadian Group Capital Holdings Co., Ltd. (中國華電集團資本控股有限公司)[7]	Interest in controlled corporations	Domestic Shares	1,156,000,000	6.67%	10.00%	6.51%	10.00%

Name of Shareholder	Nature of interest	Class of Shares	Number of Shares directly or indirectly held	Immediately following the completion of the Global Offering (assuming no exercise of the Over-allotment Option)		Immediately following the completion of the Global Offering (assuming full exercise of the Over-allotment Option)	
				Approximate % of interest in our Bank	Approximate % of the relevant class of Shares	Approximate % of interest in our Bank	Approximate % of the relevant class of Shares
China Huadian Group Finance Co., Ltd. (中國華電集團財務有限公司)(7)	Interest in controlled corporations	Domestic Shares	1,156,000,000	6.67%	10.00%	6.51%	10.00%
Huaxin International Trust Co., Ltd. (華鑫國際信託有限公司)(7)	Interest in controlled corporations	Domestic Shares	1,156,000,000	6.67%	10.00%	6.51%	10.00%
Ningbo Meishan Bonded Port Zone Yuanche Enterprise Management and Consulting Co., Ltd. (寧波梅山保稅港區遠澈企業管理諮詢有限公司)(7)	Interest in controlled corporations	Domestic Shares	1,156,000,000	6.67%	10.00%	6.51%	10.00%
Wuhu Yuanfuchangshuo Equity Investment Partnership Enterprise (Limited Partnership) (蕪湖遠福昌爍股權投資合夥企業(有限合夥))(7) . .	Interest in controlled corporations	Domestic Shares	1,156,000,000	6.67%	10.00%	6.51%	10.00%
Guangzhou Qiushi Asset Management Co., Ltd. (廣州秋石資產管理有限公司)(7)	Interest in controlled corporations	Domestic Shares	1,156,000,000	6.67%	10.00%	6.51%	10.00%
Huatian Investment Co., Ltd. (華田投資有限公司)(7) . .	Interest in controlled corporations	Domestic Shares	1,156,000,000	6.67%	10.00%	6.51%	10.00%

				Immediately following the completion of the Global Offering (assuming no exercise of the Over-allotment Option)		Immediately following the completion of the Global Offering (assuming full exercise of the Over-allotment Option)	
Name of Shareholder	**Nature of interest**	**Class of Shares**	**Number of Shares directly or indirectly held**	**Approximate % of interest in our Bank**	**Approximate % of the relevant class of Shares**	**Approximate % of interest in our Bank**	**Approximate % of the relevant class of Shares**
Tianjin Rongsheng Xinye Investment and Development Co., Ltd. (天津融昇鑫業投資發展有限公司)(7) . . .	Interest in controlled corporation	Domestic Shares	1,156,000,000	6.67%	10.00%	6.51%	10.00%
Tianjin Shanghui Investment Holding Company Limited (天津商匯投資(控股)有限公司)	Beneficial owner	Domestic Shares	1,156,000,000	6.67%	10.00%	6.51%	10.00%
Yichang HEC Health Pharmaceutical Co., Ltd. (宜昌東陽光健康藥業有限公司)(8)	Beneficial owner	H Shares	318,275,000	1.84%	5.52%	1.79%	5.13%

Notes:

(1) TEDA Holding is jointly-held by State-owned Assets Supervision and Administration Commission of Tianjin Municipal People's Government (天津市人民政府國有資產監督管理委員會), Tianjin Fiscal Investment Management Center (天津市財政投資管理中心) and Tianjin State-owned Assets Operation Co., Ltd. (天津市國有資產經營有限責任公司) as to 93.34%, 6.21% and 0.45%, respectively.

(2) SCB is wholly-owned by Standard Chartered PLC, and therefore Standard Chartered PLC is deemed to be interested in all the Shares held by SCB for the purpose of the SFO.

(3) China Shipping Investment Co., Ltd. is wholly-owned by COSCO SHIPPING Development Co., Ltd., and in turn owned by China Shipping Group Company Limited as to approximately 39.28%. China Shipping Group Company Limited is wholly-owned by China COSCO Shipping Corporation Limited, and in turn owned by SASAC and National Council for Social Security Fund as to 90% and 10%, respectively. As such, each of China COSCO Shipping Corporation Limited, China Shipping Group Company Limited and COSCO SHIPPING Development Co., Ltd. is deemed to be interested in all the Shares held by China Shipping Investment Co., Ltd for the purpose of the SFO.

(4) SDIC is owned by SASAC and National Council for Social Security Fund as to 90% and 10%, respectively.

(5) China Baowu Steel Group Corporation Limited is wholly-owned by SASAC.

(6) Oceanwide Industry is owned by China Oceanwide Holdings Group Co., Ltd. and Oceanwide Group Co., Ltd. as to 60% and 40%, respectively.

China Oceanwide Holdings Group Co., Ltd. is owned by Oceanwide Group Co., Ltd. and Tohigh Holdings Co., Ltd. as to 98% and 2%, respectively.

Oceanwide Group Co., Ltd. is wholly-owned by Tohigh Holdings Co., Ltd.

Tohigh Holdings Co., Ltd. is owned as to by Mr. Lu Zhiqiang, Ms. Huang Qiongzi (spouse of Mr. Lu Zhiqiang), and Ms. Lu Xiaoyun (daughter of Mr. Lu Zhiqiang and Ms. Huang Qiongzi over 18 years old) as to 77.14%, 11.43% and 11.43%, respectively.

As such, each of Mr. Lu Zhiqiang, Ms. Huang Qiongzi, Tohigh Holdings Co., Ltd., Oceanwide Group Co., Ltd. and China Oceanwide Holdings Group Co., Ltd. is deemed to be interested in all the Shares held by Oceanwide Industry for the purpose of the SFO.

(7) Tianjin Shanghui Investment Holding Company Limited is owned by Tianjin Rongsheng Xinye Investment and Development Co., Ltd. as to 43.90%, and in turn owned by Huatian Investment Co., Ltd. as to 71.32%. Huatian Investment Co., Ltd. is owned as to 95% by Guangzhou Qiushi Asset Management Co., Ltd., and in turn owned by Wuhu Yuanfuchangshuo Equity Investment Partnership Enterprise (Limited Partnership) as to 90%. Wuhu Yuanfuchangshuo Equity Investment Partnership Enterprise (Limited Partnership) is owned by Huaxin International Trust Co., Ltd. as its limited partner as to 80%, and controlled by Ningbo Meishan Bonded Port Zone Yuanche Enterprise Management and Consulting Co., Ltd. as its general partner. Huaxin International Trust Co., Ltd. is in turn owned by China Huadian Group Capital Holdings Co., Ltd. and China Huadian Group Finance Co., Ltd. as to 69.84% and 30.16%, respectively. China Huadian Group Capital Holdings Co., Ltd. is wholly-owned by China Huadian Group Co., Ltd., and more than one-third of voting power at general meeting of China Huadian Group Finance Co., Ltd. is held by China Huadian Group Co., Ltd. China Huadian Group Co., Ltd. is wholly-owned by SASAC.

As such, each of China Huadian Group Co., Ltd., China Huadian Group Capital Holdings Co., Ltd., China Huadian Group Finance Co., Ltd., Huaxin International Trust Co., Ltd., Ningbo Meishan Bonded Port Zone Yuanche Enterprise Management and Consulting Co., Ltd., Wuhu Yuanfuchangshuo Equity Investment Partnership Enterprise (Limited Partnership), Guangzhou Qiushi Asset Management Co., Ltd., Huatian Investment Co., Ltd. and Tianjin Rongsheng Xinye Investment and Development Co., Ltd. is deemed to be interested in all the Shares held by Tianjin Shanghui Investment Holding Company Limited for the purpose of the SFO.

(8) Yichang HEC Health Pharmaceutical Co., Ltd. (宜昌東陽光健康藥業有限公司) is a cornerstone investor of the Bank and has agreed to invest US$200 million to subscribe for the Offer Shares. The relevant Shares calculated herein are based on (a) an exchange rate of HK$7.7500 to US$1.00; and (b) the Offer Price of HK$4.87 (being the mid-point of the indicative Offer Price range), and subject to the rounding down to the nearest whole board lot of 500 H Shares.

As of the Latest Practicable Date, the total issued share capital of our Bank was RMB14,450,000,000 divided into 11,561,445,000 Domestic Shares with a nominal value of RMB1.00 each and 2,888,555,000 unlisted Foreign Shares with a nominal value of RMB1.00 each.

Immediately following completion of the Global Offering and conversion of the unlisted Foreign Shares, and assuming the Over-allotment Option is not exercised, the total issued share capital of our Bank will be as follows:

Class of Shares	Number of Shares	Approximate % of share capital
Domestic Shares	11,561,445,000	66.71%
H Shares converted from unlisted Foreign Shares	2,888,555,000	16.67%
H Shares to be issued pursuant to the Global Offering	2,880,000,000	16.62%
Total	17,330,000,000	100.00%

Assuming the Over-allotment Option is exercised in full, the total issued share capital of our Bank will be as follows:

Class of Shares	Number of Shares	Approximate % of share capital
Domestic Shares	11,561,445,000	65.09%
H Shares converted from unlisted Foreign Shares	2,888,555,000	16.26%
H Shares to be issued pursuant to the Global Offering	3,312,000,000	18.65%
Total	17,762,000,000	100.00%

SHARES OF OUR BANK

Upon completion of the Global Offering and conversion of the unlisted Foreign Shares, our Bank will have two classes of Shares, namely Domestic Shares and H Shares, both of which are ordinary Shares in our share capital. However, H Shares generally may not be subscribed for by, or traded between, legal or natural persons of the PRC, other than certain qualified domestic institutional investors in the PRC, qualified PRC investors under the Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect, and other persons who are entitled to hold H Shares pursuant to relevant PRC laws and regulations or upon approval by any competent authorities.

The rights conferred on any class of Shareholders may not be varied or abrogated unless approved by a special resolution of the Shareholders at a Shareholders' general meeting and by holders of such affected class of Shares at a separate Shareholders' general meeting. The circumstances which shall be deemed to be a variation or abrogation of the rights of a class of Shareholders are listed in "Appendix V – Summary of Articles of Association". However, the procedures for approval by separate classes of Shareholders do not apply where: (i) our Bank issues, upon approval by a special resolution of the Shareholders at a Shareholders' general meeting, either separately or concurrently every 12 months, Shares representing no more than 20% of each of the existing issued Domestic Shares and overseas listed foreign shares; (ii) our Bank's plan at the time of our establishment to issue Domestic Shares and overseas listed foreign shares, which is implemented within 15 months from the date of approval by the securities regulatory authorities of the State Council; or (iii) holders of our Domestic Shares convert the unlisted Shares held by them into overseas listed Shares for listing and trading on an overseas stock exchange, upon the approvals by the securities regulatory authorities of the State Council and other relevant authorities.

RANKING

Pursuant to the Articles of Association, Domestic Shares and H Shares are categorized as different classes of Shares. Their differences and the provisions on class rights, the dispatch of notices and financial reports to Shareholders, dispute resolution, registration of Shares on different registers of members, the method of share transfer and appointment of dividend receiving agents are set forth in the Articles of Association and summarized in "Appendix V – Summary of Articles of Association".

Except for the differences above, Domestic Shares and H Shares will rank *pari passu* with each other in all other respects and, in particular, will rank equally for all dividends or distributions declared, paid or made after the date of this prospectus. All dividends in respect of H Shares are to be declared in Renminbi and paid by our Bank in Hong Kong dollars whereas all dividends in respect of Domestic Shares are to be paid by our Bank in Renminbi. In addition to cash, dividends may be distributed in the form of Shares.

CONVERSION OF DOMESTIC SHARES INTO H SHARES

Upon completion of the Global Offering and conversion of the unlisted Foreign Shares, our Bank will have two classes of ordinary Shares, namely Domestic Shares and H Shares. All of the Domestic Shares are Shares which are not listed or traded on any stock exchange. Pursuant to the regulations prescribed by the securities regulatory authorities of the State Council and the Articles of Association, the unlisted Shares may be converted into overseas listed Shares. Such converted Shares could be listed or traded on an overseas stock exchange, provided that prior to the conversion and trading of such converted Shares, any requisite internal approval process have been duly completed and the approval from the relevant regulatory authorities, including CSRC, have been obtained. In addition, such conversion and trading shall comply with the regulations prescribed by the securities regulatory authorities of the State Council and the regulations, requirements and procedures prescribed by the relevant overseas stock exchange. If any Domestic Shares are to be converted into H Shares and traded on the Hong Kong Stock Exchange, such conversion will require the approval of the relevant PRC regulatory authorities, including CSRC. The listing and trading of such converted Shares on the Hong Kong Stock Exchange will also require the approval of the Hong Kong Stock Exchange at the time of conversion instead of at the time of our initial listing in Hong Kong.

Based on the procedures for the conversion of Domestic Shares into H Shares as disclosed below, our Bank may apply for the listing of all or any portion of Domestic Shares on the Hong Kong Stock Exchange as H Shares before any proposed conversion to ensure that the conversion process can be completed promptly upon notice to the Hong Kong Stock Exchange and delivery of Shares for entry on the H Share register. As any listing of additional Shares after our initial listing on the Hong Kong Stock Exchange is ordinarily considered by the Hong Kong Stock Exchange to be a purely administrative matter, it does not require such prior application for listing at the time of our initial listing in Hong Kong.

No approval by separate class meeting is required for the listing and trading of such 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 the Shareholders and the public of any proposed conversion.

After all the requisite approvals have been obtained, the relevant Domestic Shares will be withdrawn from the China Securities Depository and Clearing Corporation Limited and our Bank 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 entry of the relevant H Shares on the H Share register and the due dispatch of H Share certificates; and (ii) the admission of H Shares to be traded on the Hong Kong Stock Exchange complies with the Listing Rules and the General Rules of CCASS and the CCASS Operational Procedures in force from time to time. Until the converted Shares are re-registered on our H Share register, such Shares will not be listed as H Shares.

CONVERSION OF UNLISTED FOREIGN SHARES HELD BY SCB

Upon completion of the Global Offering and pursuant to the approval of the CSRC dated June 2, 2020, the 2,888,555,000 unlisted Foreign Shares held by SCB will be converted into H Shares on a one-for-one basis and be listed for trading on the Stock Exchange. Application has been made to the Listing Committee for such H Shares to be listed on the Hong Kong Stock Exchange.

LOCK-UP PERIOD

Pursuant to Article 141 of the PRC Company Law, shares issued prior to any public offering of shares by a company cannot be transferred within one year from the date on which such shares are listed and traded on the relevant stock exchange. As such, the Shares issued by our Bank prior to our issue of H Shares will be subject to such statutory restriction on transfer within a period of one year from the Listing Date.

SHAREHOLDERS' GENERAL MEETINGS AND CLASS MEETINGS

For details of circumstances under which our Shareholders' general meeting and Shareholders' class meeting are required, please see subsections headed "Notice of Meetings and Business to be Conducted Thereat", and "Variation of Rights of Existing Shares or Classes of Shares" in "Appendix V – Summary of Articles of Association".

You should read the discussion and analysis set forth in this section in conjunction with our historical financial information, together with the accompanying notes included in Appendix I attached to this prospectus. Our historical financial information has been prepared in accordance with IFRS. In particular, we have adopted IFRS 9 to replace IAS 39 since January 1, 2018, which resulted in changes in our accounting policies that relate to the recognition, classification and measurement of financial assets and liabilities. For details on differences between IAS 39 and IFRS 9 and the impact of adopting IFRS 9 on our results of operations, please see the section headed "Financial Information – Critical Accounting Judgments and Key Sources of Estimation Uncertainty – Impact of New Accounting Policies". Please also see Note 2(1)(a) to the Accountants' Report in Appendix I.

The following discussion and analysis contain forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements due to a number of factors, including those set forth in "Forward-Looking Statements" and "Risk Factors".

ASSETS

Our total assets increased by 3.2% from RMB1,002,567.0 million as of December 31, 2017 to RMB1,034,451.3 million as of December 31, 2018, and further increased by 8.0% to RMB1,116,930.0 million as of December 31, 2019. The continued increase in our total assets during the Track Record Period was primarily due to the increase in the loans and advances to customers as a result of our continuous efforts to develop our corporate and retail banking businesses. The principal components of our assets consist of (i) net loans and advances to customers, and (ii) net financial investments, representing 61.5% and 26.9%, respectively, of our total assets as of December 31, 2019. The following table sets forth the components of our total assets as of the dates indicated.

	As of December 31,					
	2017(1)		2018(2)		2019(2)	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Gross loans and advances to customers(3)	464,889.8	46.4%	565,453.7	54.7%	708,057.5	63.4%
Interest accrued(4)	N/A	N/A	2,018.5	0.2%	2,822.4	0.3%
Allowance for impairment losses	(15,076.1)	(1.5%)	(19,449.8)	(1.9%)	(23,600.8)	(2.1%)
Net loans and advances to customers	**449,813.7**	**44.9%**	**548,022.4**	**53.0%**	**687,279.1**	**61.5%**
Gross financial investments	417,691.5	41.7%	313,258.3	30.3%	299,892.4	26.8%
Interest accrued(4)	N/A	N/A	3,538.3	0.3%	3,618.8	0.3%
Allowance for impairment losses	(5,042.9)	(0.5%)	(3,838.7)	(0.4%)	(3,204.3)	(0.3%)
Net financial investments	**412,648.6**	**41.2%**	**312,957.9**	**30.3%**	**300,306.9**	**26.9%**
Cash and deposits with the central bank	105,000.3	10.5%	123,250.0	11.9%	93,013.7	8.3%
Deposits with banks and other financial institutions	8,722.8	0.9%	25,923.1	2.5%	14,051.6	1.3%
Placements with banks and other financial institutions	10,168.0	1.0%	2,059.1	0.2%	4,410.8	0.4%
Derivative financial assets	198.1	0.0%	393.4	0.0%	158.7	0.0%
Financial assets held under resale agreements	–	–	10,571.0	1.0%	1,850.3	0.2%
Interest in associate	51.7	0.0%	52.8	0.0%	–	–
Property and equipment	4,039.9	0.4%	3,917.3	0.4%	3,804.2	0.3%
Deferred tax assets	4,829.4	0.5%	5,065.9	0.5%	6,365.1	0.6%
Other assets(5)	7,094.5	0.6%	2,238.4	0.2%	5,689.6	0.5%
Total assets	**1,002,567.0**	**100.0%**	**1,034,451.3**	**100.0%**	**1,116,930.0**	**100.0%**

Notes:

(1) IAS 39 was adopted prior to January 1, 2018.

(2) IFRS 9 was adopted from January 1, 2018.

(3) 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.

(4) Pursuant to the relevant notice issued by the MOF in December 2018, the interest accrued on financial instruments measured based on the effective interest rate method should be included in the book balance of relevant financial instruments.

(5) Consist primarily of interest receivable, land use rights, prepayments and right-of-use assets.

Loans and Advances to Customers

Loans and advances to customers are a major component of our assets. We provide a broad range of loan products to our customers through our outlets. Substantially all of our loans and advances to customers are denominated in Renminbi. The following tables set forth the distribution of our loans and advances to customers by business model and cash flow characteristics as of the dates indicated. For further details, see Note 19 of the Accountants' Report in Appendix I to this prospectus.

	As of December 31,		As of January 1,		As of December 31,			
	2017[(1)]		2018[(2)]		2018[(2)]		2019[(2)]	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Loans and advances to customers measured at amortised cost								
Corporate loans and advances	343,351.0	73.8%	341,966.8	73.5%	383,418.3	67.8%	464,465.4	65.6%
Personal loans	118,801.3	25.6%	118,801.3	25.6%	167,839.7	29.7%	233,419.9	33.0%
Discounted bills	2,737.5	0.6%	–	–	–	–	–	–
Subtotal	464,889.8	100.0%	460,768.1	99.1%	551,258.0	97.5%	697,885.3	98.6%
Loans and advances to customers measured at fair value through other comprehensive income								
Discounted bills	N/A	N/A	2,737.5	0.6%	13,211.4	2.3%	9,413.5	1.3%
Subtotal	N/A	N/A	2,737.5	0.6%	13,211.4	2.3%	9,413.5	1.3%
Loans and advances to customers measured at fair value through profit or loss								
Corporate loans and advances	N/A	N/A	1,387.6	0.3%	984.3	0.2%	758.7	0.1%
Subtotal	N/A	N/A	1,387.6	0.3%	984.3	0.2%	758.7	0.1%
Gross loans and advances to customers	**464,889.8**	**100.0%**	**464,893.2**	**100.0%**	**565,453.7**	**100.0%**	**708,057.5**	**100.0%**
Interest accrued[(3)]	N/A		N/A		2,018.5		2,822.4	
Less: Allowance for impairment losses[(4)]	(15,076.1)		(14,217.6)		(19,449.8)		(23,600.8)	
Net loans and advances to customers	449,813.7		450,675.6		548,022.4		687,279.1	

Notes:

(1) Measured and recognized in accordance with IAS 39, which we adopted prior to January 1, 2018.

(2) Measured and recognized in accordance with IFRS 9, which we adopted from January 1, 2018. The balance of loans and advances as of January 1, 2018 under IFRS 9 represents the beginning balance of 2018.

(3) Pursuant to the relevant notice issued by the MOF in December 2018, the interest accrued on financial instruments measured based on the effective interest rate method should be included in the book balance of relevant financial instruments.

(4) Represents the allowance for impairment losses on loans and advances to customers measured at amortised cost. Under IFRS 9, allowance for impairment losses on loans and advances to customers measured at fair value through other comprehensive income is recognized in the "impairment reserve", which does not affect the book value of loans and advances to customers reported in our statements of financial position. For details of such "impairment reserve", see Note 35(d) of the Accountants' Report in Appendix I to this prospectus.

Our gross loans and advances to customers before taking into account the interest accrued increased by 21.6% from RMB464,889.8 million as of December 31, 2017 to RMB565,453.7 million as of December 31, 2018, and further increased by 25.2% to RMB708,057.5 million as of December 31, 2019, which was primarily due to the growth of both corporate loan business and personal loan business. Except as otherwise indicated, the following discussions are based on our gross loans and advances to customers before taking into account interest accrued and allowance for impairment losses.

Distribution of Loans by Business Line

Our loans and advances to customers consist of corporate loans and advances, personal loans and discounted bills. For description of the loan products we offer, please see "Business – Our Principal Businesses". The following table sets forth our loans and advances to customers by business line as of the dates indicated.

	As of December 31,					
	2017		2018		2019	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Corporate loans and advances	343,351.0	73.8%	384,402.6	68.0%	465,224.1	65.7%
Personal loans	118,801.3	25.6%	167,839.7	29.7%	233,419.9	33.0%
Discounted bills	2,737.5	0.6%	13,211.4	2.3%	9,413.5	1.3%
Gross loans and advances to customers	**464,889.8**	**100.0%**	**565,453.7**	**100.0%**	**708,057.5**	**100.0%**

Corporate Loans and Advances

During the Track Record Period, corporate loans and advances were the largest component of our loan portfolio, representing 73.8%, 68.0% and 65.7% of our gross loans and advances to customers as of December 31, 2017, 2018 and 2019, respectively. Our corporate loans and advances increased by 12.0% from RMB343,351.0 million as of December 31, 2017 to RMB384,402.6 million as of December 31, 2018, and further increased by 21.0% to RMB465,224.1 million as of December 31, 2019. The continued increase in our corporate loans and advances was primarily attributable to our active implementation of bank-wide development plan, our continued efforts to develop our corporate loan business by enhancing marketing efforts, enriching products and improving customer experience. Meanwhile, the corporate loans and advances as a percentage of all loans to customers decreased during the Track Record Period, which was attributable to our efforts to increase the scale of personal loans, to optimize our asset structure and to facilitate the transformation and development of our business.

Distribution of Corporate Loans and Advances by Contract Maturity

The majority of our corporate loans and advances were medium-and long-term loans, with a maturity of more than a year. The following table sets forth the distribution of our corporate loans and advances by contract maturity as of the dates indicated.

	As of December 31,					
	2017		2018		2019	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Short-term loans and advances[(1)]	114,672.9	33.4%	113,921.5	29.6%	155,725.0	33.5%
Medium-and long-term loans[(2)]	228,678.1	66.6%	270,481.1	70.4%	309,499.1	66.5%
Total corporate loans and advances	**343,351.0**	**100.0%**	**384,402.6**	**100.0%**	**465,224.1**	**100.0%**

Notes:

(1) Short-term loans and advances are loans with a maturity of one year or less and advances.

(2) Medium-and long-term loans are loans which mature in more than one year.

Short-term loans and advances accounted for 33.4%, 29.6% and 33.5% of our total corporate loans and advances as of December 31, 2017, 2018 and 2019, respectively.

Medium-and long-term loans accounted for 66.6%, 70.4% and 66.5% of our corporate loans and advances as of December 31, 2017, 2018 and 2019, respectively.

The changes in the maturity structure of our corporate loans and advances during the Track Record Period were primarily driven by the fluctuation in market demand for loans with different maturities.

Distribution of Corporate Loans and Advances by Product Type

The following table sets forth the distribution of our corporate loans and advances by product type as of the dates indicated. For details of each type of our corporate loans and advances, please see "Business – Our Principal Businesses – Corporate Banking – Corporate Loans and Advances".

	As of December 31,					
	2017		2018		2019	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Working capital loans	204,091.6	59.4%	214,973.9	55.9%	282,656.3	60.8%
Fixed asset loans	134,561.5	39.2%	161,472.4	42.0%	171,084.4	36.8%
Others[(1)]	4,697.9	1.4%	7,956.3	2.1%	11,483.4	2.4%
Total corporate loans and advances	**343,351.0**	**100.0%**	**384,402.6**	**100.0%**	**465,224.1**	**100.0%**

Note:

(1) Consist primarily of merger and acquisition loans.

During the Track Record Period, working capital loans accounted for 59.4%, 55.9% and 60.8% of our total corporate loans and advances as of December 31, 2017, 2018 and 2019, respectively. Our working capital loans increased by 5.3% from RMB204,091.6 million as of December 31, 2017 to RMB214,973.9 million as of December 31, 2018, and further increased by 31.5% to RMB282,656.3 million as of December 31, 2019, primarily because (i) our granting of working capital loans increased as a result of our enhanced marketing efforts and expanded customer base; and (ii) we increased working capital loans granted to customers in the lease and business services industry.

Fixed asset loans accounted for 39.2%, 42.0% and 36.8% of our total corporate loans and advances as of December 31, 2017, 2018 and 2019, respectively. Our fixed asset loans increased by 20.0% from RMB134,561.5 million as of December 31, 2017 to RMB161,472.4 million as of December 31, 2018, and further increased by 6.0% to RMB171,084.4 million as of December 31, 2019. The continued increase in our fixed asset loans was primarily because we increased fixed asset loans granted to enterprises engaging in investment in infrastructure construction, which was in line with PRC governmental policies to support the infrastructure construction industry.

Other corporate loans and advances consist primarily of merger and acquisition loans. Other corporate loans and advances amounted to RMB4,697.9 million, RMB7,956.3 million and RMB11,483.4 million as of December 31, 2017, 2018 and 2019, respectively, representing 1.4%, 2.1% and 2.4% of our total corporate loans and advances, respectively.

Distribution of Corporate Loans and Advances by Industry

The following table sets forth the distribution of our corporate loans and advances by industry classification as of the dates indicated.

	As of December 31,					
	2017		2018		2019	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Lease and business services[3]	92,565.6	27.0%	114,971.9	29.9%	137,275.0	29.5%
Real estate	77,793.2	22.7%	90,288.7	23.5%	109,253.9	23.5%
Manufacturing[2]	47,019.5	13.7%	48,896.5	12.7%	60,302.3	13.0%
Water conservancy, environment and public facilities management[3]	42,210.5	12.2%	48,193.2	12.4%	50,870.0	10.9%
Wholesale and retail	27,404.6	8.0%	24,627.3	6.4%	37,309.4	8.0%
Construction	18,335.2	5.3%	16,760.0	4.4%	19,738.8	4.2%
Transportations and communications, storage and post[3]	7,975.9	2.3%	10,885.8	2.8%	14,567.8	3.1%
Mining	7,797.6	2.3%	4,444.5	1.2%	7,737.7	1.7%
Production and supply of electricity, heat, gas and water	5,120.8	1.5%	6,349.3	1.7%	6,880.0	1.5%
Finance	6,000.8	1.7%	3,472.9	0.9%	5,628.5	1.2%
Public utilities, social security and social organizations	2,740.5	0.8%	5,848.0	1.5%	5,287.0	1.1%
Education	2,657.0	0.8%	2,636.5	0.7%	2,246.4	0.5%
Information transfer, software and IT services	1,742.9	0.5%	1,015.9	0.3%	1,235.8	0.3%
Others[1]	3,986.9	1.2%	6,012.1	1.6%	6,891.5	1.5%
Total corporate loans and advances	**343,351.0**	**100.0%**	**384,402.6**	**100.0%**	**465,224.1**	**100.0%**

Notes:

(1) Comprise (i) accommodation and catering, (ii) hygiene and social welfare, (iii) agriculture, forestry, animal husbandry and fishery, (iv) scientific research and technical services, (v) resident services, maintenance and other services, and (vi) culture, sports and entertainment.

(2) As of December 31, 2017, 2018 and 2019, approximately 6.0%, 4.1% and 2.7%, respectively, of our corporate loans and advances were granted to borrowers that had business operation in industries associated with heavy pollution, high energy consumption or overcapacity, almost all of which were borrowers in the manufacturing industry.

(3) Certain of the borrowers in the lease and business services industry, the water conservancy, environment and public facilities management industry, and the transportations and communications, storage and post industry are LGFVs, and loans we granted to such borrowers represented 1.3%, 1.9% and 1.6% of our corporate loans and advances as of December 31, 2017, 2018 and 2019, respectively.

The aggregate balance of loans to our corporate borrowers in the lease and business services, real estate, manufacturing, water conservancy, environment and public facilities management and wholesale and retail industries, being the top five industries in terms of our aggregate corporate loan exposure as of December 31, 2019, collectively accounted for 83.6%, 84.9% and 84.9% of our total corporate loans and advances as of December 31, 2017, 2018 and 2019, respectively.

Our loans to corporate borrowers in the lease and business services industry accounted for 27.0%, 29.9% and 29.5% of our total corporate loans and advances as of December 31, 2017, 2018 and 2019, respectively. Our loans to corporate borrowers in the lease and business services industry increased by 24.2% from RMB92,565.6 million as of December 31, 2017 to RMB114,971.9 million as of December 31, 2018, and further increased by 19.4% to RMB137,275.0 million as of December 31, 2019. The continued increase in the balance of loans extended to the lease and business services industry was primarily due to our continued efforts to develop quality customers in the lease and business services industry resulting in increased lending to this industry to support its growth.

Our loans to corporate borrowers in the real estate industry accounted for 22.7%, 23.5% and 23.5% of our total corporate loans and advances as of December 31, 2017, 2018 and 2019, respectively. The amount of our loans to corporate borrowers in the real estate industry increased by 16.1% from RMB77,793.2 million as of December 31, 2017 to RMB90,288.7 million as of December 31, 2018, and further increased by 21.0% to RMB109,253.9 million as of December 31, 2019, primarily because we increased credit support to quality real estate developers in economically developed regions such as Beijing and Shenzhen while maintaining adequate risk control, which is in line with the overall growth of our corporate loans and advances.

Our loans to corporate borrowers in the manufacturing industry accounted for 13.7%, 12.7% and 13.0% of our total corporate loans and advances as of December 31, 2017, 2018 and 2019, respectively. Our loans to corporate borrowers in the manufacturing industry increased by 4.0% from RMB47,019.5 million as of December 31, 2017 to RMB48,896.5 million as of December 31, 2018, and further increased by 23.3% to RMB60,302.3 million as of December 31, 2019, primarily due to the fact that we increased credit support to quality enterprises engaging in the production and manufacture of products relating to modern communications, high-end equipment manufacturing, energy conservation and environmental protection industries.

Our loans to corporate borrowers in the water conservancy, environment and public facilities management industry accounted for 12.2%, 12.4% and 10.9% of our total corporate loans and advances as of December 31, 2017, 2018 and 2019, respectively. Our loans to corporate borrowers in the water conservancy, environment and public facilities management industry increased by 14.2% from RMB42,210.5 million as of December 31, 2017 to RMB48,193.2 million as of December 31, 2018, and further increased by 5.6% to RMB50,870.0 million as of December 31, 2019, mainly because we increased loans granted to quality enterprises in this industry, which was in line with PRC governmental policies on supporting the infrastructure construction industry.

Our loans to corporate borrowers in the wholesale and retail industry accounted for 8.0%, 6.4% and 8.0% of our total corporate loans and advances as of December 31, 2017, 2018 and 2019, respectively. Our loans to corporate borrowers in the wholesale and retail services industry decreased by 10.1% from RMB27,404.6 million as of December 31, 2017 to RMB24,627.3 million as of December 31, 2018, primarily due to changes in credit demands in this industry. Our loans to corporate borrowers in the wholesale and retail industry increased by 51.5% to RMB37,309.4 million as of December 31, 2019, mainly because we increased loans granted to large and medium-sized wholesale and retail enterprises based on market demand.

Distribution of Corporate Loans and Advances by Size of Corporate Borrowers

The following table sets forth the distribution of our corporate loans and advances by the size of the borrowers as of the dates indicated.

	As of December 31,					
	2017		2018		2019	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Large enterprises[1]	123,888.3	36.1%	128,818.4	33.5%	159,251.0	34.2%
Medium enterprises[1]	109,334.0	31.8%	126,708.4	33.0%	176,477.8	37.9%
Subtotal (medium to large enterprises)	233,222.3	67.9%	255,526.8	66.5%	335,728.8	72.1%
Micro and small enterprises[1]	102,951.0	30.0%	119,242.3	31.0%	120,881.5	26.0%
Others[2]	7,177.7	2.1%	9,633.5	2.5%	8,613.8	1.9%
Total corporate loans and advances	**343,351.0**	**100.0%**	**384,402.6**	**100.0%**	**465,224.1**	**100.0%**

Notes:

(1) The classification criteria for micro and small enterprises and, medium to large enterprises are based on the number of their employees, operating income and total assets, as stated in the Classification Standards of Small and Medium Enterprises. Please see "Definitions" section.

(2) Primarily include loans to public institutions such as schools and hospitals.

Loans to medium to large enterprises represented 67.9%, 66.5% and 72.1% of our total corporate loans and advances as of December 31, 2017, 2018 and 2019, respectively. Loans to medium to large enterprises increased by 9.6% from RMB233,222.3 million as of December 31, 2017 to RMB255,526.8 million as of December 31, 2018, and further increased by 31.4% to RMB335,728.8 million as of December 31, 2019. The continued increase in our loans to medium to large enterprises was primarily due to our efforts to proactively expand our customer base and develop quality customers among medium to large enterprises.

Our loans to micro and small enterprises represented 30.0%, 31.0% and 26.0% of our total corporate loans and advances as of December 31, 2017, 2018 and 2019, respectively. Our loans to micro and small enterprises increased by 15.8% from RMB102,951.0 million as of December 31, 2017 to RMB119,242.3 million as of December 31, 2018, and further increased by 1.4% to RMB120,881.5 million as of December 31, 2019, primarily because we increased our efforts to promote products targeting micro and small enterprises in accordance with relevant national policies on supporting inclusive finance, resulting in the growth of loans to micro and small enterprises.

Distribution of Corporate Loans and Advances by Size of Loans

The following table sets forth the distribution of our corporate loans and advances by size as of the dates indicated.

	As of December 31,					
	2017		2018		2019	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Over RMB500 million	85,878.4	25.0%	127,855.2	33.3%	166,094.5	35.7%
Over RMB100 million to RMB500 million	180,845.4	52.7%	181,683.1	47.3%	210,958.3	45.3%
Over RMB50 million to RMB100 million	39,533.3	11.5%	40,851.4	10.6%	47,803.9	10.3%
Over RMB10 million to RMB50 million	32,975.7	9.6%	29,635.4	7.7%	34,582.4	7.4%
Up to RMB10 million	4,118.2	1.2%	4,377.5	1.1%	5,785.0	1.3%
Total corporate loans and advances	**343,351.0**	**100.0%**	**384,402.6**	**100.0%**	**465,224.1**	**100.0%**

Personal Loans

As of December 31, 2017, 2018 and 2019, our personal loans accounted for 25.6%, 29.7% and 33.0% of our total loans and advances to customers, respectively.

Our personal loans increased by 41.3% from RMB118,801.3 million as of December 31, 2017 to RMB167,839.7 million as of December 31, 2018, and further increased by 39.1% to RMB233,419.9 million as of December 31, 2019. The continued increase in our personal loans both in terms of the balance and as a percentage of total loans and advances to customers were primarily due to our efforts in developing and marketing our personal loan business during the Track Record Period, in particular, the personal consumption loans.

Distribution of Personal Loans by Product Type

The table below sets forth our personal loans by product type as of the dates indicated.

	As of December 31,					
	2017		2018		2019	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Residential and commercial housing loans	105,846.2	89.1%	113,806.9	67.8%	127,816.2	54.7%
Personal consumption loans	8,754.5	7.4%	48,496.5	28.9%	95,605.8	41.0%
Personal business loans	3,097.0	2.6%	3,751.7	2.2%	6,711.8	2.9%
Credit cards	1,103.6	0.9%	1,784.6	1.1%	3,286.1	1.4%
Total personal loans	**118,801.3**	**100.0%**	**167,839.7**	**100.0%**	**233,419.9**	**100.0%**

Our residential and commercial housing loans increased by 7.5% from RMB105,846.2 million as of December 31, 2017 to RMB113,806.9 million as of December 31, 2018, and further increased by 12.3% to RMB127,816.2 million as of December 31, 2019. This increase in the balance of our residential and commercial housing loans was primarily attributable to our efforts to grow our residential and commercial housing loans, which are generally secured by the properties purchased by the borrowers and with relatively low risks, and also brings us quality retail customer as well as long-term stable returns. The proportion of residential and commercial housing loans in total personal loans decreased during the Track Record Period, as the growth of our residential and commercial housing loans was slower than the overall growth of our personal loans.

Personal consumption loans increased significantly from RMB8,754.5 million as of December 31, 2017 to RMB48,496.5 million as of December 31, 2018, and further increased by 97.1% to RMB95,605.8 million as of December 31, 2019. Personal consumption loans as a percentage of our total personal loans increased from 7.4% as of December 31, 2017 to 28.9% as of December 31, 2018, and further increased to 41.0% as of December 31, 2019. The continued increase in the balance and proportion of our personal consumption loans was primarily due to our efforts to broaden the channels of acquiring customers, enrich personal consumption loan products which generally have higher yields and enhance the efficiency of business processing.

Personal business loans increased by 21.1% from RMB3,097.0 million as of December 31, 2017 to RMB3,751.7 million as of December 31, 2018, and further increased by 78.9% to RMB6,711.8 million as of December 31, 2019, primarily reflecting our increased credit support to owners of quality individual businesses and micro and small enterprises to cater for their financing needs. Personal business loans as a percentage of our total personal loans remained relatively stable during the Track Record Period.

The balance of credit cards represented 0.9%, 1.1% and 1.4% of our personal loans as of December 31, 2017, 2018 and 2019. The increase was primarily due to the increased number of credit cards issued and expansion of the relevant business scale as a result of our continued efforts in developing credit card business.

Distribution of Personal Loans by Size of Loans

The following table sets forth the distribution of our personal loan by size as of the dates indicated.

	As of December 31,					
	2017		2018		2019	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Over RMB5 million	12,793.1	10.8%	11,831.4	7.0%	11,551.4	4.9%
Over RMB0.5 million to RMB5 million	85,206.9	71.7%	91,626.4	54.6%	104,996.7	45.0%
Over RMB0.25 million to RMB0.5 million	12,951.8	10.9%	18,718.7	11.2%	20,549.3	8.8%
Over RMB0.1 million to RMB0.25 million	3,876.8	3.3%	14,449.6	8.6%	30,737.2	13.2%
Up to RMB0.1 million	3,972.7	3.3%	31,213.6	18.6%	65,585.3	28.1%
Total personal loans	**118,801.3**	**100.0%**	**167,839.7**	**100.0%**	**233,419.9**	**100.0%**

Discounted Bills

Discounted bills accounted for 0.6%, 2.3% and 1.3% of our total loans and advances to customers as of December 31, 2017, 2018 and 2019, respectively. Discounted bills increased from RMB2,737.5 million as of December 31, 2017 to RMB13,211.4 million as of December 31, 2018, primarily because we increased the scale of discounted bills in 2018 taking into consideration of various factors, including market interest rates and the relatively lower risk and higher liquidity of discounted bills. As of December 31, 2019, discounted bills decreased by 28.7% to RMB9,413.5 million, primarily because we optimized our assets structure by controlling the scale of our discounted bills and allocating more funds to other assets with higher yields in light of the decreased market interest rates of discounted bills in 2019.

The following table sets forth a breakdown of our discounted bills by type of obligation as of the dates indicated:

	As of December 31,					
	2017		2018		2019	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Bank acceptance discounted bill	2,574.1	94.0%	13,034.7	98.7%	7,111.7	75.5%
Commercial acceptance discounted bill	163.4	6.0%	176.7	1.3%	2,301.8	24.5%
Total discounted bills	**2,737.5**	**100.0%**	**13,211.4**	**100.0%**	**9,413.5**	**100.0%**

Our discounted bills consisted of bank acceptance discounted bills and commercial acceptance discounted bills. Bank acceptance discounted bills generally present lower credit risk than commercial acceptance discounted bills, whereas commercial acceptance discounted bills bear higher discount rates. During the Track Record Period, the majority of our discounted bills were bank acceptance discounted bills, which accounted for 94.0%, 98.7% and 75.5% of our total discounted bills as of December 31, 2017, 2018 and 2019, respectively. The changes in bank acceptance discounted bills and commercial acceptance discounted bills as a percentage of total discounted bills primarily reflected our adjustments of the composition of our discounted bill portfolio to balance risk and return, whereby we accepted more commercial acceptance discounted bill discounting in 2019 issued by certain quality enterprises.

Distribution of Loans by Geographical Region

We also classify loans by the geographic location of our branch and sub-branches that originated the loans. Our branches or sub-branches generally originate loans to borrowers in the region where they are located. The following table sets forth the distribution of our loans and advances to customers by geographic region as of the dates indicated.

	As of December 31,					
	2017		2018		2019	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Northern and Northeastern China	218,221.0	46.9%	260,192.7	46.0%	326,296.4	46.1%
Eastern China	117,539.4	25.3%	123,565.4	21.9%	159,014.6	22.5%
Central and Southern China	102,446.0	22.0%	129,868.0	23.0%	167,258.3	23.6%
Western China	26,683.4	5.8%	51,827.6	9.1%	55,488.2	7.8%
Gross loans and advances to customers	**464,889.8**	**100.0%**	**565,453.7**	**100.0%**	**708,057.5**	**100.0%**

During the Track Record Period, our loan business mainly focused on Northern and Northeastern China. The loans originated in Northern and Northeastern China increased by 19.2% from RMB218,221.0 million as of December 31, 2017 to RMB260,192.7 million as of December 31, 2018, and further increased by 25.4% to RMB326,296.4 million as of December 31, 2019, which was in line with the overall growth in our loan business and mainly driven by the increased demand and number of customers as a result of economic growth in this region. As of December 31, 2017, 2018 and 2019, the loans originated in Northern and Northeastern China accounted for 46.9%, 46.0% and 46.1% of our total loans and advances to customers, respectively.

The loans originated in Eastern China increased by 5.1% from RMB117,539.4 million as of December 31, 2017 to RMB123,565.4 million as of December 31, 2018, and further increased by 28.7% to RMB159,014.6 million as of December 31, 2019, which was due to our efforts to develop business in Eastern China, in particular, Yangtze River Delta. As of December 31, 2017, 2018 and 2019, the loans originated in Eastern China accounted for 25.3%, 21.9% and 22.5% of our total loans, respectively. Compared to that as of December 31, 2017, loans originated in Eastern China as a percentage of our total loans decreased as of December 31, 2018, mainly attributable to our efforts to improve our loan business in Southern China, Central China and Western China in line with PRC national policies in promoting the economic development in these regions, which resulted in a faster growth of loans granted by us in these regions as compared to the other regions in 2018, and led to the changes in our overall distribution of loans by geographical region.

During the Track Record Period, the aggregate of our loans originated in Central and Southern China as well as Western China increased by 40.7% from RMB129,129.4 million as of December 31, 2017 to RMB181,695.6 million as of December 31, 2018, and further increased by 22.6% to RMB222,746.5 million as of December 31, 2019. As of December 31, 2017, 2018 and 2019, the aggregate of loans originated in Central and Southern China as well as Western China accounted for 27.8%, 32.1% and 31.4% of our total loans and advances to customers, respectively. The continued increase in the balance of the loans in these regions was mainly because we actively seized opportunities brought about by the economic development in Central and Southern China and Western China, which was further driven by the implementation of favorable policies, such as the "Belt and Road Initiative", China Western Development and policies for promoting the economic growth of the Pearl River Delta, to further develop high-quality clients and expand our business in these regions.

Distribution of Loans by Currency

Substantially all of our loans are denominated in Renminbi. The following table sets forth the distribution of our loans and advances to customers by currency as of the dates indicated:

	As of December 31,					
	2017		2018		2019	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Renminbi denominated loans	446,907.0	96.2%	546,120.7	96.6%	681,220.5	96.2%
USD-denominated loans	17,363.2	3.7%	18,214.6	3.2%	25,753.6	3.6%
Other foreign currency-denominated loans	619.6	0.1%	1,118.4	0.2%	1,083.4	0.2%
Gross loans and advances to customers	**464,889.8**	**100.0%**	**565,453.7**	**100.0%**	**708,057.5**	**100.0%**

Distribution of Loans by Security Type

A substantial amount of our loans and advances to customers are secured by pledges, collateral or guarantees. As of December 31, 2017, 2018 and 2019, our loans and advances to customers secured by pledges, collateral or guarantees represented 82.8%, 81.2% and 78.6% of our total loans and advances to customers, respectively. The following table sets forth the distribution of our loans and advances to customers by security type as of the dates indicated.

	As of December 31,					
	2017		2018		2019	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Pledged loans(1)						
Pledged with certificate of deposits, security deposits or bonds	31,822.4	6.8%	37,416.9	6.6%	56,797.0	8.0%
Pledged with equity interests in listed companies	3,094.0	0.7%	3,432.1	0.6%	8,712.4	1.2%
Pledged with account receivables or charging rights	3,620.1	0.8%	5,328.5	0.9%	4,029.5	0.6%
Pledged with bills	1,049.4	0.2%	30.0	0.0%	–	–
Pledged with others	2,023.9	0.4%	2,389.1	0.4%	1,604.1	0.2%
Subtotal	**41,609.8**	**8.9%**	**48,596.6**	**8.5%**	**71,143.0**	**10.0%**

	As of December 31,					
	2017		2018		2019	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Collateralized loans[1]						
Collateralized with real estate	165,846.6	35.7%	191,051.2	33.8%	233,248.8	33.1%
Collateralized with equipment	412.6	0.1%	306.9	0.1%	279.1	0.0%
Collateralized with others	1,641.7	0.4%	2,174.3	0.4%	3,045.9	0.4%
Subtotal	**167,900.9**	**36.2%**	**193,532.4**	**34.3%**	**236,573.8**	**33.5%**
Guaranteed loans[1]						
Guarantee from companies	174,060.3	37.4%	214,776.6	38.0%	244,754.4	34.6%
Guarantee from individuals	1,437.6	0.3%	2,009.9	0.4%	3,534.5	0.5%
Subtotal	**175,497.9**	**37.7%**	**216,786.5**	**38.4%**	**248,288.9**	**35.1%**
Unsecured loans	**77,143.7**	**16.6%**	**93,326.8**	**16.5%**	**142,638.3**	**20.1%**
Discounted bills	**2,737.5**	**0.6%**	**13,211.4**	**2.3%**	**9,413.5**	**1.3%**
Gross loans and advances to customers	**464,889.8**	**100.0%**	**565,453.7**	**100.0%**	**708,057.5**	**100.0%**

Note:

(1) Represent the total amount of loans fully or partially secured by collateral, pledges or guarantees in each category. If a loan is secured by more than one form of security interest, the categorization is based on the primary form of security interest.

As of December 31, 2017, 2018 and 2019, the aggregate of our pledged, collateralized and guaranteed loans amounted to RMB385,008.6 million, RMB458,915.5 million and RMB556,005.7 million, respectively. The balance of our pledged, collateralized and guaranteed loans increased continuously during the Track Record Period, which was generally in line with overall growth of our loan business. The percentages of our pledged, collateralized and guaranteed loans of our total loans and advances remained relatively high, which was attributable to the stringent loan policies implemented by us for effective risk management.

Our loan-to-value ratio refers to an indicator that compares the size of loans to the value of the collaterals or pledges securing the loans. As of December 31, 2017, 2018 and 2019, the loan-to-value ratio for our loans secured by collaterals was 19.2%, 19.1% and 22.0%, respectively. As of the same dates, the loan-to-value ratio for our loans secured by pledges was 75.4%, 60.4% and 81.2%, respectively. During the Track Record Period, we did not experience a situation that the value of collaterals and pledges was insufficient to cover the principal of and the interest on the relevant loans.

Our unsecured loans were RMB77,143.7 million, RMB93,326.8 million and RMB142,638.3 million as of December 31, 2017, 2018 and 2019, respectively, representing 16.6%, 16.5% and 20.1% of our total loans and advances to customers as of the respective dates. The increase in our unsecured loans was primarily attributable to the increase in the number of clients who meet the eligibility of our unsecured loans as a result of our continuous efforts to develop quality clients, such as creditworthy retail banking customers and large state-owned enterprises, which was in line with regulatory policies and our risk management policies.

Borrowers Concentration

In accordance with applicable PRC banking guidelines, we are subject to a lending limit of 10% of our net capital base to any single borrower. The following table sets forth our loan exposure to our ten largest single borrowers as of the date indicated.

	As of December 31, 2019											
	Industry	Nature	Operational scale	Amount[1]	Type of Business	% of total loans	% of net capital base[2]	Classification	Underlying securities[7]	Value of underlying securities[3]	Coverage ratio[4] (times)	Impairment
	(in millions of RMB, except percentages)											
Borrower A	Lease and business services	Private-controlled	Large	6,467.9	Loans	0.9%	6.4%	Normal	Guarantee and pledges[6]	N/A[6]	N/A[6]	13.5
Borrower B	Manufacturing	Controlled by entities based in HK, Macao or Taiwan	Large	6,337.5	Loans	0.9%	6.2%	Normal	Pledges	6,337.5	1.00	–
Borrower C	Real estate	Private-controlled	Medium	5,760.0	Loans	0.8%	5.7%	Normal	Collaterals	16,898.3	2.93	513.7
Borrower D	Manufacturing	Controlled by entities based in HK, Macao or Taiwan	Large	5,012.7	Loans	0.7%	4.9%	Normal	Pledges	5,012.7	1.00	–
Borrower E	Lease and business services	State-controlled	Medium	4,950.0	Loans	0.7%	4.9%	Normal	Credit	N/A	N/A	41.2
Borrower F	Lease and business services	State-controlled	Medium	4,670.0	Loans	0.7%	4.6%	Normal	Guarantee and credit	N/A	N/A	38.9
Borrower G	Manufacturing	Controlled by entities based in HK, Macao or Taiwan	Large	4,497.8	Loans	0.6%	4.4%	Normal	Pledges	4,497.8	1.00	–
Borrower H	Public utilities, social security and social organizations	Government agency	N/A	4,241.0	Loans	0.6%	4.2%	Normal	Credit	N/A	N/A	0.5
Borrower I	Lease and business services	State-controlled	Medium	3,459.0	Loans	0.5%	3.4%	Normal	Guarantee and pledges[6]	N/A[6]	N/A[6]	45.7
Borrower J[5]	Lease and business services	State-controlled	Large	3,436.0	Loans	0.5%	3.4%	Normal	Guarantee	N/A	N/A	16.5
Total				**48,831.9**		**6.9%**	**48.1%**					**670.0**

Notes:

(1) Represents the outstanding amount of all our loans in respect of each single borrower.

(2) Represents loan balances as a percentage of our net capital base (also referred to in this prospectus as "regulatory capital"), calculated in accordance with the requirements of the Capital Administration Measures and based on our financial statements prepared in accordance with PRC GAAP. For a calculation of our net capital base as of December 31, 2019, see "Financial Information – Capital Resources – Capital Adequacy".

(3) Represents the value of underlying pledges or collaterals for the loans primarily secured by pledges or collaterals.

(4) Calculated by dividing the value of underlying pledges or collaterals by the outstanding loans which were primarily secured by pledges or collaterals.

(5) As of the Latest Practicable Date, Borrower J held 3,612,500,000 Shares, approximately 25.0%, of our Shares, and two of our Directors held positions in Borrower J.

(6) These loans were secured by more than one form of security interest, and the primary form of their security interest was guarantee.

(7) There was no co-guarantee or cross-guarantee among our ten largest single borrowers as of December 31, 2019.

We closely monitor and control the credit concentration risks arising from our business expansion to comply with the relevant laws and regulations. In particular, we have implemented specific requirements at different steps of our risk management procedures, including pre-loan investigation, credit review and approval, disbursement of loans and post-disbursement risk monitoring and alert, to ensure that the balance of loans granted to a single borrower does not exceed 10% of our net capital base. For details on how we manage our credit concentration risks, please also see "Risk Management – Credit Risk Management – Credit Risk Management for Corporate Loans and Advances – Portfolio Management – Credit Concentration Management".

In accordance with applicable PRC banking guidelines, our credit exposure to any single group borrower is limited to no more than 15% of our net capital base. The following table sets forth, as of the date indicated, our credit exposure to our ten largest group borrowers.

	As of December 31, 2019											
	Industry[3]	Background	Operational scale	Credit Exposure[1]	% of net capital base[2]	Type of Business	Off-balance-sheet credit amounts	Classification	Underlying securities[8]	Value of underlying securities[4]	Coverage ratio[5] (times)	Impairment
				(in millions of RMB, except percentages)								
Group A	Lease and business services	Private-controlled	Large	9,763.3	9.6%	Loans and letter of guarantee	100.0	Normal	Collaterals, pledges and guarantee	13,917.3	2.43	185.7
Group B	Real estate	Private-controlled	Large	7,221.7	7.1%	Loans and letter of guarantee	6,600.0	Normal	Collaterals and guarantee	7,904.0	2.82	144.1
Group C	Water conservancy, environment and public facilities management	State-controlled	Large	6,393.0	6.3%	Loans and letter of guarantee	43.0	Normal	Credit	N/A	N/A	53.0
Group D	Lease and business services	Private-controlled	Medium	6,339.0	6.2%	Loans and letter of guarantee	780.8	Normal	Collaterals and guarantee	18,987.6	2.90	516.1
Group E	Wholesale and retail	State-controlled	Large	5,915.1	5.8%	Loans	–	Special mention and substandard[7]	Guarantee, pledges and credit[8]	N/A[8]	N/A[8]	2,957.6
Group F	Lease and business services	State-controlled	Medium	5,689.5	5.6%	Loans and letter of guarantee	15.0	Normal	Guarantee and credit	11.5	1.00	46.7
Group G	Real estate	Private-controlled	Large	5,629.2	5.5%	Loans and bank acceptances	1,850.0	Normal	Pledges	2,662.1	1.24	53.7
Group H	Real estate	Private-controlled	Large	4,941.7	4.9%	Loans and bank acceptances	722.4	Normal	Pledges	3,716.9	0.99	113.8
Group I[6]	Lease and business services	State-controlled	Large	4,930.1	4.9%	Loans	–	Normal	Collaterals and guarantee	1,810.1	6.55	36.6
Group J	Manufacturing	State-controlled	Large	4,711.0	4.6%	Loans and letter of credit	4,370.8	Normal	Credit	450.0	1.00	16.1
Total				**61,533.6**	**60.5%**		**14,482.1**					**4,123.4**

Notes:

(1) Calculated pursuant to the applicable CBIRC requirements by (i) adding up all on-balance-sheet credit amounts and off-balance-sheet credit amounts in respect of each group borrower; and (ii) deducting the total amount of security deposits, certificates of deposit and government bonds in respect of each group borrower.

(2) Represents credit exposure as a percentage of our net capital base (also referred to in this prospectus as "regulatory capital"), calculated in accordance with the requirements of the Capital Administration Measures and based on our financial statements prepared in accordance with PRC GAAP. For a calculation of our net capital base as of December 31, 2019, see "Financial Information – Capital Resources – Capital Adequacy".

(3) If loans are granted to two or more companies in the same group engaging in different industries, the categorization is based on the industry to which a majority of loans are granted.

(4) Represents the value of underlying pledges or collaterals for the loans primarily secured by pledges or collaterals.

(5) Calculated by dividing the value of underlying pledges or collaterals by outstanding loans which were primarily secured by pledges or collaterals.

(6) As of the Latest Practicable Date, Group I held 3,612,500,000 Shares, approximately 25.0%, of our Shares, and two of our Directors held positions in Group I.

(7) As of December 31, 2019, RMB5,415.1 million and RMB500.0 million of the loans granted to Group E were classified as special mention and substandard, respectively, as this borrower encountered changes of operating conditions mainly as a result of a decrease in the sale and trading of its goods, including mineral, steel and chemical products, caused by intensified market competition and slow-down of China's economic growth in recent years.

(8) These loans were secured by more than one form of security interest, and the primary form of their security interest was guarantee.

(9) There was no co-guarantee or cross-guarantee among our ten largest group borrowers as of December 31, 2019.

Save as disclosed above, to our best knowledge of the Bank, each of our ten largest single borrowers and ten largest group customers, their respective shareholders, directors, senior management or any of their respective associates have no other relationship with us as of the Latest Practicable Date.

Maturity Profile of Loan Portfolio

The following table sets forth our loan products by remaining maturity as of the date indicated.

	As of December 31, 2019					
	Overdue[1]	**Due in 3 months or less**	**Due over 3 months up to 12 months**	**Due over 1 year up to 5 years**	**Due in more than 5 years**	**Total**
	(in millions of RMB)					
Corporate loans and advances						
Working capital loans	14,346.6	50,946.7	135,177.3	82,185.7	–	282,656.3
Fixed asset loans	3,267.2	5,849.9	17,024.9	124,401.9	20,540.5	171,084.4
Other loans[2]	1,334.8	550.1	2,632.9	2,893.9	4,071.7	11,483.4
Subtotal	**18,948.6**	**57,346.7**	**154,835.1**	**209,481.5**	**24,612.2**	**465,224.1**
Personal loans						
Residential and commercial housing loans	579.0	–	27.7	1,428.5	125,781.0	127,816.2
Personal consumption loans	1,634.8	19,096.0	30,078.9	42,588.1	2,208.0	95,605.8
Personal business loans	321.6	–	1,566.6	2,906.0	1,917.6	6,711.8
Credit cards	193.6	880.8	276.2	1,935.5	–	3,286.1
Subtotal	**2,729.0**	**19,976.8**	**31,949.4**	**48,858.1**	**129,906.6**	**233,419.9**
Discounted bills						
Bank acceptance discounted bills	–	4,293.4	2,818.3	–	–	7,111.7
Commercial acceptance discounted bills	–	1,783.9	517.9	–	–	2,301.8
Subtotal	**–**	**6,077.3**	**3,336.2**	**–**	**–**	**9,413.5**
Total loans and advances to customers	**21,677.6**	**83,400.8**	**190,120.7**	**258,339.6**	**154,518.8**	**708,057.5**

Notes:

(1) Represents the balance of principal of the loans on which principal or interest was overdue as of December 31, 2019.

(2) Consist primarily of merger and acquisition loans.

As of December 31, 2019, our corporate loans and advances due within one year amounted to RMB212,181.8 million, representing 45.6% of our total corporate loans and advances, primarily consisting of working capital loans. As of December 31, 2019, our corporate loans and advances due over one year amounted to RMB234,093.7 million, representing 50.3% of our total corporate loans and advances, consisting primarily of fixed-asset loans.

As of December 31, 2019, our personal loans due over five years amounted to RMB129,906.6 million, representing 55.7% of our total personal loans, consisting primarily of residential and commercial housing loans.

Loan Interest Rate Profile

In recent years, the PBoC has implemented a series of initiatives to gradually liberalize interest rates and establish a market-based interest rate regime. Prior to July 20, 2013, China's commercial banks could set interest rates on loans within a permitted range of PBoC benchmark interest rates. On July 20, 2013, the PBoC removed the lower limits which was 70% of PBoC benchmark loan interest rates for loans (excluding residential mortgage loans), allowing financial institutions to set interest rates freely. On August 16, 2019, the PBoC announced to reform the mechanism used to establish the loan prime rate ("**LPR**"), and commercial banks shall set interest rates on new loans by mainly referring to the LPR. According to the Announcement [2019] No. 16 of the People's Bank of China – Announcement On the Interest Rate of the Newly-granted Commercial Personal Housing Loans (《中國人民銀行公告[2019]第16號—新發放商業性個人住房貸款利率公告》) which took effect on October 18, 2019, the interest rates of commercial personal housing loans for first time home buyers must not be lower than LPR of the corresponding term, and interest rates of commercial personal housing loans for second home buyers must not be lower than the LPR of the corresponding term plus 60 basis points.

Asset Quality of Our Loan Portfolio

We measure and monitor the asset quality of our loans and advances to customers through our loan classification system. We classify our loans and advances to customers using a five-category loan classification system, which complies with the CBIRC's guidelines. Please see "Supervision and Regulation – Loan Classification, Allowance and Write Offs – Loan Classification".

Since early 2020, PRC Government has introduced a wide range of fiscal and monetary easing initiatives aimed at countering the impact of the COVID-19 epidemic, including encouraging banks and financial institutions to enhance their credit support to affected enterprises and individuals. On February 15, 2020, CBIRC announced that it may raise regulatory tolerance of banks' non-performing loans to businesses facing liquidity difficulties due to COVID-19.

In addition, on March 1, 2020, CBIRC, PBoC and other PRC regulatory authorities jointly issued the Notice on Temporary Deferment of Repayment on Principal and Interest for Loans to Micro, Small and Medium Enterprises (Yin Bao Jian Fa [2020] No. 6)《關於對中小微企業貸款實施臨時性延期還本付息的通知》(銀保監發[2020]6號), according to which, qualified micro, small and medium enterprises (including individual business owners and owners of micro and small enterprises) facing temporary liquidity difficulties due to the outbreak of COVID-19 can make applications with banks to defer repayment of principal and interest expenses payable from January 25 to June 30, 2020, and overdue loan repayments during the relevant period will not be subject to penalties. On June 1, 2020, CBIRC, PBoC and other PRC regulatory authorities further jointly issued the Notice on the Further Implementation of Periodic Deferment of Repayment on Principal and Interest for Loans to Micro, Small and Medium Enterprises (《關於進一步對中小微企業貸款實施階段性延期還本付息的通知》), allowing banking institutions to extend the duration of their deferment arrangements for loans granted to micro and small enterprises (including business loans granted to individual business owners and owners of micro and small enterprises) whose credit line as a single borrower does not exceed RMB10.0 million. See "Summary – Recent Development" and " Risk Factors – Risks Relating to Our Business – The recent outbreak of the contagious COVID-19 in the PRC and worldwide may have an adverse effect on our business, financial condition and results of operations" for additional details.

Loan Classification Criteria

In determining the classification of our loan portfolio, we apply a series of criteria derived from the Guidelines of Risk-based Classification of Loans (《貸款風險分類指引》). These criteria are designed to assess the likelihood of repayment by the borrower and the collectability of the principal and interest on the loan.

Corporate Loans and Advances

In determining the classification of our corporate loan portfolio, we generally consider a number of factors to the extent applicable, including but not limited to (i) overdue periods of the loans; (ii) the borrower's ability to repay the loans; (iii) the borrower's repayment record; (iv) the borrower's willingness to repay; (v) the profitability of the project being financed by the loans; (vi) the collateral of the loans; (vii) legal responsibility to repay the loans; and (viii) the situation of our credit management. The key factors for each loan category are listed below. This is not intended to be an exhaustive list of all factors taken into account in classifying our corporate loans. Please see "Risk Management – Credit Risk Management – Credit Risk Management for Corporate Loans and Advances – Post-disbursement Management" for additional information.

Normal. Loans are classified as normal only if the borrower can fulfill the terms of its loans and there is no sufficient reason to doubt its ability to repay principal and interest in full on a timely basis. Loans are classified as normal primarily have the following characteristics:

- borrower's operations and business are stable, and its key operational indicators have no significant changes which may adversely affect repayment of the loans;
- the borrower repays the loans with cash generated from its normal operating activities, and the cash flow is stable; and
- the information in relation to the credit extension to the borrower is complete.

Special Mention. Loans should be classified as special mention if repayment may be adversely affected by certain factors, although the borrower is able to service its loans. Loans in the special mention category generally demonstrate the following characteristics:

- there have been early signs of insufficient working capital of the borrower, such as delay in repayment and decreases in net cash flows;
- the borrower's operational conditions begin to deteriorate, which, although they have not affected the repayment, may adversely affect the borrower's financial conditions if such situation continues;
- there have been issues in relation to guarantees for the loans, such as decreases in the value of collaterals (pledges) and issues regarding the right of control over the collaterals (pledges);

- there have been suspicious signs in the borrower's credit standing, such as failure to obtain proper information and documents in a timely manner, non-cooperation of the borrower or having difficulties in contacting the borrower; and

- other significant events that may affect the borrower's financial condition.

Substandard. Loans should be classified as substandard if the borrower's ability to service its loans is significantly in question as it cannot rely entirely on normal business revenues to repay the principal and interest, and losses may ensue even if we invoke the collateral or guarantees. Loans in the substandard category generally demonstrate the following characteristics:

- the borrower experiences significant operational problems, and its key indicators begin to deteriorate, thereby rendering the borrower unable to repay the loan principal or interest normally and requiring the execution of guarantees for repayment;

- the borrower's loan or repayment history is not good, or the borrower experiences difficulties in repaying to other creditors;

- the borrower is heavily in debt with a relatively high debt ratio, and the principal and interest of loans have been overdue;

- the borrower uses the loan for other purposes, which have affected its normal repayment; and

- other circumstances under which the loans need to be classified as loans in the substandard category.

Doubtful. Loans should be classified as doubtful if the borrower cannot repay the principal and interest in full and significant losses will be caused even if we invoke the collateral or guarantees. Loans in the doubtful category generally demonstrate the following characteristics:

- the borrower is unable to repay and the value of guarantees for the loan is far from adequate;

- the borrower's operations have been suspended or are about to be suspended, or it is about to liquidate;

- it is difficult to claim repayment even under the circumstances where the borrower is known to evade its debts deliberately;

- legal disputes have arisen from the borrower's repayment obligations and there have been relevant legal proceedings, and the principal and interest of loans have been overdue; and

- other circumstances under which the loans need to be classified as loans in the doubtful category.

Loss. Loans should be classified as loss if only a minimal portion or none of the principal and interest can be recovered after all possible measures have been taken and all legal remedies have been exhausted. Loans in the loss category generally demonstrate the following characteristics:

- the loan is irrecoverable upon enforcement by the court;
- the loan cannot be recovered after we demand repayment from the debtor and guarantor that have legally declared bankruptcy, dissolved or deregistered;
- the loan cannot be recovered after we demand repayment from the debtor and guarantor that have completely suspended operations and their business licenses have been revoked by the relevant administrative authority;
- the debtor suffer a major natural disaster or accident, suffer huge losses and is unable to obtain insurance compensation, or is unable to repay the debt after insurance compensation; and
- other circumstances under which the loans need to be classified as loans in the loss category.

Personal Loans (Excluding Credit Card Overdrafts)

Personal loans mainly include residential and commercial housing loans, personal consumption loans, and personal business loans. Residential and commercial housing loans mainly include loans for purchasing new and second-hand houses. Personal consumption loans mainly include loans for home renovation, purchase of home appliances, furniture and vehicles, and education loans. Personal business loans mainly include loans to private or individual business owners, or owners of micro and small enterprises and other self-employed venture customers for business purposes.

We use the number of overdue days and the type of collateral for personal loans to form a risk classification matrix, and we carry out risk classification though our system on a daily basis according to the matrix.

Under normal circumstances, personal loans that are not overdue are classified as normal; those that are overdue by less than 90 days are classified as special mention; and those that are overdue by more than 90 days are classified as non-performing loans. On this basis, we further refine the classification in more details based on the number of overdue days and different guarantee methods.

In addition to the similar characteristics of corporate loans and advances classified as loss, personal loans in the loss category generally demonstrate the following main characteristics: (i) the borrower has died or suffered from serious natural disaster or accidents which have resulted in significant losses of the borrower's assets without any insurance coverage, or the loan remains irrecoverable even after repayment with borrower's assets or inheritance and the Bank's pursuit of guarantor's recovery; (ii) the borrower has violated criminal law or has been sanctioned by law, the borrower's assets are insufficient to ensure full or partial repayment of loans, and the loan is irrecoverable after the Bank's pursuit of recovery.

Credit Card Overdrafts

We will consider the overdue period when adopting loan classification criteria for credit card overdrafts. The following table sets forth the five-level classification of our credit card overdraft business in respect of the overdue period:

	Overdue by
Normal	0 day
Special mention	1-90 days
Substandard	91-150 days
Doubtful	151-180 days
Loss	over 180 days

Distribution of Loans by Loan Classification

Under our credit system, our NPLs are classified as either substandard, doubtful or loss, as applicable. The following table sets forth the distribution of our loan portfolio by our credit classification system as of the dates indicated.

	As of December 31,					
	2017		**2018**		**2019**	
	Amount	**% of total**	**Amount**	**% of total**	**Amount**	**% of total**
	(in millions of RMB, except percentages)					
Normal	441,782.8	95.1%	538,732.2	95.3%	674,702.2	95.2%
Special mention	14,996.8	3.2%	16,304.8	2.9%	20,763.8	2.9%
Subtotal	**456,779.6**	**98.3%**	**555,037.0**	**98.2%**	**695,466.0**	**98.1%**
Substandard	4,070.7	0.8%	3,241.0	0.6%	4,010.3	0.6%
Doubtful	3,537.9	0.8%	5,864.9	1.0%	6,365.5	1.0%
Loss	501.6	0.1%	1,310.8	0.2%	2,215.7	0.3%
Subtotal	**8,110.2**	**1.7%**	**10,416.7**	**1.8%**	**12,591.5**	**1.9%**
Gross loans and advances to customers	**464,889.8**	**100.0%**	**565,453.7**	**100.0%**	**708,057.5**	**100.0%**
NPL ratio(1)		**1.74%**		**1.84%**		**1.78%**

Note:

(1) Calculated by dividing total NPLs by gross loans and advances to customers.

The following table sets forth the distribution of our loans and advances to customers by business line and by our credit classification system as of the dates indicated.

	As of December 31,					
	2017		2018		2019	
	Amount	% of total(3)	Amount	% of total(3)	Amount	% of total(3)
	(in millions of RMB, except percentages)					
Corporate loans and advances						
Normal	320,738.8	69.0%	359,042.5	63.6%	434,331.2	61.3%
Special mention	14,938.9	3.2%	15,623.3	2.8%	19,568.0	2.7%
Substandard	3,981.8	0.8%	2,987.9	0.5%	3,528.8	0.5%
Doubtful	3,491.5	0.8%	5,774.2	1.0%	6,131.7	1.0%
Loss	200.0	0.0%	974.7	0.1%	1,664.4	0.2%
Subtotal	**343,351.0**	**73.8%**	**384,402.6**	**68.0%**	**465,224.1**	**65.7%**
NPL ratio(1)		**2.23%**		**2.53%**		**2.43%**
Personal loans						
Normal	118,306.5	25.5%	166,520.9	29.4%	230,957.5	32.6%
Special mention	57.9	0.0%	681.5	0.1%	1,195.8	0.2%
Substandard	88.9	0.0%	210.5	0.1%	481.5	0.1%
Doubtful	46.4	0.0%	90.7	0.0%	233.8	0.0%
Loss	301.6	0.1%	336.1	0.1%	551.3	0.1%
Subtotal	**118,801.3**	**25.6%**	**167,839.7**	**29.7%**	**233,419.9**	**33.0%**
NPL ratio(1)		**0.37%**		**0.38%**		**0.54%**
Discounted bills						
Normal	2,737.5	0.6%	13,168.8	2.3%	9,413.5	1.3%
Special mention	–	–	–	–	–	–
Substandard	–	–	42.6	0.0%	–	–
Doubtful	–	–	–	–	–	–
Loss	–	–	–	–	–	–
Subtotal	**2,737.5**	**0.6%**	**13,211.4**	**2.3%**	**9,413.5**	**1.3%**
NPL ratio(1)		**–**		**0.32%**		**–**
Total loans and advances to customers	**464,889.8**	**100.0%**	**565,453.7**	**100.0%**	**708,057.5**	**100.0%**
NPL ratio(2)		**1.74%**		**1.84%**		**1.78%**

Notes:

(1) Calculated by dividing NPLs in each business line by gross loans to customers in that business line.

(2) Calculated by dividing total NPLs by gross loans and advances to customers.

(3) Calculated by dividing gross loans to customers in each category by total gross loans and advances to customers.

Our NPL ratio increased from 1.74% as of December 31, 2017 to 1.84% as of December 31, 2018, primarily attributable to the deterioration of the repayment ability of certain clients impacted by the slowdown of the PRC economic growth and the industrial structure adjustment. In particular, the operation environment of some borrowers in traditional industries (e.g. the coal mining and washing industry, and certain special equipment manufacturing industries) has changed due to the implementation of PRC governmental policies on restricting industries with backward production capacity, which led to intensified market competition and further resulted in deterioration of such borrowers' operation conditions and repayment ability and further led to the increase in our NPL ratio.

Our NPL ratio decreased from 1.84% as of December 31, 2018 to 1.78% as of December 31, 2019, primarily due to our enhanced credit risk management to improve quality of our assets and our efforts to recover and write off NPLs in accordance with relevant regulatory policies.

Loans Classified as Special Mention

As of December 31, 2017, 2018 and 2019, the balance of our loans classified as special mention was RMB14,996.8 million, RMB16,304.8 million and RMB20,763.8 million, respectively, representing 3.2%, 2.9% and 2.9%, respectively, of our total loans and advances to customers. The proportion of loans classified as special mention decreased from 3.2% as of December 31, 2017 to 2.9% as of December 31, 2018, mainly due to the improvement of our loan quality as a result of our enhanced implementation of risk management policies. The proportion of loans classified as special mention remained stable at 2.9% as of December 31, 2019.

The following table sets forth the distribution of our loans classified as special mention by security type as of the dates indicated.

	As of December 31,					
	2017		2018		2019	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Pledged loans	–	–	188.5	1.2%	912.8	4.4%
Collateralized loans	2,767.0	18.5%	2,569.0	15.8%	3,329.9	16.0%
Guaranteed loans	11,560.0	77.0%	13,025.8	79.8%	13,803.4	66.5%
Unsecured loans	669.8	4.5%	521.5	3.2%	2,717.7	13.1%
Total loans of special mention to customers	**14,996.8**	**100.0%**	**16,304.8**	**100.0%**	**20,763.8**	**100.0%**

As of December 31, 2017, 2018 and 2019, the balance of our unsecured loans classified as special mention amounted to RMB669.8 million, RMB521.5 million and RMB2,717.7 million, respectively, representing 4.5%, 3.2% and 13.1%, respectively, of total loans classified as special mention. As of December 31, 2019, the balance and proportion of unsecured loans classified as special mention increased as compared to that in the end of 2018, mainly as a large-scale corporate borrower encountered changes of its operating conditions primarily as a result of a decrease in the sale and trading of its goods, including mineral, steel and chemical products, caused by intensified market competition and slow-down of China's economic growth in recent years.

Changes in Asset Quality of Our Loans

The following table sets forth the changes in our NPLs for the years indicated.

	As of December 31,		
	2017	2018	2019
	(in millions of RMB)		
Beginning of the year	5,968.6	8,110.2	10,416.7
Increases	5,360.7	5,031.1	5,049.7
New loans(1)	1,540.1	802.8	1,449.0
Downgrades(2)	3,820.6	4,228.3	3,600.7
Decreases			
Recovery	(1,054.7)	(365.1)	(841.8)
Upgrade	(82.2)	(16.4)	(50.6)
Write-off	(196.3)	(1,342.0)	(1,040.9)
Transfer out(3)	(1,877.9)	(1,003.9)	(943.4)
Exchange difference	(8.0)	2.8	1.8
End of the year	**8,110.2**	**10,416.7**	**12,591.5**
NPL ratio	**1.74%**	**1.84%**	**1.78%**

Notes:

(1) Represents downgrades of new loans made in the current year.

(2) Represents downgrades of loans classified as normal or special mention at the end of last year to non-performing classifications.

(3) Includes the NPLs transferred to third parties and the NPLs transferred out through swapping debt for equity or trust beneficiary rights.

We have been working on optimizing our credit exposure structure in accordance with the relevant regulatory policies and in alignment with the trends of industry development. Our approaches to reduce our loss from NPLs mainly include (i) collecting repayment from the borrower, (ii) restructuring loans to re-schedule or adjust the terms of loans, (iii) executing collaterals or pursuing recovery from the guarantor, (iv) initiating lawsuits or other civil proceedings against the borrower to claim repayment, and (v) transferring out loans by way of the transfer of loans to third parties or swapping debt for equity or trust beneficiary rights. We take into account a variety of factors before transferring out NPLs, such as our needs for credit risk control, our business strategy and objectives, and discount level of the transfer, as well as relevant laws, regulations and regulatory policies and market environment.

Transfer of NPLs to third parties is one of our exit strategies for NPLs, which is also in compliance with the PRC regulatory policies. In most situations, in addition to using the traditional litigation approach, we consider to transfer NPLs to third parties so as to achieve relatively rapid recovery of funds. We will engage external lawyers, appraisers and other agencies to perform sufficient due diligence and valuation of the NPLs to be transferred, and invite asset management companies that meet the qualification requirements of the CBIRC to conduct an open bidding. During the Track Record Period, we transferred NPLs with gross amounts of RMB1,877.9 million, RMB405.3 million and RMB667.7 million to third parties in 2017, 2018 and 2019, respectively, at the transfer prices of RMB564.5 million, RMB103.0 million and RMB133.2 million, respectively. The overall discount rate was 69.9%, 74.6% and 80.1%, respectively, during the same periods.

The transfer of NPLs to third parties was carried out in our normal course of business and has been completed in compliance with the laws and regulations. We transferred NPLs to third parties in accordance with the Management Measures on the Bulk Transfer of Non-performing Assets of Financial Enterprises (《金融企業不良資產批量轉讓管理辦法》) issued by the MOF and the CBRC, and the Bohai Bank Management Measures on the Bulk Transfer of Non-performing Assets (2017 Amendment) (《渤海銀行不良資產批量轉讓管理辦法(2017年修訂)》) of our Bank. Our transfer of NPLs to third parties adhered to the principles of legal compliance, openness and transparency, competitive selection and value maximization. Please also see "Risk Factors – Risks Relating to Our Business – We transferred certain non-performing assets during the Track Record Period and should we become unable to transfer such assets in the future, our liquidity, financial condition and results of operations may be affected" for details of the risks relating to transfer of NPLs to third parties.

During the Track Record Period, we transferred NPLs to third parties through open bidding, where the asset management companies that met the relevant qualifications and conditions bid openly for the NPLs to be transferred, and those with the highest price above the reserve price became the transferee.

We conducted due diligence, arranged valuation and determined the reserve price for the transfer of NPLs in accordance with our internal policies. With respect to due diligence, we adopted a comprehensive approach combining on-site and off-site methods to carry out sufficient and objective investigation on the relevant NPLs, and engaged external lawyers to investigate additional information on the debtors' litigation, real estate and other related matters. Our business departments at relevant branches are responsible for preparing due diligence reports, which are required to objectively and fairly reflect the status of NPLs and fully disclose risks on the relevant assets. In terms of asset valuation, we selected appropriate third-party valuation agencies from our database to assess the value of the NPLs to be transferred. After the valuation, valuation agencies issued reports on the valuation of the NPLs, we reviewed the valuation results pursuant to our internal policies, and upon approval, the valuation results were used as reserve prices for external transfers.

The relevant agreements entered into between transferees and our Bank are lawful and valid, according to which, we have received the consideration and transferred out substantially all the risks and rewards of ownership to the transferees so the relevant loans have been derecognized by us. According to such agreements, the transfer of NPLs was conducted in a one-off manner, and such transfer is not subject to recourse. We have no obligation to collect the principal or interest of the relevant loans or buy back such loans.

During the Track Record Period, transferees for the NPLs disposed by the Bank consist primarily of state-owned asset management companies in the PRC that meet the relevant qualification requirements stipulated by the MOF and the CBIRC. All of these transferees were independent third parties.

In addition to the above transfer of NPLs to third parties, we transferred out certain NPLs through swapping debt for equity or trust beneficiary rights. During the Track Record Period, the gross amounts of NPLs transferred out through swapping debt for equity or trust beneficiary rights was nil, RMB598.6 million and RMB275.7 million in 2017, 2018 and 2019, respectively.

When we consider to transfer out NPLs through swapping debt for equity or trust beneficiary rights, we generally only select debt restructuring projects for state-controlled large-and-medium-sized enterprises which have good development prospect but are facing temporary financial or operational difficulties. Under the supervision and guidance of the government and regulatory authorities and with the assistance of agencies such as lawyers and auditors, creditors generally set up a specialized creditors' committee to negotiate with the relevant corporate borrower and determine a restructuring plan. The restructuring plan may include introduction of strategic investors to undertake the business so as to adjust and upgrade its business, thereby improving the profitability and operating efficiency of the enterprise; it may also include settlement of debts through different approaches, such as swapping debt for equity or trust beneficiary rights, cash repayment and so on.

After the restructuring is initiated, as a member of the creditors' committee, we will closely monitor the progress of the restructuring and actively participate in relevant negotiations to ensure that our interest in relevant credit assets can be protected to the greatest extent. We will review the restructuring plan pursuant to our internal policy and procedures. Subsequently, members of the creditors' committee will vote in accordance with the rules of procedures of the creditors' committee to determine whether to approve the restructuring plan of the enterprise. We complete the transfer of NPLs in accordance with the restructuring plan approved by voting.

Upon transferring out NPLs through swapping debt for equity or trust beneficiary rights, the relevant NPLs shall be derecognized in the financial statements. Meanwhile, we will receive the equity or trust beneficiary rights issued in exchange for the debts extinguished. The value of such equity or trust beneficiary rights will be reflected in the balance sheet as "financial investments measured at fair value through profit or loss". Specifically, the corresponding equity interests we hold will be recognized as our equity investment, and the relevant trust beneficiary rights we acquire will be recognized as trust plans.

The following table sets forth the migration ratios of our loan portfolio calculated in accordance with the applicable CBIRC requirements for the years indicated.

	For the year ended December 31,		
	2017	**2018**	**2019**
Normal and special mention loans(1)	1.74%	1.39%	1.21%
Normal loans(2)	3.56%	1.15%	2.71%
Special mention loans(3)	38.51%	27.09%	22.84%
Substandard loans(4)	80.08%	99.71%	76.28%
Doubtful loans(5)	27.45%	38.48%	13.98%

Notes:

(1) Represent migration ratios of loans classified as normal or special mention which were subsequently downgraded to NPLs. The migration ratio of normal and special mention loans represents a fraction, the numerator of which equals the sum of (i) loans classified as normal at the beginning of the year and downgraded to non-performing loans at the end of the year, and (ii) loans classified as special mention at the beginning date of the year and downgraded to non-performing loans at the end of the year, and the denominator of which equals the sum of (i) the difference between the balance of normal loans at the beginning of the year and the decrease, in the year, in the loans which were classified as normal at the beginning of the year, and (ii) the difference between the balance of special mention loans at the beginning of the year and the decrease in such loans in the year.

(2) Represent migration ratio of loans classified as normal which were subsequently downgraded to other classifications. The normal loan migration ratio represents a fraction, the numerator of which equals loans classified as normal at the beginning of the year and downgraded to lower classifications at the end of the year, and the denominator of which equals the difference between the balance of normal loans at the beginning of the year and the decrease in such loans in the year.

(3) Represent migration ratio of loans classified as special mention which were subsequently downgraded to NPLs. The special mention loan migration ratio represents a fraction, the numerator of which equals the loans which were classified as special mention at the beginning of the year and downgraded to NPLs at the end of the year, and the denominator of which equals the difference between the balance of special mention loans at the beginning of the year and the decrease in such loans in the year.

(4) Represent migration ratio of loans classified as substandard which were subsequently downgraded to doubtful or loss. The substandard loan migration ratio represents a fraction, the numerator of which equals the loans classified as substandard at the beginning of the year and downgraded to doubtful or loss at the end of the year, and the denominator of which equals the difference between the balance of substandard loans at the beginning of the year and the decrease in such loans in the year.

(5) Represent migration ratio of loans classified as doubtful which were downgraded to loss. The doubtful loan migration ratio represents a fraction, the numerator of which equals the loans classified as doubtful at the beginning of the year and downgraded to loss at the end of the year, and the denominator of which equals the difference between the balance of doubtful loans at the beginning of the year and the decrease in such loans in the year.

The migration ratio of our substandard loans decreased from 99.71% in 2018 to 76.28% in 2019, and the migration of our doubtful loans also decreased from 38.48% in 2018 to 13.98% in 2019. The decrease in these ratios reflected decreased downgrade of loans classified as special mention, substandard and doubtful, which was mainly attributable to our enhanced efforts to collect NPLs and improve asset quality. The migration ratio of our substandard loans increased from 80.08% in 2017 to 99.71% in 2018, and the migration ratio of our doubtful loans increased from 27.45% in 2017 to 38.48% in 2018, which was primarily due to weakened repayment abilities of certain corporate customers of our NPLs engaging in the manufacturing, wholesale and retail, and lease and business services industries.

Distribution of NPLs by Product Type

The following table sets forth the distribution of our NPLs by product type as of the dates indicated.

	As of December 31,								
	2017			2018			2019		
	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 and advances									
Working capital loans	5,676.6	70.0%	2.78%	7,504.1	72.0%	3.49%	9,364.0	74.4%	3.31%
Fixed asset loans	1,520.7	18.8%	1.13%	1,506.0	14.5%	0.93%	1,111.0	8.8%	0.65%
Other loans	476.0	5.8%	10.13%	726.7	6.9%	9.13%	849.9	6.7%	7.40%
Subtotal	7,673.3	94.6%	2.23%	9,736.8	93.4%	2.53%	11,324.9	89.9%	2.43%
Personal loans									
Residential and commercial housing loans	151.9	1.9%	0.14%	194.2	1.9%	0.17%	311.5	2.5%	0.24%
Personal consumption loans	42.5	0.5%	0.49%	194.0	1.9%	0.40%	601.5	4.8%	0.63%
Personal business loans	236.0	2.9%	7.62%	224.0	2.2%	5.97%	277.1	2.2%	4.13%
Credit cards	6.5	0.1%	0.59%	25.1	0.2%	1.41%	76.5	0.6%	2.33%

	As of December 31,								
	2017			2018			2019		
	Amount	% of total	NPL ratio(1)	Amount	% of total	NPL ratio(1)	Amount	% of total	NPL ratio(1)
	(in millions of RMB, except percentages)								
Subtotal	436.9	5.4%	0.37%	637.3	6.2%	0.38%	1,266.6	10.1%	0.54%
Discounted bills									
Bank acceptance discounted bills	–	–	–	–	–	–	–	–	–
Commercial acceptance discounted bills	–	–	–	42.6	0.4%	24.11%	–	–	–
Subtotal	–	–	–	42.6	0.4%	0.32%	–	–	–
Total NPLs	**8,110.2**	**100.0%**	**1.74%**	**10,416.7**	**100.0%**	**1.84%**	**12,591.5**	**100.0%**	**1.78%**

Note:

(1) Calculated by dividing NPLs in each product type by gross loans and advances to customers in that product type.

Non-performing Corporate Loans and Advances

Our non-performing corporate loans and advances increased by 26.9% from RMB7,673.3 million (representing a NPL ratio of 2.23%) as of December 31, 2017 to RMB9,736.8 million (representing a NPL ratio of 2.53%) as of December 31, 2018, and further increased by 16.3% to RMB11,324.9 million (representing a NPL ratio of 2.43%) as of December 31, 2019. The continued increase in our non-performing corporate loans and advances primarily reflected the adverse impact brought about by the slowdown in China's economic growth, industrial structure adjustment and international economic situation on the financial conditions of certain enterprises customers. As of December 31, 2019, the NPL ratio of our corporate loans and advances decreased as compared with that as of December 31, 2018, mainly due to our efforts in recovering non-performing corporate loans and advances and strengthening our risk management.

Non-performing Personal Loans

Our non-performing personal loans increased by 45.9% from RMB 436.9 million (representing a NPL ratio of 0.37%) as of December 31, 2017 to RMB 637.3 million (representing a NPL ratio of 0.38%) as of December 31, 2018, and further increased by 98.7% to RMB1,266.6 million (representing a NPL ratio of 0.54%) as of December 31, 2019. The increase in our non-performing personal loans was mainly attributable to the increase of non-performing personal consumption loans and non-performing residential and commercial housing loans, which was in line with the expanded scale of the relevant loan business. The NPL ratio of our personal loans amounted to 0.37% and 0.38% as of December 31, 2017 and 2018, respectively, which remained relatively stable. The NPL ratio of our personal loans increased to 0.54% as of December 31, 2019, primarily because the repayment ability of certain retail banking customers weakened due to the impact of the changes in the macro economic environment.

Distribution of Non-Performing Corporate Loans by Industry

The following table sets forth the distribution of our NPLs to corporate banking customers by industry as of the dates indicated.

	As of December 31,								
	2017			2018			2019		
	Amount	% of total	NPL ratio(1)	Amount	% of total	NPL ratio(1)	Amount	% of total	NPL ratio(1)
	(in millions of RMB, except percentages)								
Manufacturing	4,131.1	53.8%	8.79%	5,228.6	53.7%	10.69%	6,680.8	59.0%	11.08%
Wholesale and retail	1,375.7	17.9%	5.02%	1,863.9	19.1%	7.57%	1,561.3	13.8%	4.18%
Lease and business services	–	–	–	597.3	6.1%	0.52%	647.6	5.7%	0.47%
Finance	20.0	0.3%	0.33%	–	–	–	500.0	4.4%	8.88%
Mining	77.1	1.0%	0.99%	411.2	4.2%	9.25%	411.2	3.6%	5.31%
Construction	80.4	1.0%	0.44%	153.1	1.6%	0.91%	367.0	3.2%	1.86%
Real estate	539.5	7.0%	0.69%	539.4	5.5%	0.60%	150.7	1.3%	0.14%
Production and supply of electricity, heat, gas and water	26.1	0.3%	0.51%	65.5	0.7%	1.03%	49.9	0.4%	0.73%
Transportations and communications, storage and post	159.3	2.1%	2.00%	44.6	0.5%	0.41%	45.2	0.4%	0.31%
Information transfer, software and IT services	476.1	6.3%	27.32%	–	–	–	30.0	0.3%	2.43%
Water conservancy, environment and public facilities management	30.0	0.4%	0.07%	30.0	0.3%	0.06%	30.0	0.3%	0.06%
Others(2)	758.0	9.9%	19.01%	803.2	8.3%	13.36%	851.2	7.6%	12.35%
Total non-performing corporate loans	**7,673.3**	**100.0%**	**2.23%**	**9,736.8**	**100.0%**	**2.53%**	**11,324.9**	**100.0%**	**2.43%**

Notes:

(1) Calculated by dividing NPLs in each industry by gross loans and advances to corporate customers in that industry.

(2) Comprise (i) accommodation and catering, (ii) agriculture, forestry, animal husbandry and fishery, and (iii) scientific research and technical services.

Our non-performing corporate loans and advances consisted primarily of NPLs to corporate borrowers in the manufacturing industry, the wholesale and retail industry and the lease and business services industry.

As of December 31, 2017, 2018 and 2019, non-performing corporate loans and advances to corporate borrowers in the manufacturing industry represented 53.8%, 53.7% and 59.0% of our total non-performing corporate loans and advances, respectively. The NPL ratio for our corporate loans and advances in the manufacturing industry increased from 8.79% as of December 31, 2017 to 10.69% as of December 31, 2018, primarily reflecting the adverse impact brought about by the slowdown in economic growth and policies of adjusting industry structure and eliminating slowing production capacity on the financial conditions of certain enterprises in the manufacturing industry, in particular, the traditional manufacturing industry. The NPL ratio for our corporate loans and advances in the manufacturing industry was 11.08% as of December 31, 2019, which remained relatively stable as compared to December 31, 2018.

As of December 31, 2017, 2018 and 2019, non-performing corporate loans and advances to corporate borrowers in the wholesale and retail industry represented 17.9%, 19.1% and 13.8% of our total non-performing corporate loans and advances, respectively. The NPL ratio for our corporate loans and advances in the wholesale and retail industry was 5.02% and 7.57% as of December 31, 2017 and 2018, respectively, primarily due to the adverse impact of the slowdown in economic growth and international economic situation on the financial conditions of certain borrowers in this industry. The NPL ratio for our corporate loans and advances in the wholesale and retail industry decreased to 4.18% as of December 31, 2019, primarily attributable to our efforts in recovering and disposing non-performing corporate loans and advances, continuously improving risk prevention and control measures and strengthening our risk management.

As of December 31, 2017, 2018 and 2019, non-performing corporate loans and advances to corporate borrowers in the lease and business services industry represented nil, 6.1% and 5.7% of our total non-performing corporate loans and advances, respectively. As of December 31, 2017, 2018 and 2019, the NPL ratio for our corporate loans and advances in the lease and business services industry was nil, 0.52% and 0.47%, respectively, which remained relatively stable.

Distribution of NPLs by Geographical Region

For the distribution of loans by geographical region, please see the subsection headed "– Assets – Loans and Advances to Customers – Distribution of Loans by Geographical Region".

	As of December 31,								
	2017			2018			2019		
	Amount	% of total	NPL ratio(1)	Amount	% of total	NPL ratio(1)	Amount	% of total	NPL ratio(1)
	(in millions of RMB, except percentages)								
Northern and Northeastern China	4,734.1	58.4%	2.17%	5,961.3	57.2%	2.29%	7,215.3	57.3%	2.21%
Eastern China	1,604.0	19.8%	1.36%	2,689.0	25.8%	2.18%	3,405.3	27.0%	2.14%
Central and Southern China	934.7	11.5%	0.91%	1,041.5	10.0%	0.80%	1,277.4	10.1%	0.76%
Western China	837.4	10.3%	3.14%	724.9	7.0%	1.40%	693.5	5.6%	1.25%
Total NPLs	**8,110.2**	**100.0%**	**1.74%**	**10,416.7**	**100.0%**	**1.84%**	**12,591.5**	**100.0%**	**1.78%**

Note:

(1) Calculated by dividing NPLs in each region by gross loans and advances to customers in that region.

As of December 31, 2017, 2018 and 2019, our non-performing loans were primarily from Northern and Northeastern China as well as Eastern China, mainly because (i) loans to customers in Northern and Northeastern China and Eastern China constituted the largest component of our loans; and (ii) certain customers in Northern and Northeastern China and Eastern China experienced significant impact by China's macroeconomic structural adjustment during the period.

The NPL ratio for our loans originated in Northern and Northeastern China increased from 2.17% as of December 31, 2017 to 2.29% as of December 31, 2018, as the repayment ability of some enterprises engaging in traditional industries with overcapacity, such as the chemical industry, in this region was weakened as a result of the industrial structure adjustment that restricts industries with backward production capacity. The NPL ratio for our loans originated in Northern and Northeastern China decreased to 2.21% as of December 31, 2019, mainly because we enhanced risk control measures for loans in this region and strengthened the collection and disposal of NPLs.

The NPL ratio for our loans originated in Eastern China increased from 1.36% as of December 31, 2017 to 2.18% as of December 31, 2018, mainly attributable to the adverse impact of slowdown in economic growth on operations and financial conditions of certain medium and small enterprises in this region. The NPL ratio for our loans originated in Eastern China decreased to 2.14% as of December 31, 2019, primarily due to our strengthened risk control and enhanced efforts to collect and dispose NPLs in this region.

Distribution of NPLs by Security Type

The following table sets forth the distribution of our NPLs by security type as of the dates indicated.

	As of December 31,								
	2017			2018			2019		
	Amount	% of total	NPL ratio[(1)]	Amount	% of total	NPL ratio[(1)]	Amount	% of total	NPL ratio[(1)]
	(in millions of RMB, except percentages)								
Pledged loans	123.3	1.5%	0.30%	77.2	0.7%	0.16%	48.5	0.4%	0.07%
Collateralized loans	3,282.2	40.5%	1.95%	3,271.5	31.4%	1.69%	3,005.4	23.9%	1.27%
Guaranteed loans	4,645.0	57.3%	2.65%	6,191.8	59.5%	2.86%	8,224.6	65.3%	3.31%
Unsecured loans	59.7	0.7%	0.08%	833.6	8.0%	0.89%	1,313.0	10.4%	0.92%
Discounted bills	–	–	–	42.6	0.4%	0.32%	–	–	–
Total NPLs	**8,110.2**	**100.0%**	**1.74%**	**10,416.7**	**100.0%**	**1.84%**	**12,591.5**	**100.0%**	**1.78%**

Note:

(1) Calculated by dividing NPLs secured by each type of collateral by gross loans secured by that type of collateral.

The NPL ratio for our pledged loans decreased from 0.30% as of December 31, 2017 to 0.16% as of December 31, 2018, which further decreased to 0.07% as of December 31, 2019, primarily due to our enhanced risk management measures, stringent terms imposed on our borrowers and continuous efforts to recover non-performing loans.

The NPL ratio for our collateralized loans decreased from 1.95% as of December 31, 2017 to 1.69% as of December 31, 2018, and further decreased to 1.27% as of December 31, 2019. The continued decrease in the NPL ratio for our collateralized loans was primarily because of (i) improved recovery of non-performing collateralized loans, and (ii) enhanced risk management with respect to collateralized loans, such as more stringent credit approval requirements.

The NPL ratio for our guaranteed loans increased from 2.65% as of December 31, 2017 to 2.86% as of December 31, 2018, and further increased to 3.31% as of December 31, 2019. The continued increase in the NPL ratio for our guaranteed loans was primarily because of the deterioration in the financial conditions of certain medium and small corporate borrowers due to the impact of the slowdown in economic growth.

The NPL ratio for our unsecured loans increased from 0.08% as of December 31, 2017 to 0.89% as of December 31, 2018, primarily due to weakened repayment ability of certain borrowers due to the impact of the slowdown in economic growth. The NPL ratio for our unsecured loans as of December 31, 2019 was 0.92%, which remained relatively stable as compared to December 31, 2018.

Ten Largest Non-performing Borrowers

The following table sets forth our borrowers with the ten largest NPL balances outstanding as of the date indicated.

	As of December 31, 2019				
	Industry	Outstanding principal amount	Classification	% of total NPLs	% of net capital base[1]
	(in millions of RMB, except percentages)				
NPL Borrower A	Manufacturing	1,099.7	Substandard	8.7%	1.08%
NPL Borrower B	Accommodation and catering	713.6	Doubtful	5.7%	0.70%
NPL Borrower C	Finance	500.0	Substandard	4.0%	0.49%
NPL Borrower D	Manufacturing	483.3	Doubtful	3.8%	0.48%
NPL Borrower E	Lease and business services	475.3	Doubtful	3.8%	0.47%
NPL Borrower F	Manufacturing	400.0	Doubtful	3.2%	0.39%
NPL Borrower G	Mining	300.0	Doubtful	2.4%	0.30%
NPL Borrower H	Manufacturing	294.0	Doubtful	2.3%	0.29%
NPL Borrower I	Manufacturing	270.1	Substandard	2.1%	0.27%
NPL Borrower J	Manufacturing	251.4	Doubtful	2.0%	0.25%
Total		**4,787.4**		**38.0%**	**4.72%**

Note:

(1) Represents loan balance as a percentage of our net capital base (also referred to in this prospectus as "regulatory capital"), calculated in accordance with the requirements of the Capital Administration Measures and based on our financial statements prepared in accordance with PRC GAAP. For a calculation of our net capital base as of December 31, 2019, see "Financial Information – Capital Resources – Capital Adequacy".

Loan Aging Schedule

The following table sets forth our loan aging schedule as of the dates indicated.

	As of December 31,					
	2017		2018		2019	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Current loans	453,177.3	97.5%	551,732.8	97.6%	686,379.9	96.9%
Loans past due for						
– Up to 3 months[1]	2,129.7	0.5%	3,405.8	0.6%	10,653.3	1.5%
– Over 3 months up to 6 months[1]	1,090.0	0.2%	712.7	0.1%	1,030.6	0.1%
– Over 6 months up to 1 year[1]	2,112.2	0.5%	2,159.5	0.4%	1,784.8	0.3%
– Over 1 year up to 3 years[1]	5,780.3	1.2%	6,156.9	1.1%	4,645.9	0.7%
– Over 3 years[1]	600.3	0.1%	1,286.0	0.2%	3,563.0	0.5%
Subtotal	11,712.5	2.5%	13,720.9	2.4%	21,677.6	3.1%
Gross loans and advances to customers	**464,889.8**	**100.0%**	**565,453.7**	**100.0%**	**708,057.5**	**100.0%**

Note:

(1) Represents the principal amount of the loans on which principal or interest overdue as of the dates indicated.

Allowance for Impairment Losses on Loans to Customers

We assess our loans for impairment and determine a level of allowance for impairment losses in accordance with the requirements of IAS 39 before January 1, 2018 and IFRS 9 starting from January 1, 2018. Please see "Financial Information – Critical Accounting Judgments and Key Sources of Estimation Uncertainty – Impact of New Accounting Policies" and Note 2(1)(a) to our historical financial information included in the Accountants' Report in Appendix I to this prospectus.

Before January 1, 2018, under the requirements of IAS 39, we used two methodologies for assessing impairment losses, namely individual assessment and collective assessment. Loans which were considered individually significant were assessed individually for impairment. Loans which were assessed collectively for impairment include individually assessed loans with no objective evidence of impairment on an individual basis, and homogeneous groups of loans which were not considered individually significant and not assessed individually. Loans that were individually assessed for impairment and for which an impairment loss was or continued to be recognized were not included in a collective assessment for impairment.

Starting from January 1, 2018, under the requirements of IFRS 9, we categorize and manage our financial assets' credit risk into the following stages: (i) Stage 1 refers to financial assets that have not experienced a significant increase in credit risk since origination and impairment is recognized on the basis of 12 months expected credit losses. (ii) Stage 2 refers to financial assets that have experienced a significant increase in credit risk since origination and impairment is recognized on the basis of lifetime expected credit losses. (iii) Stage 3 refers to financial assets that are in default and considered credit-impaired. We have developed a new expected credit loss impairment model in accordance with IFRS 9 to measure the expected credit losses, taking into account various factors such as macroscopic index, macroeconomic indicators and macro-financial scenario analysis. Under IFRS 9, our allowance for impairment losses on loans comprised (i) the allowance for impairment losses on the loans measured at amortised cost, which were recognized in the assets and affected the net carrying amount of loans, and (ii) the allowance for impairment losses on the loans measured at fair value through other comprehensive income, which were recognized in the "impairment reserve" in the equity without decreasing the carrying amount of loans presented in the statements of financial position.

We believe the measurement of our impairment allowance complies with the *Guidelines of Risk-based Classification of Loans* (《貸款風險分類指引》) and the requirements under IAS 39 and IFRS 9.

For further discussion on impairment losses on our loans and advances to customers, please see "Financial Information – Results of Operations for the Years Ended December 31, 2017 and 2018 – Impairment Losses on Assets", "Financial Information – Results of Operations for the Years Ended December 31, 2018 and 2019 – Impairment Losses on Assets" and Note 11 to our historical financial information included in the Accountants' Report in Appendix I to this prospectus.

Distribution of Allowance for Impairment Losses by Loan Classification

The following table sets forth the distribution of our allowance for impairment losses by loan classification category as of the dates indicated.

	As of December 31,			As of January 1,			As of December 31,					
	2017(1)			2018(2)			2018(2)			2019(2)		
	Amount	% of total	Allowance to gross loan ratio(3)	Amount	% of total	Allowance to gross loan ratio(3)	Amount	% of total	Allowance to gross loan ratio(3)	Amount	% of total	Allowance to gross loan ratio(3)
	(in millions of RMB, except percentages)											
Normal	8,943.3	59.3%	2.02%	7,243.7	50.9%	1.64%	7,928.7	40.8%	1.47%	9,318.4	39.4%	1.38%
Special mention	1,922.3	12.8%	12.82%	2,806.6	19.7%	18.71%	5,531.6	28.4%	33.93%	6,213.6	26.3%	29.93%
Substandard	1,453.1	9.6%	35.70%	1,496.5	10.5%	36.76%	1,193.8	6.1%	36.64%	1,608.7	6.8%	40.11%
Doubtful	2,255.8	15.0%	63.76%	2,198.6	15.5%	62.15%	3,584.7	18.4%	61.12%	4,395.4	18.6%	69.05%
Loss	501.6	3.3%	100.00%	477.3	3.4%	95.15%	1,236.3	6.3%	94.31%	2,101.9	8.9%	94.87%
Total allowance	**15,076.1**	**100.0%**	**3.24%**	**14,222.7**	**100.0%**	**3.06%**	**19,475.1**	**100.0%**	**3.44%**	**23,638.0**	**100.0%**	**3.34%**

Notes:

(1) Measured and recognized in accordance with IAS 39, which we adopted prior to January 1, 2018. Under IAS 39, our allowance for impairment losses on loans were all recognized in the assets.

(2) Measured and recognized in accordance with IFRS 9, which we adopted from January 1, 2018. The allowance for impairment losses as of January 1, 2018 under IFRS 9 represents the beginning balance of 2018. Under IFRS 9, our allowance for impairment losses on loans comprised (i) the allowance for impairment losses recognized in the assets, and (ii) the allowance for impairment losses recognized in the "impairment reserve" in the equity.

(3) Calculated by dividing impairment allowance on loans in each category by gross loans in that category.

The following table sets forth the allocation of our allowance for impairment losses by business line and by loan classification category as of the dates indicated.

	As of December 31,			As of January 1,			As of December 31,					
	2017[1]			2018[2]			2018[2]			2019[2]		
	Amount	% of total	Allowance to gross loan ratio[3]	Amount	% of total	Allowance to gross loan ratio[3]	Amount	% of total	Allowance to gross loan ratio[3]	Amount	% of total	Allowance to gross loan ratio[3]
	(in millions of RMB, except percentages)											
Corporate loans and advances												
Normal	6,894.9	45.8%	2.15%	6,457.8	45.5%	2.01%	6,816.3	35.0%	1.90%	7,303.7	30.8%	1.68%
Special mention	1,918.4	12.7%	12.84%	2,790.1	19.6%	18.68%	5,302.4	27.2%	33.94%	5,816.7	24.6%	29.73%
Substandard	1,423.3	9.4%	35.75%	1,449.3	10.2%	36.40%	1,049.0	5.4%	35.11%	1,279.6	5.4%	36.26%
Doubtful	2,228.0	14.8%	63.81%	2,164.4	15.2%	61.99%	3,522.2	18.1%	61.00%	4,225.2	17.9%	68.91%
Loss	200.0	1.3%	100.00%	182.9	1.3%	91.45%	905.3	4.6%	92.88%	1,565.6	6.6%	94.06%
Subtotal	**12,664.6**	**84.0%**	**3.69%**	**13,044.5**	**91.8%**	**3.80%**	**17,595.2**	**90.3%**	**4.58%**	**20,190.8**	**85.3%**	**4.34%**
Personal loans												
Normal	2,046.8	13.6%	1.73%	780.8	5.5%	0.66%	1,104.5	5.7%	0.66%	1,977.5	8.4%	0.86%
Special mention	3.9	0.0%	6.74%	16.5	0.1%	28.50%	229.2	1.2%	33.63%	396.9	1.7%	33.19%
Substandard	29.8	0.2%	33.52%	47.2	0.3%	53.09%	127.4	0.7%	60.52%	329.1	1.4%	68.35%
Doubtful	27.8	0.2%	59.91%	34.2	0.2%	73.71%	62.5	0.3%	68.91%	170.2	0.7%	72.80%
Loss	301.6	2.0%	100.00%	294.4	2.1%	97.61%	331.0	1.7%	98.48%	536.3	2.3%	97.28%
Subtotal	**2,409.9**	**16.0%**	**2.03%**	**1,173.1**	**8.2%**	**0.99%**	**1,854.6**	**9.6%**	**1.10%**	**3,410.0**	**14.5%**	**1.46%**
Discounted bills												
Normal	1.6	0.0%	0.06%	5.1	0.0%	0.19%	7.9	0.0%	0.06%	37.2	0.2%	0.40%
Special mention	–	–	–	–	–	–	–	–	–	–	–	–
Substandard	–	–	–	–	–	–	17.4	0.1%	40.85%	–	–	–
Doubtful	–	–	–	–	–	–	–	–	–	–	–	–
Loss	–	–	–	–	–	–	–	–	–	–	–	–
Subtotal	**1.6**	**0.0%**	**0.06%**	**5.1**	**0.0%**	**0.19%**	**25.3**	**0.1%**	**0.19%**	**37.2**	**0.2%**	**0.40%**
Total allowance	**15,076.1**	**100.0%**	**3.24%**	**14,222.7**	**100.0%**	**3.06%**	**19,475.1**	**100.0%**	**3.44%**	**23,638.0**	**100.0%**	**3.34%**

Notes:

(1) Measured and recognized in accordance with IAS 39, which we adopted prior to January 1, 2018. Under IAS 39, our allowance for impairment losses on loans were all recognized in the assets.

(2) Measured and recognized in accordance with IFRS 9, which we adopted from January 1, 2018. The allowance for impairment losses as of January 1, 2018 under IFRS 9 represents the beginning balance of 2018. Under IFRS 9, our allowance for impairment losses on loans comprised (i) the allowance for impairment losses through other comprehensive income recognized in the assets, and (ii) the allowance for impairment losses recognized in the "impairment reserve" in the equity.

(3) Calculated by dividing allowance for impairment losses on loans in each category by gross loans in that category. Prior to 2018, all loans and advances were measured at amortised cost under IAS 39. Starting from January 1, 2018, certain of our loans and advances became to be measured at fair value under IFRS 9, and thereby when calculating the allowance to gross loan ratio, the balance of such loans and advances refers to their fair value.

Changes to Allowance for Impairment Losses

We report net allowance for impairment losses on loans to customers on our statement of profit and loss and other comprehensive income. Please see "Financial Information – Results of Operations for the Years Ended December 31, 2017 and 2018 – Impairment Losses on Assets" and "Financial Information – Results of Operations for the Years Ended December 31, 2018 and 2019 – Impairment Losses on Assets".

The following table sets forth the changes to the allowance for impairment losses on loans to customers for the periods indicated.

	Amount (in millions of RMB)
As of January 1, 2017[(1)]	**10,838.5**
Charge for the year	5,756.4
Transfer out	(1,333.6)
Recoveries	41.0
Write-off	(196.3)
Exchange differences and others	(29.9)
As of December 31, 2017[(1)]	**15,076.1**
As of January 1, 2018[(2)]	**14,222.7**
Charge for the year	7,245.8
Transfer out	(675.0)
Recoveries	11.4
Write-off	(1,342.0)
Exchange differences and others	12.2
As of December 31, 2018[(3)]	**19,475.1**
Charge for the year	8,789.2
Transfer out	(3,677.5)
Recoveries	89.5
Write-off	(1,040.9)
Exchange differences and others	2.6
As of December 31, 2019[(4)]	**23,638.0**

Notes:

(1) Prepared according to IAS 39 and all recognized in the assets.

(2) Prepared according to IFRS 9, composed of (i) allowance for impairment losses on the loans and advances to customers measured at amortised cost which amounted to RMB14,217.6 million and recognized in the assets; and (ii) allowance for impairment losses on the loans and advances measured at fair value through other comprehensive income which amounted to RMB5.1 million and recognized in the equity.

(3) Prepared according to IFRS 9, composed of (i) allowance for impairment losses on the loans and advances to customers measured at amortised cost which amounted to RMB19,449.8 million and recognized in the assets; and (ii) allowance for impairment losses on the loans and advances measured at fair value through other comprehensive income which amounted to RMB25.3 million and recognized in the equity.

(4) Prepared according to IFRS 9, composed of (i) allowance for impairment losses on the loans and advances to customers measured at amortised cost which amounted to RMB23,600.8 million and recognized in the assets; and (ii) allowance for impairment losses on the loans and advances measured at fair value through other comprehensive income which amounted to RMB37.2 million and recognized in the equity.

Our allowance for impairment losses on loans and advances to customers amounted to RMB15,076.1 million as of December 31, 2017 according to IAS 39. Before January 1, 2018, under the requirements of IAS 39, we first assessed whether objective evidence of impairment exists individually for financial assets that are individually significant, and collectively for financial assets that are not individually significant, according to which, a majority of our personal loans were assessed collectively under IAS 39 based on the overall quality and aggregate balance of relevant loans.

We have adopted IFRS 9 since January 1, 2018 to replace IAS 39. Our allowance for impairment losses on loans to customers as of January 1, 2018 amounted to RMB14,222.7 million in accordance with the expected credit loss model under IFRS 9, representing a decrease from that as of December 31, 2017, which was primarily attributable to the decreased allowance for impairment losses on personal loans. Such expected credit loss model, compared to the incurred loss model under IAS 39, requires more refined assessment for each loans rather than utilizing collective or individual assessment approaches, uses more forward-looking information and considers assumptions and factors differently as compared with the previous accounting policy. In 2018, personal loans were all assessed under this more refined model instead of using the collective assessment approach. Since personal loans primarily included residential and commercial housing loans which generally had adequate collaterals and relatively lower loss given default, the impairment losses for personal loans measured in accordance with this more refined model under IFRS 9 in the beginning of 2018 were less than those under IAS 39 in the end of 2017. For details on the credit loss models under IAS 39 and IFRS 9, please see Note 2(1)(a) and Note 42(a) of the Accountants' Report in Appendix I to this prospectus.

Our allowance for impairment losses on loans and advances to customers increased by 36.9% from RMB14,222.7 million as of January 1, 2018 to RMB19,475.1 million as of December 31, 2018, and further increased to RMB23,638.0 million as of December 31, 2019. The increase in our allowance for impairment losses on loans and advances to customers during the Track Record Period was generally in line with the growth of our loans and advances to customers, setting aside the effect of the adoption of IFRS 9.

Distribution of Allowance for Impairment Losses by Product Type

The following table sets forth the distribution of our allowance for impairment losses on loans and advances to customers by product type as of the dates indicated.

	As of December 31,			As of January 1,			As of December 31,					
	2017(1)			2018(2)			2018(2)			2019(2)		
	Amount	% of total	Allowance to gross loan ratio(3)	Amount	% of total	Allowance to gross loan ratio(3)	Amount	% of total	Allowance to gross loan ratio (%)(3)	Amount	% of Total	Allowance to gross loan ratio (%)(3)
	(in millions of RMB, except percentages)											
Corporate loans and advances												
Working capital loans	7,287.5	48.4%	3.57%	7,653.3	53.9%	3.75%	10,781.0	55.3%	5.02%	13,822.2	58.4%	4.89%
Fixed asset loans	4,936.9	32.7%	3.67%	4,979.8	35.0%	3.70%	6,042.8	31.0%	3.74%	5,298.7	22.4%	3.10%
Other loans	440.2	2.9%	9.37%	411.4	2.9%	8.76%	771.4	4.0%	9.70%	1,069.9	4.5%	9.32%
Subtotal	12,664.6	84.0%	3.69%	13,044.5	91.8%	3.80%	17,595.2	90.3%	4.58%	20,190.8	85.3%	4.34%
Personal loans												
Residential and commercial housing Loans	2,103.8	14.0%	1.99%	484.4	3.4%	0.46%	241.0	1.3%	0.21%	355.4	1.5%	0.28%
Personal consumption loans	192.2	1.3%	2.20%	545.7	3.8%	6.23%	1,126.7	5.8%	2.32%	2,311.1	9.8%	2.42%
Personal business loans	91.8	0.6%	2.96%	125.1	0.9%	4.04%	453.1	2.3%	12.08%	650.3	2.8%	9.69%
Credit cards	22.1	0.1%	2.00%	17.9	0.1%	1.62%	33.8	0.2%	1.89%	93.2	0.4%	2.84%
Subtotal	2,409.9	16.0%	2.03%	1,173.1	8.2%	0.99%	1,854.6	9.6%	1.10%	3,410.0	14.5%	1.46%
Discounted bills												
Bank acceptance discounted bills	–	–	–	2.5	0.0%	0.10%	6.3	0.0%	0.05%	2.7	0.0%	0.04%
Commercial acceptance discounted bills	1.6	0.0%	0.98%	2.6	0.0%	1.59%	19.0	0.1%	10.75%	34.5	0.2%	1.50%
Subtotal	1.6	0.0%	0.06%	5.1	0.0%	0.19%	25.3	0.1%	0.19%	37.2	0.2%	0.40%
Total allowance for loans	**15,076.1**	**100.0%**	**3.24%**	**14,222.7**	**100.0%**	**3.06%**	**19,475.1**	**100.0%**	**3.44%**	**23,638.0**	**100.0%**	**3.34%**

Notes:

(1) Measured and recognized in accordance with IAS 39, which we adopted prior to January 1, 2018. Under IAS 39, our allowance for impairment losses on loans and advances were all recognized in the assets.

(2) Measured and recognized in accordance with IFRS 9, which we adopted from January 1, 2018. The allowance for impairment losses as of January 1, 2018 under IFRS 9 represents the beginning balance of 2018. Under IFRS 9, our allowance for impairment losses on loans and advances comprised (i) the allowance for impairment losses recognized in the assets, and (ii) the allowance for impairment losses recognized in the "impairment reserve" in the equity.

(3) Calculated by dividing allowance for impairment losses on loans and advances in each category by gross loans and advances in that category. Prior to 2018, all loans and advances were measured at amortised cost under IAS 39. Starting from January 1, 2018, certain of our loans and advances became to be measured at fair value under IFRS 9, and thereby when calculating the allowance to gross loan ratio, the balance of such loans and advances refers to their fair value.

Distribution of Allowance for Impairment Losses by Geographic Region

The following table sets forth the allocation of our allowance for impairment losses on loans and advances to customers by geographical region as of the dates indicated.

	As of December 31,			As of January 1,			As of December 31,					
	2017(1)			2018(2)			2018(2)			2019(2)		
	Amount	% of total	Allowance to gross loan ratio(3)	Amount	% of total	Allowance to gross loan ratio(3)	Amount	% of total	Allowance to gross loan ratio(3)	Amount	% of total	Allowance to gross loan ratio(3)
	(in millions of RMB, except percentages)											
Northern and Northeastern China	7,173.9	47.6%	3.29%	6,336.5	44.6%	2.90%	9,888.3	50.8%	3.80%	12,013.4	50.8%	3.68%
Eastern China	3,668.5	24.3%	3.12%	3,698.0	26.0%	3.15%	4,275.3	22.0%	3.46%	6,249.0	26.4%	3.93%
Central and Southern China	3,168.4	21.0%	3.09%	3,321.5	23.3%	3.24%	3,811.9	19.5%	2.94%	4,008.0	17.0%	2.40%
Western China	1,065.3	7.1%	3.99%	866.7	6.1%	3.25%	1,499.6	7.7%	2.89%	1,367.6	5.8%	2.46%
Total allowance for loans	**15,076.1**	**100.0%**	**3.24%**	**14,222.7**	**100.0%**	**3.06%**	**19,475.1**	**100.0%**	**3.44%**	**23,638.0**	**100.0%**	**3.34%**

Notes:

(1) Measured and recognized in accordance with IAS 39, which we adopted prior to January 1, 2018. Under IAS 39, our allowance for impairment losses on loans were all recognized in the assets.

(2) Measured and recognized in accordance with IFRS 9, which we adopted from January 1, 2018. The allowance for impairment losses as of January 1, 2018 under IFRS 9 represents the beginning balance of 2018. Under IFRS 9, our allowance for impairment losses on loans comprised (i) the allowance for impairment losses recognized in the assets, and (ii) the allowance for impairment losses recognized in the "impairment reserve" in the equity.

(3) Calculated by dividing allowance for impairment losses on loans in each region by gross loans in that region.

Distribution of Allowance for Impairment Losses by Assessment Methodology

We began to adopt IFRS 9 on January 1, 2018. Pursuant to this accounting policy, neither collective nor individual assessment methodologies will be used to assess the allowance for impairment losses on loans and advances to customers. The following table sets forth the distribution of the allowance for impairment losses on loans and advances to customers by assessment methodology as of the dates indicated.

	As of December 31,			As of January 1,		As of December 31,			
	2017(1)			2018(2)		2018(2)		2019(2)	
	Amount	Allowance to gross loan ratio(3)		Amount	Allowance to gross loan ratio(3)	Amount	Allowance to gross loan ratio(3)	Amount	Allowance to gross loan ratio(3)
	(in millions of RMB, except percentages)								
Collectively assessed	11,206.8	2.45%	Stage 1	7,448.0	1.69%	7,928.8	1.47%	9,318.4	1.38%
Individually assessed	3,869.3	51.07%	Stage 2	2,806.6	18.71%	5,531.6	33.93%	6,213.6	29.93%
			Stage 3	3,968.1	48.93%	6,014.7	57.74%	8,106.0	64.38%
Total allowance for loans	**15,076.1**	**3.24%**	**Total allowance for loans**	**14,222.7**	**3.06%**	**19,475.1**	**3.44%**	**23,638.0**	**3.34%**

Notes:

(1) Measured and recognized in accordance with IAS 39, which we adopted prior to January 1, 2018. Under IAS 39, our allowance for impairment losses on loans were all recognized in the assets.

(2) Measured and recognized in accordance with IFRS 9, which we adopted from January 1, 2018. The allowance for impairment losses as of January 1, 2018 under IFRS 9 represents the beginning balance of 2018. Under IFRS 9, our allowance for impairment losses on loans comprised (i) the allowance for impairment losses recognized in the assets, and (ii) the allowance for impairment losses recognized in the "impairment reserve" in the equity.

(3) Calculated by dividing the allowance for impairment losses on loans in each category by gross loans and advances in that category.

Distribution of Allowance for Impairment Losses on Corporate Loans and Advances by Industry

The following table sets forth the allowance for impairment losses on corporate loans and advances by industry as of the dates indicated.

	As of December 31,			As of January 1,			As of December 31,					
	2017[1]			2018[2]			2018[2]			2019[2]		
	Amount	% of total	Allowance to gross loan ratio[3]	Amount	% of total	Allowance to gross loan ratio[3]	Amount	% of total	Allowance to gross loan ratio[3]	Amount	% of total	Allowance to gross loan ratio[3]
	(in millions of RMB, except percentages)											
Manufacturing	4,644.4	36.7%	9.88%	4,389.2	33.6%	9.33%	6,724.5	38.2%	13.75%	6,204.3	30.7%	10.29%
Wholesale and retail	1,493.4	11.8%	5.45%	1,475.9	11.3%	5.38%	2,438.4	13.9%	9.90%	4,517.1	22.4%	12.11%
Real estate	3,618.5	28.6%	4.65%	3,226.2	24.7%	4.15%	3,457.4	19.6%	3.83%	3,986.4	19.7%	3.65%
Lease and business services	1,014.5	8.0%	1.10%	1,609.1	12.3%	1.74%	1,908.5	10.8%	1.66%	2,102.5	10.4%	1.53%
Water conservancy, environment and public facilities management	712.5	5.6%	1.69%	978.2	7.5%	2.32%	1,201.7	6.8%	2.49%	740.4	3.7%	1.46%
Transportation, warehousing and postal services	130.3	1.0%	1.63%	149.3	1.1%	1.87%	247.5	1.4%	2.27%	555.1	2.7%	3.81%
Mining	334.9	2.6%	4.29%	352.9	2.7%	4.53%	409.3	2.3%	9.21%	417.2	2.1%	5.39%
Construction	178.7	1.4%	0.97%	231.7	1.8%	1.26%	369.9	2.1%	2.21%	378.4	1.9%	1.92%
Finance	78.3	0.6%	1.30%	135.2	1.0%	2.25%	75.0	0.4%	2.16%	323.3	1.6%	5.74%
Production and supply of electricity, heat, gas and water	89.2	0.7%	1.74%	105.7	0.8%	2.06%	179.3	1.0%	2.82%	140.0	0.7%	2.03%
Information transfer, software and IT services	247.9	2.1%	14.22%	252.0	2.1%	14.46%	6.9	0.0%	0.68%	30.9	0.2%	2.50%
Education	5.4	0.0%	0.20%	9.2	0.1%	0.35%	24.7	0.1%	0.94%	12.8	0.1%	0.57%
Public utilities, social security and social organizations	4.2	0.0%	0.15%	5.5	0.0%	0.20%	5.7	0.0%	0.10%	4.5	0.0%	0.09%
Others[4]	112.4	0.9%	2.82%	124.4	1.0%	3.12%	546.4	3.4%	9.09%	777.9	3.8%	11.29%
Total allowance for corporate loans	**12,664.6**	**100.0%**	**3.69%**	**13,044.5**	**100.0%**	**3.80%**	**17,595.2**	**100.0%**	**4.58%**	**20,190.8**	**100.0%**	**4.34%**

Notes:

(1) Measured and recognized in accordance with IAS 39, which we adopted prior to January 1, 2018. Under IAS 39, our allowance for impairment losses on loans and advances were all recognized in the assets.

(2) Measured and recognized in accordance with IFRS 9, which we adopted from January 1, 2018. The allowance for impairment losses as of January 1, 2018 under IFRS 9 represents the beginning balance of 2018. Under IFRS 9, our allowance for impairment losses on loans and advances comprised (i) the allowance for impairment losses recognized in the assets, and (ii) the allowance for impairment losses recognized in the "impairment reserve" in the equity.

(3) Calculated by dividing allowance for impairment losses on corporate loans and advances in each industry by gross corporate loans and advances in that industry.

(4) Consists primarily of (i) accommodation and catering, (ii) hygiene and social welfare, (iii) agriculture, forestry, animal husbandry and fishery, (iv) scientific research and technical services, (v) resident services, maintenance and other services, and (vi) culture, sports and entertainment.

Financial Investments

Financial investments are another important component of our assets. Our net financial investments amounted to RMB412,648.6 million, RMB312,957.9 million and RMB300,306.9 million as of December 31, 2017, 2018 and 2019, representing 41.2%, 30.3% and 26.9% of our total assets, respectively. The continued decrease in financial investments both in terms of the balance and as a percentage of our total assets during the Track Record Period was primarily because pursuant to policies regulating SPV investment issued by PBoC and CBIRC in recent years, we adjusted our financial investment portfolio and reduced the scale of certain SPV investment. For details, please see "– Assets – Financial Investments – Distribution of Financial Investments by Product Type".

Except as otherwise indicated, the following discussion is based on our gross financial investments before taking into account the interest accrued and the allowance for impairment losses.

Classification of Financial Investments by Business Model and Cashflow Characteristics

In accordance with IAS 39 which we adopted before January 1, 2018, we classify our financial investments into:

(i) financial investments measured at fair value through profit or loss. Our financial investments measured at fair value through profit or loss primarily comprise debt securities and investment in fund that we held for the purpose of selling or repurchasing in the near term, a financial instrument managed in a pattern of short-term profit taking.

(ii) available-for-sale financial assets. Our available-for-sale financial assets primarily comprise debt securities and equity investments that are non-derivative financial assets designated on initial recognition as available for sale or any other instruments that are not classified as (a) investments classified as receivables, (b) held-to-maturity investments or (c) financial investments measured at fair value through profit or loss.

(iii) held-to-maturity investments. Our held-to-maturity investments primarily comprise debt securities that are non-derivative financial assets with fixed or determinable payments and fixed maturity that we have the positive intention and ability to hold to maturity, other than (a) those that we, upon initial recognition, designate at fair value through profit or loss or as available-for-sale; or (b) those that meet the definition of loans and receivables.

(iv) investments classified as receivables. Our investments classified as receivables primarily comprise investment in trust plans and asset management plans and wealth management products that are non-derivative financial assets with fixed or determinable payments not quoted in an active market.

In accordance with IFRS 9 which we adopted starting from January 1, 2018, we classify our financial assets by business model and cashflow characteristics of financial assets into the following categories:

(i) financial investments measured at amortised cost. A financial investment is measured at amortised cost if it meets both of the following conditions and is not designated as of financial investments measured at fair value through profit or loss: (a) it is held within a business model whose objective is to hold assets to collect contractual cash flows; and (b) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Our financial investments at amortised cost primarily comprise debt securities and investment in trust plans and asset management plans.

(ii) financial investments measured at fair value through other comprehensive income. A debt investment is measured at fair value through other comprehensive income if it meets both of the following conditions and is not designated as of financial investments measured at fair value through profit or loss: (a) it is held within a business model whose objective is set for both collecting contractual cash flows and selling such financial assets; and (b) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Financial investments measured at fair value through other comprehensive income also include equity investment designated as of financial investments measured at fair value through other comprehensive income. Our financial investments at fair value through other comprehensive income primarily comprise debt securities and investment in trust plans and asset management plans.

(iii) financial investments measured at fair value through profit or loss. All financial investments not classified as measured at amortised cost or financial investments measured at fair value through other comprehensive income as described above are financial investments measured at fair value through profit or loss. Our financial investments measured at fair value through profit or loss primarily comprise debt securities and investment in trust plans, funds, asset management plans and equity investments.

The following table sets forth the distribution of our financial investments by business model and cashflow characteristics as of the dates indicated. For further details on the components of each category of our financial investments, see Note 20 of the Accountants' Report in Appendix I to this prospectus.

	As of December 31,		As of January 1,		As of December 31,			
	2017(1)		2018(2)		2018(2)		2019(2)	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentage)							
Financial investments measured at amortised cost	N/A	N/A	321,379.5	77.0%	245,393.0	78.3%	199,599.5	66.5%
Financial investments measured fair value through other comprehensive income	N/A	N/A	39,845.6	9.6%	44,672.2	14.3%	64,054.6	21.4%
Financial investments measured at fair value through profit or loss	12,860.9	3.1%	55,956.3	13.4%	23,193.1	7.4%	36,238.3	12.1%
Available-for-sale financial assets	36,495.7	8.7%	N/A	N/A	N/A	N/A	N/A	N/A
Held-to-maturity investments	87,753.1	21.0%	N/A	N/A	N/A	N/A	N/A	N/A
Investments classified as receivables	280,581.8	67.2%	N/A	N/A	N/A	N/A	N/A	N/A
Gross financial investments	**417,691.5**	**100.0%**	**417,181.4**	**100.0%**	**313,258.3**	**100.0%**	**299,892.4**	**100.0%**
Interest accrued(3)	N/A		N/A		3,538.3		3,618.8	
Less: allowance for impairment losses(4)	(5,042.9)		(4,714.9)		(3,838.7)		(3,204.3)	
Net financial investments	412,648.6		412,466.5		312,957.9		300,306.9	

Notes:

(1) Measured and recognized in accordance with IAS 39, which we adopted prior to January 1, 2018.

(2) Measured and recognized in accordance with IFRS 9, which we adopted from January 1, 2018. The balances of financial investments as of January 1, 2018 under IFRS 9 represent the beginning balances of 2018. According to IFRS 9, our available-for-sale financial assets were reclassified to financial investments measured at fair value through profit or loss and financial investments measured at fair value through other comprehensive income. Our held-to-maturity investments were reclassified to financial investments measured at amortised cost and financial investments measured at fair value through profit or loss. Meanwhile, investments classified as receivables were reclassified to financial investments measured at amortised cost, financial investments measured at fair value through profit or loss and financial investments measured at fair value through other comprehensive income.

(3) Pursuant to the relevant notice issued by the MOF in December 2018, the interest accrued on financial instruments measured based on the effective interest rate method should be included in the book balance of relevant financial instruments.

(4) For the amount prepared according to IFRS 9, only allowance for impairment losses on financial investments measured at amortised cost is included. Allowance for impairment losses on financial investments measured at fair value through other comprehensive income is recognized in the "impairment reserve", which does not affect the book value of financial investments reported in our statements of financial position. For details of such "impairment reserve", see Note 35(d) of the Accountants' Report in Appendix I to this prospectus.

Our financial investments measured at amortised cost comprise debt securities, investment in trust plans and asset management plans and certificates of interbank deposit. Our financial investments measured at amortised costs as of December 31, 2018 amounted to RMB245,393.0 million, representing a 23.6% decrease from RMB321,379.5 million as of January 1, 2018. As of December 31, 2019, our financial investments measured at amortised costs further decreased by 18.7% to RMB199,599.5 million from RMB245,393.0 million as of December 31, 2018. Such continued decrease was primarily due to our reduction of the scale of investment in trust plans and asset management plans in accordance with the regulatory policies regulating such SPV investment.

Our financial investments measured at fair value through other comprehensive income primarily comprise debt securities. Our financial investments measured at fair value through other comprehensive income as of December 31, 2018 amounted to RMB44,672.2 million, representing a 12.1% increase from RMB39,845.6 million as of January 1, 2018, primarily due to our increased investments in debts securities, mainly comprising government bonds, based on market conditions and our needs for liquidity management. Our financial investments measured at fair value through other comprehensive income further increased by 43.4% from RMB44,672.2 million as of December 31, 2018 to RMB64,054.6 million as of December 31, 2019, primarily due to our increased investment in debt securities issued by PRC Government in 2019 based on market conditions, our needs for liquidity management and investment strategies.

Our financial investments measured at fair value through profit or loss primarily comprise debt securities and investment in asset management plans, funds and wealth management products issued by other banks. According to IAS 39 which we adopted in 2017, our financial investments measured at fair value through profit or loss amounted to RMB12,860.9 million as of December 31, 2017. We have adopted IFRS 9 since January 1, 2018 to replace IAS 39. As of December 31, 2018, our financial investments measured at fair value through profit or loss amounted to RMB23,193.1 million, representing a 58.6% decrease from RMB55,956.3 million as of January 1, 2018, primarily because we reduced our investment in wealth management products in 2018 pursuant to the relevant regulatory policies issued by CBIRC. Our financial investments measured at fair value through profit or loss increased from RMB23,193.1 million as of December 31, 2018 to RMB36,238.3 million as of December 31, 2019, mainly because of our increased investment in NAV-measured asset management plans and funds according to our liquidity management and investment strategies.

Our available-for-sale financial assets consist of debt securities and equity investments. As of December 31, 2017, our available-for-sale financial assets amounted to RMB36,495.7 million. Upon the adoption of IFRS 9, (i) our available-for-sale financial assets that are not held for collection of contractual cash flows representing solely payments of principal and interest have been reclassified to financial investments measured at fair value through profit or loss, and (ii) the remaining available-for-sale financial assets have been reclassified to financial investments measured at fair value through other comprehensive income. For details of the impact of IFRS 9, please see "Financial Information – Critical Accounting Judgments and Key Sources of Estimation Uncertainty – Impact of New Accounting Policies".

Our held-to-maturity investments consist of debt securities. As of December 31, 2017, our held-to-maturity investments amounted to RMB87,753.1 million. Our held-to-maturity investments have been reclassified to financial investments measured at amortised cost and financial investments measured at fair value through profit or loss due to adoption of IFRS 9 on January 1, 2018. For details of the impact of IFRS 9, please see "Financial Information – Critical Accounting Judgments and Key Sources of Estimation Uncertainty – Impact of New Accounting Policies".

Our investments classified as receivables are consist of investment in trust plans, asset management plans and wealth management products issued by other banks. As of December 31, 2017, our investments classified as receivables amounted to RMB280,581.8 million. Our investments classified as receivables have been reclassified to financial investments measured at amortised cost, financial investments measured at fair value through other comprehensive income and financial investments measured at fair value through profit or loss due to adoption of IFRS 9 on January 1, 2018. For details on the impact of IFRS 9, please see "Financial Information – Critical Accounting Judgments and Key Sources of Estimation Uncertainty – Impact of New Accounting Policies".

For details relating to our risk management in connection with our financial investments, please see "Risk Management – Credit Risk Management – Credit Risk Management for Our Financial Market Business – Credit Risk Management for Debt Securities Investment and SPV Investment".

Distribution of Financial Investments by Remaining Maturities

The table below sets forth the distribution of our financial investments by remaining maturities as of the date indicated.

	As of December 31, 2019						
	Indefinite	Due in 3 month or less	Due over 3 months up to 1 year	Due over 1 year up to 5 years	Due in more than 5 years	Repayable on demand	Total
	(in millions of RMB)						
Financial investments measured at fair value through profit or loss	1,841.3	60.0	415.3	15,191.8	1,939.2	16,790.7	36,238.3
Financial investments measured at fair value through other comprehensive income	213.6	5,476.1	17,846.8	36,267.4	5,163.4	–	64,967.3
Financial investments measured at amortised cost	2,727.9	14,909.5	48,708.5	115,534.0	17,221.4	–	199,101.3
Net financial investments	**4,782.8**	**20,445.6**	**66,970.6**	**166,993.2**	**24,324.0**	**16,790.7**	**300,306.9**

Distribution of Financial Investments by Product Type

Our financial investments consist primarily of debt securities investment and SPV investment. Our SPV investment includes investment in trust plans, asset management plans, wealth management products and funds. The following table sets forth the components of our financial investments as of the dates indicated.

	As of December 31,		As of January 1,		As of December 31,			
	2017[(1)]		2018[(2)]		2018[(2)]		2019[(2)]	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Debt securities investment	124,430.2	29.8%	124,041.6	29.7%	150,039.7	48.0%	167,465.9	55.9%
SPV investment								
Trust plans	119,090.1	28.5%	119,054.9	28.5%	79,838.6	25.3%	61,586.6	20.4%
Asset management plans	121,939.2	29.1%	121,947.5	29.3%	65,428.2	20.9%	43,317.8	14.5%
Wealth management products	39,552.5	9.5%	39,457.9	9.5%	3,039.0	1.0%	–	–
Funds	12,374.9	3.0%	12,374.9	3.0%	14,280.4	4.6%	25,480.8	8.5%
Subtotal	292,956.7	70.1%	292,835.2	70.3%	162,586.2	51.8%	130,385.2	43.4%
Equity investment	304.6	0.1%	304.6	0.0%	632.4	0.2%	2,041.3	0.7%
Gross financial investments	**417,691.5**	**100.0%**	**417,181.4**	**100.0%**	**313,258.3**	**100.0%**	**299,892.4**	**100.0%**
Interest accrued	N/A		N/A		3,538.3		3,618.8	
Less: allowance for impairment losses	(5,042.9)		(4,714.9)		(3,838.7)		(3,204.3)	
Net financial investments	412,648.6		412,466.5		312,957.9		300,306.9	

Notes

(1) Measured and recognized in accordance with IAS 39, which we adopted prior to January 1, 2018.

(2) Measured and recognized in accordance with IFRS 9, which we adopted from January 1, 2018. The balances of financial investments as of January 1, 2018 under IFRS 9 represent the beginning balances of 2018.

In recent years, the PRC government has issued a series of regulatory policies to enhance risk management on asset management business. For example, the PBoC, CBIRC, CSRC and SAFE jointly issued the Guiding Opinions on Regulating the Asset Management Business of Financial Institutions (《關於規範金融機構資產管理業務的指導意見》) on April 27, 2018, which, among others, prohibits financial institutions from providing investors with guarantees for principal and investment returns in relation to asset management products, and also requires financial institutions to measure the products on net asset value basis. In addition, the CBIRC issued the Measures for the Supervision and Administration of the Wealth Management Business of Commercial Banks (《商業銀行理財業務監督管理辦法》) and the Measures for the Administration of Wealth Management Subsidiary Companies of Commercial Banks (《商業銀行理財子公司管理辦法》) on September 26, 2018 and December 2, 2018, respectively, which further strengthen the supervision and administration of wealth management products issued by commercial banks. For details, please see "Supervision and Regulation – Regulation on Principal Commercial Banking Activities – Wealth Management Business".

As affected by the restrictions on the issuance of certain asset management products imposed by these regulatory policies, wealth management products, trust plans and asset management plans available in the market that meet our stringent selection standards experienced a decrease during the Track Record Period. Taking into account various factors such as the market conditions and the regulatory trends, we adjusted our financial investment portfolio by reducing the scale of certain SPV investment and increasing the scale of debt securities.

As a result, our SPV investment experienced a continued decrease during the Track Record Period, which amounted to RMB292,956.7 million, RMB162,586.2 million and RMB130,385.2 million, respectively, as of December 31, 2017, 2018 and 2019, representing 70.1%, 51.8% and 43.4%, respectively, of our total financial investments as of the same dates. In detail, our investment in trust plans decreased by 33.0% from RMB119,090.1 million as of December 31, 2017 to RMB79,838.6 million as of December 31, 2018, which further decreased by 22.9% to RMB61,586.6 million as of December 31, 2019. Our investment in asset management plans decreased by 46.3% from RMB121,939.2 million as of December 31, 2017 to RMB65,428.2 million as of December 31, 2018, which further decreased by 33.8% to RMB43,317.8 million as of December 31, 2019. Our holding of wealth management products issued by other banks decreased significantly from RMB39,552.5 million as of December 31, 2017 to RMB3,039.0 million as of December 31, 2018, and further decreased to nil as of December 31, 2019.

Meanwhile, our debt securities investment continued to increase during the Track Record Period, which amounted to RMB124,430.2 million, RMB150,039.7 million and RMB167,465.9 million, respectively, as of December 31, 2017, 2018 and 2019, representing 29.8%, 48.0% and 55.9%, respectively, of our total financial investments as of the same dates.

Mainly due to the decreased SPV investment, our net financial investments also decreased during the Track Record Period. As of December 31, 2017, 2018 and 2019, we had financial investments of RMB412,648.6 million, RMB312,957.9 million and RMB300,306.9 million, which represented 41.2%, 30.3% and 26.9% of our total assets, respectively.

Please also see "Risk Factors – Risks Relating to Our Business – We face risks and uncertainties associated with the PRC regulations governing the wealth management business of financial institutions".

Debt Securities Investment

Debt securities investment accounted for 29.8%, 48.0% and 55.9% of our total financial investments as of December 31, 2017, 2018 and 2019, respectively. The debt securities we held consist of debt securities issued by PRC Government, policy banks, commercial banks and other financial institutions, and corporate issuers. Substantially all of the debt securities we held as of December 31, 2017, 2018 and 2019 were denominated in Renminbi. The following table sets forth the components of our debt securities investment classified by issuer as of the dates indicated.

	As of December 31,					
	2017		2018		2019	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Debt securities issued by PRC Government	83,163.3	66.8%	96,311.7	64.2%	98,743.4	58.9%
Debt securities issued by policy banks	39,766.5	32.0%	48,066.2	32.0%	59,371.6	35.5%
Debt securities issued by commercial banks and other financial institutions	248.5	0.2%	3,570.3	2.4%	1,500.8	0.9%
Debt securities issued by corporate issuers	1,251.9	1.0%	2,091.5	1.4%	7,850.1	4.7%
Total debt securities	**124,430.2**	**100.0%**	**150,039.7**	**100.0%**	**167,465.9**	**100.0%**

Debt securities investment increased by 20.6% from RMB124,430.2 million as of December 31, 2017 to RMB150,039.7 million as of December 31, 2018, and further increased by 11.6% to RMB167,465.9 million as of December 31, 2019, mainly because we adjusted our investment structure in response to the relevant regulatory policies by increasing debt securities investment, such as those issued by PRC Government and policy banks, during the Track Record Period.

During the Track Record Period, debt securities issued by PRC Government were the largest component of our debt securities portfolio, accounting for 66.8%, 64.2% and 58.9% of our total debt securities portfolio as of December 31, 2017, 2018 and 2019, respectively. The debt securities issued by PRC Government increased by 15.8% from RMB83,163.3 million as of December 31, 2017 to RMB96,311.7 million as of December 31, 2018, and further increased by 2.5% to RMB98,743.4 million as of December 31, 2019, primarily due to our adjustment to the asset structure by increasing our investment in debt securities issued by PRC Government, which generally have relatively higher liquidity and lower risk profile.

Debt securities issued by policy banks increased by 20.9% from RMB39,766.5 million as of December 31, 2017 to RMB48,066.2 million as of December 31, 2018, and further increased by 23.5% to RMB59,371.6 million as of December 31, 2019, as we increased investment in debt securities issued by policy banks, which have comparatively higher liquidity and lower risks, based on our investment strategies.

Debt securities issued by commercial banks and other financial institutions increased significantly from RMB248.5 million as of December 31, 2017 to RMB3,570.3 million as of December 31, 2018. Debt securities issued by commercial banks and other financial institutions decreased by 58.0% from RMB3,570.3 million as of December 31, 2018 to RMB1,500.8 million as of December 31, 2019. The changes in such investment primarily reflected our adjustment to the mix of our debt securities portfolio in order to balance returns and risk management.

Debt securities issued by corporate issuers increased by 67.1% from RMB1,251.9 million as of December 31, 2017 to RMB2,091.5 million as of December 31, 2018, which further increased to RMB7,850.1 million as of December 31, 2019, primarily because of our adjustment to the structure of our investment portfolio to increase investment in corporate bonds issued by enterprises with good credit status.

The following table sets forth, as of the dates indicated, the distribution of our debt securities investment by currency.

	As of December 31,					
	2017		2018		2019	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
RMB-denominated debt securities	124,234.9	99.8%	148,973.5	99.3%	161,042.3	96.1%
USD-denominated debt securities	195.3	0.2%	1,066.2	0.7%	6,303.4	3.8%
Other currency-denominated debt securities	–	–	–	–	120.2	0.1%
Total debt securities	**124,430.2**	**100.0%**	**150,039.7**	**100.0%**	**167,465.9**	**100.0%**

The following table sets forth the distribution of our debt securities investment by nature.

	As of December 31,		As of January 1,		As of December 31,			
	2017(1)		2018(2)		2018(2)		2019(2)	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Financial investments measured at amortised cost	N/A	N/A	87,173.1	70.2%	106,994.2	71.3%	111,786.0	66.7%
Financial investments measured at fair value through other comprehensive income	N/A	N/A	36,042.7	29.1%	41,920.0	27.9%	54,874.9	32.8%
Financial investments measured at fair value through profit or loss	486.0	0.4%	825.8	0.7%	1,125.5	0.8%	805.0	0.5%
Available-for-sale financial assets	36,191.1	29.1%	N/A	N/A	N/A	N/A	N/A	N/A
Held-to-maturity investments	87,753.1	70.5%	N/A	N/A	N/A	N/A	N/A	N/A
Total debt securities	**124,430.2**	**100.0%**	**124,041.6**	**100.0%**	**150,039.7**	**100.0%**	**167,465.9**	**100.0%**

Notes:

(1) Measured and recognized in accordance with IAS 39, which we adopted prior to January 1, 2018.

(2) Measured and recognized in accordance with IFRS 9, which we adopted from January 1, 2018. The balances of debt securities investment as of January 1, 2018 under IFRS 9 represent the beginning balances of 2018.

The following table sets forth the balance of our debt securities portfolio by remaining maturity as of the date indicated.

	As of December 31, 2019					
	Due within 3 months	Due between 3 to 12 months	Due over 1 year up to 5 years	Due in more than 5 years	Overdue	Total
	(in millions of RMB)					
Debt securities issued by PRC Government	2,203.7	2,859.5	17,853.2	58,393.3	17,433.7	98,743.4
Debt securities issued by policy banks	1,175.7	1,426.2	13,068.9	40,267.0	3,433.8	59,371.6
Debt securities issued by commercial banks and other financial institutions	–	–	–	1,500.8	–	1,500.8
Debt securities issued by corporate issuers	5.5	9.9	1,187.4	5,947.3	700.0	7,850.1
Total debt securities	**3,384.9**	**4,295.6**	**32,109.5**	**106,108.4**	**21,567.5**	**167,465.9**

The following table sets forth a breakdown of our debt securities investment between fixed interest rates and floating interest rates as of the dates indicated.

	As of December 31,					
	2017		2018		2019	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Fixed interest rates	122,976.2	98.8%	148,558.0	99.0%	166,372.3	99.3%
Floating interest rates	1,454.0	1.2%	1,481.7	1.0%	1,093.6	0.7%
Total debt securities	**124,430.2**	**100.0%**	**150,039.7**	**100.0%**	**167,465.9**	**100.0%**

SPV Investment

Our SPV investment includes investment in trust plans, asset management plans, wealth management products or funds, where we entrust our counterparties to manage our funds. Our counterparties will then provide financing to financing parties/ultimate borrowers or invest our funds in specific investment portfolios. All of the SPV investment we held as of December 31, 2017, 2018 and December 31, 2019 was denominated in Renminbi. For details, please see "Business – Our Principal Businesses – Financial Markets – Investment Management – SPV Investment".

Trust Plans

	As of December 31, 2017[(1)]		As of January 1, 2018[(2)]		As of December 31, 2018[(2)]		As of December 31, 2019[(2)]	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Trust plans								
Financial investments measured at amortised cost . . .	N/A	N/A	116,544.5	97.9%	78,692.0	98.6%	50,758.7	82.4%
Financial investments measured at fair value through other comprehensive income.	N/A	N/A	2,510.4	2.1%	1,146.6	1.4%	8,979.7	14.6%
Financial investments measured at fair value through profit or loss	–	–	–	–	–	–	1,848.2	3.0%
Investments classified as receivables	119,090.1	100.0%	N/A	N/A	N/A	N/A	N/A	N/A
Total	**119,090.1**	**100.0%**	**119,054.9**	**100.0%**	**79,838.6**	**100.0%**	**61,586.6**	**100.0%**

Notes:

(1) Measured and recognized in accordance with IAS 39, which we adopted prior to January 1, 2018.

(2) Measured and recognized in accordance with IFRS 9, which we adopted from January 1, 2018. Such balances as of January 1, 2018 under IFRS 9 represent the beginning balances of 2018.

Through investing in trust plans managed by trust companies, we entrust trust companies to manage our funds, while trust companies provide financing to the financing parties as trustees. Our holding of trust plans decreased by 33.0% from RMB119,090.1 million as of December 31, 2017 to RMB79,838.6 million as of December 31, 2018, which further decreased by 22.9% to RMB61,586.6 million as of December 31, 2019. Such continued decrease was primarily because we adjusted investment portfolio and reduced investment in trust plans in accordance with the regulatory policies issued in recent years regulating the SPV investment.

Asset Management Plans

	As of December 31,		As of January 1,		As of December 31,			
	2017(1)		2018(2)		2018(2)		2019(2)	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Asset management plans								
Financial investments measured at amortised cost	N/A	N/A	117,661.9	96.5%	59,706.8	91.3%	37,054.8	85.5%
Financial investments measured at fair value through other comprehensive income	N/A	N/A	1,092.5	0.9%	1,405.6	2.1%	–	–
Financial investments measured at fair value through profit or loss	–	–	3,193.1	2.6%	4,315.8	6.6%	6,263.0	14.5%
Investments classified as receivables	121,939.2	100.0%	N/A	N/A	N/A	N/A	N/A	N/A
Total	**121,939.2**	**100.0%**	**121,947.5**	**100.0%**	**65,428.2**	**100.0%**	**43,317.8**	**100.0%**

Notes:

(1) Measured and recognized in accordance with IAS 39, which we adopted prior to January 1, 2018.

(2) Measured and recognized in accordance with IFRS 9, which we adopted from January 1, 2018. Such balances as of January 1, 2018 under IFRS 9 represent the beginning balances of 2018.

We entered into asset management contracts with quality securities companies and other asset management institutions who then invest our funds in specified products, primarily fixed-income credit assets and debt securities, through our designated accounts with third-party custodian banks. Our holding of asset management plans decreased by 46.3% from RMB121,939.2 million as of December 31, 2017 to RMB65,428.2 million as of December 31, 2018, which further decreased by 33.8% to RMB43,317.8 million as of December 31, 2019, primarily due to our adjustment to the mix of our investment portfolio to reduce investment in asset management plans according to the PRC regulatory policies regulating the SPV investment.

Wealth Management Products Issued by Other Banks

	As of December 31,		As of January 1,		As of December 31,			
	2017(1)		2018(2)		2018(2)		2019(2)	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Wealth management products								
Financial investments measured at fair value through profit or loss	–	–	39,457.9	100.0%	3,039.0	100.0%	–	–
Investments classified as receivables	39,552.5	100.0%	N/A	N/A	N/A	N/A	N/A	N/A
Total	**39,552.5**	**100.0%**	**39,457.9**	**100.0%**	**3,039.0**	**100.0%**	**–**	**–**

Notes:

(1) Measured and recognized in accordance with IAS 39, which we adopted prior to January 1, 2018.

(2) Measured and recognized in accordance with IFRS 9, which we adopted from January 1, 2018. Such balances as of January 1, 2018 under IFRS 9 represent the beginning balances of 2018.

Our holding of wealth management products issued by other banks decreased significantly from RMB39,552.5 million as of December 31, 2017 to RMB3,039.0 million as of December 31, 2018, as we reduced our investment in wealth management products in response to the relevant regulatory policies issued by CBIRC. Our holding of wealth management products issued by other banks further decreased to nil as of December 31, 2019, because we did not invest in new wealth management products issued by other banks in 2019, and the existing wealth management products held by us gradually matured.

The following table sets forth a breakdown of our balance of the wealth management products issued by other banks in which we invested by category as of the dates indicated.

	As of December 31,		
	2017	2018	2019
	Amount	Amount	Amount
	(in millions of RMB)		
Principal-protected	800.0	–	–
Non-principal protected	38,752.5	3,039.0	–
Balance of wealth management products	**39,552.5**	**3,039.0**	**–**

Funds

	As of December 31, 2017(1)		As of January 1, 2018(2)		As of December 31, 2018(2)		As of December 31, 2019(2)	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Funds								
Financial investments measured at fair value through profit or loss	12,374.9	100.0%	12,374.9	100.0%	14,280.4	100.0%	25,480.8	100.0%
Total	**12,374.9**	**100.0%**	**12,374.9**	**100.0%**	**14,280.4**	**100.0%**	**25,480.8**	**100.0%**

Notes:

(1) Measured and recognized in accordance with IAS 39, which we adopted prior to January 1, 2018.

(2) Measured and recognized in accordance with IFRS 9, which we adopted from January 1, 2018. Such balances as of January 1, 2018 under IFRS 9 represent the beginning balances of 2018.

The funds we hold include monetary funds and bond funds. Our holding of funds increased by 15.4% from RMB12,374.9 million as of December 31, 2017 to RMB14,280.4 million as of December 31, 2018, and further increased by 78.4% to RMB25,480.8 million as of December 31, 2019. The continued increase in our holding of funds was primarily due to our increased investment in funds based on market conditions to achieve relatively stable income and improve asset liquidity.

Distribution of Investment in Trust Plans and Asset Management Plans by Industry

The following table sets forth, as of December 31, 2019, the distribution of our investment in trust plans and asset management plans by industry.

	As of December 31, 2019			
	Trust plans	Asset management plans	Total	% of total
	(in millions of RMB, except for percentages)			
Real estate	38,759.9	7,713.6	46,473.5	44.3%
Finance	7,308.6	14,923.0	22,231.6	21.2%
Lease and business services	9,351.0	12,073.3	21,424.3	20.4%
Water conservancy, environment and public facilities management	1,074.7	1,542.0	2,616.7	2.5%
Wholesale and retail	1,948.2	119.0	2,067.2	2.0%
Construction	–	2,000.0	2,000.0	1.9%
Scientific research and technical services	900.0	978.9	1,878.9	1.8%
Transportations and communications, storage and post	–	1,854.0	1,854.0	1.8%
Information transfer, software and IT services	1,380.0	–	1,380.0	1.3%
Manufacturing	765.1	608.9	1,374.0	1.3%
Accommodation and catering	–	1,140.1	1,140.1	1.1%
Production and supply of electricity, heat, gas and water	99.1	365.0	464.1	0.4%
Total investment in trust plans and asset management plans	**61,586.6**	**43,317.8**	**104,904.4**	**100.0%**

Distribution of SPV Investment by Underlying Assets

The following table sets forth the breakdown of our SPV investment by their underlying assets as of December 31, 2019.

	As of December 31, 2019				
	Trust plans	Asset management plans	Funds	Total	% of total
	(in millions of RMB, except for percentages)				
Debt securities	–	13,400.9	–	13,400.9	10.3%
Fixed-income credit assets	54,263.3	23,653.9	–	77,917.2	59.8%
Others[1]	7,323.3	6,263.0	25,480.8	39,067.1	29.9%
Total SPV investment	**61,586.6**	**43,317.8**	**25,480.8**	**130,385.2**	**100.0%**

Note:

(1) Represents the portfolio which is managed by securities companies and trust companies and other companies on a discretionary basis, primary including bond repurchase, bank deposits and interbank investment.

Distribution of SPV Investment by Security Type

According to relevant agreements we entered into, certain financing parties, third parties or guarantors are requested to provide security for the payment of principal and interest of our SPV investment. The following table sets forth the breakdown of our SPV investment by security type as of the dates indicated.

	As of December 31,																
	2017						2018						2019				
	Trust plans	Asset management plans	Wealth management products[1]	Funds	Total	% of total	Trust plans	Asset management plans	Wealth management products[1]	Funds	Total	% of total	Trust plans	Asset management plans	Funds	Total	% of total
	(in millions of RMB, except percentages)																
Pledge[2]																	
Pledged with equity interests in listed companies	350.0	2,466.7	–	–	2,816.7	1.0%	3,156.9	1,246.4	–	–	4,403.3	2.7%	3,245.0	1,309.4	–	4,554.4	3.5%
Pledged with equity interests in unlisted companies	1,056.3	253.0	–	–	1,309.3	0.4%	381.4	3,181.4	–	–	3,562.8	2.2%	1,439.5	2,667.4	–	4,106.9	3.1%
Pledged with certificate of deposits or receivables	1,214.6	9,305.8	–	–	10,520.4	3.6%	1,096.5	2,540.7	–	–	3,637.2	2.2%	–	350.0	–	350.0	0.3%
Subtotal	**2,620.9**	**12,025.5**	**–**	**–**	**14,646.4**	**5.0%**	**4,634.8**	**6,968.5**	**–**	**–**	**11,603.3**	**7.1%**	**4,684.5**	**4,326.8**	**–**	**9,011.3**	**6.9%**
Collateral[2]																	
Collateralized with real estate or land	77,489.0	47,018.6	–	–	124,507.6	42.5%	44,261.0	17,814.9	–	–	62,075.9	38.2%	35,785.4	8,329.0	–	44,114.4	33.8%
Subtotal	**77,489.0**	**47,018.6**	**–**	**–**	**124,507.6**	**42.5%**	**44,261.0**	**17,814.9**	**–**	**–**	**62,075.9**	**38.2%**	**35,785.4**	**8,329.0**	**–**	**44,114.4**	**33.8%**
Guarantee[2]																	
Guarantee from unlisted companies	20,770.9	38,466.5	–	–	59,237.4	20.2%	14,330.2	21,600.0	–	–	35,930.2	22.1%	5,467.0	10,441.0	–	15,908.0	12.2%
Guarantee from listed companies	6,430.0	10,828.7	800.0	–	18,058.7	6.2%	4,454.8	4,319.0	–	–	8,773.8	5.4%	350.0	785.9	–	1,135.9	0.9%
Subtotal	**27,200.9**	**49,295.2**	**800.0**	**–**	**77,296.1**	**26.4%**	**18,785.0**	**25,919.0**	**–**	**–**	**44,704.0**	**27.5%**	**5,817.0**	**11,226.9**	**–**	**17,043.9**	**13.1%**
Unsecured	**11,779.3**	**13,599.9**	**38,752.5**	**12,374.9**	**76,506.6**	**26.1%**	**12,157.8**	**14,725.8**	**3,039.0**	**14,280.4**	**44,203.0**	**27.2%**	**15,299.7**	**19,435.1**	**25,480.8**	**60,215.6**	**46.2%**
Total SPV investment	**119,090.1**	**121,939.2**	**39,552.5**	**12,374.9**	**292,956.7**	**100.0%**	**79,838.6**	**65,428.2**	**3,039.0**	**14,280.4**	**162,586.2**	**100.0%**	**61,586.6**	**43,317.8**	**25,480.8**	**130,385.2**	**100.0%**

Notes:

(1) Refer to wealth management products issued by other banks.

(2) Represent the total amount of SPV investment fully or partially secured by collateral, pledges or guarantee in each category. If the SPV investment is secured by more than one form of security interest, the categorization is based on the primary form of security interest.

Our investment-to-value ratio refers to an indicator that compares the size of financial investments to the value of the collaterals or pledges securing the investments. As of December 31, 2017, 2018 and 2019, the investment-to-value ratio for our investment in trust plans secured by pledges was 75.7%, 62.0% and 79.7% respectively. As of the same dates, the investment-to-value ratio for our investment in trust plans secured by collaterals was 27.5%, 20.5% and 33.4%, respectively. As of December 31, 2017, 2018 and 2019, the investment-to-value ratio for our investment in asset management plans secured by pledges was 13.5%, 12.6% and 22.0%, respectively. As of the same dates, the investment-to-value ratio for our investment in asset management plans secured by collaterals was 41.2%, 28.8% and 30.7%, respectively.

As of December 31, 2017, 2018 and 2019, unsecured SPV investment amounted to RMB76,506.6 million, RMB44,203.0 million and RMB60,215.6 million, respectively, representing 26.1%, 27.2% and 46.2%, respectively, of our total SPV investment. As of December 31, 2019, our unsecured SPV investment experienced an increase as compared to that as of December 31, 2018, mainly due to our increased investment in funds and NAV-measured asset management plans according to our liquidity management and investment strategies. The ultimate borrowers for the underlying assets of our unsecured SPV investment are companies which we believe have strong business and operational capability, repayment ability, sufficient repayment sources, core competitiveness in their respective industries or markets and companies with strong financing capabilities. For details, see "Risk Management – Credit Risk Management – Credit Risk Management for Our Financial Market Business – Credit Risk Management for Debt Securities Investment and SPV Investment".

Distribution of Allowance for Impairment Losses on SPV Investment by Security Type

The following table sets forth our allowance for impairment losses on SPV investment by security type as of the dates indicated.

	As of December 31,					
	2017		2018		2019	
	SPV Investment	Impairment allowance	SPV Investment	Impairment allowance	SPV Investment	Impairment allowance
	(in millions of RMB)					
Pledge	14,646.4	67.6	11,603.3	191.5	9,011.3	432.3
Collateral	124,507.6	2,362.5	62,075.9	1,571.4	44,114.4	1,390.6
Guarantee	77,296.1	1,700.6	44,704.0	1,636.9	17,043.9	1,039.5
Unsecured	76,506.6	523.7	44,203.0	401.4	60,215.6	1,067.1
Total allowance for SPV investment	**292,956.7**	**4,654.4**	**162,586.2**	**3,801.2**	**130,385.2**	**3,929.5**

Equity Investment

The following table sets forth the distribution of our equity investment by nature.

	As of December 31, 2017[1]		As of January 1, 2018[2]		As of December 31, 2018[2]		As of December 31, 2019[2]	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)							
Financial investments measured at fair value through other comprehensive income	N/A	N/A	200.0	65.7%	200.0	31.6%	200.0	9.8%
Financial investments measured at fair value through profit or loss	–	–	104.6	34.3%	432.4	68.4%	1,841.3	90.2%
Available-for-sale financial assets	304.6	100.0%	N/A	N/A	N/A	N/A	N/A	N/A
Total equity investment	**304.6**	**100.0%**	**304.6**	**100.0%**	**632.4**	**100.0%**	**2,041.3**	**100.0%**

Notes:

(1) Measured and recognized in accordance with IAS 39, which we adopted prior to January 1, 2018.

(2) Measured and recognized in accordance with IFRS 9, which we adopted from January 1, 2018. The balances of equity investment as of January 1, 2018 under IFRS 9 represent the beginning balances of 2018.

Our equity investment consist of Renminbi-denominated listed and unlisted equity investments, including equity investments we obtained through active investment or debt restructuring. Our equity investment amounted to RMB304.6 million, RMB632.4 million and RMB2,041.3 million as of December 31, 2017, 2018 and 2019, respectively.

Investment Concentration

The table below sets forth the ten largest holdings of financial investments as of the date indicated.

	As of December 31, 2019			
	Carrying value	% of total financial investments	% of total equity	% of net capital base
	(in millions of RMB, except percentage)			
Investment A	4,784.2	1.6%	5.8%	4.7%
Investment B	3,950.0	1.3%	4.8%	3.9%
Investment C	3,893.5	1.3%	4.7%	3.8%
Investment D	3,504.6	1.2%	4.2%	3.5%
Investment E	3,277.8	1.1%	4.0%	3.2%
Investment F	3,200.0	1.1%	3.9%	3.2%
Investment G	3,200.0	1.1%	3.9%	3.2%
Investment H	3,138.0	1.0%	3.8%	3.1%
Investment I.	3,125.0	1.0%	3.8%	3.1%
Investment J	3,108.7	1.0%	3.8%	3.1%
Total	**35,181.8**	**11.7%**	**42.7%**	**34.8%**

Concentration of Investment in Trust Plans

The following table sets forth the five largest end borrowers under our trust plans as of the dates indicated.

	As of December 31, 2017				
	Industry	Background	Place of incorporation	Amount	% of investment in trust plans
	(in millions of RMB, except percentages)				
Trust plan borrower A	Lease and business services	State-owned	Hohhot, Inner Mongolia	4,030.3	3.4%
Trust plan borrower B	Real estate	State-owned	Nanjing, Jiangsu	3,661.7	3.1%
Trust plan borrower C	Real estate	Private	Beijing	2,883.5	2.4%
Trust plan borrower D	Real estate	Private	Shanghai	2,411.9	2.0%
Trust plan borrower E	Real estate	State-owned	Tianjin	2,377.6	2.0%
Total				**15,365.0**	**12.9%**

	As of December 31, 2018				
	Industry	Background	Place of incorporation	Amount	% of investment in trust plans
	(in millions of RMB, except percentages)				
Trust plan borrower A	Lease and business services	State-owned	Hohhot, Inner Mongolia	4,890.2	6.1%
Trust plan borrower B	Real estate	State-owned	Nanjing, Jiangsu	2,143.7	2.7%
Trust plan borrower F	Real estate	Private	Taiyuan, Shanxi	2,135.8	2.7%
Trust plan borrower E	Real estate	State-owned	Tianjin	1,988.1	2.5%
Trust plan borrower G	Real estate	Private	Tianjin	1,750.0	2.2%
Total				**12,907.8**	**16.2%**

	As of December 31, 2019				
	Industry	Background	Place of incorporation	Amount	% of investment in trust plans
	(in millions of RMB, except percentages)				
Trust plan borrower H	Real estate	State-owned	Shenzhen, Guangdong	3,504.6	5.7%
Trust plan borrower I	Real estate	Private	Beijing	3,200.0	5.2%
Trust plan borrower J	Real estate	Private	Beijing	3,200.0	5.2%
Trust plan borrower A	Lease and business services	State-owned	Hohhot, Inner Mongolia	2,501.5	4.1%
Trust plan borrower K	Finance	State-owned	Chengdu, Sichuan	2,200.9	3.6%
Total				**14,607.0**	**23.8%**

The following table sets forth the five largest counterparties of our trust plans as of the dates indicated.

	As of December 31, 2017						
	Type of enterprise	Background	Total assets as of December 31, 2017[1]	Regulatory ratings/ Credit ratings	Place of incorporation	Amount	% of investment in trust plans
	(in millions of RMB, except percentages)						
Trust plan counterparty A	Trust company	State-owned	36,235.4	A-	Beijing	35,164.9	29.5%
Trust plan counterparty B	Trust company	State-owned	6,196.3	A-	Beijing	26,655.6	22.4%
Trust plan counterparty C	Trust company	State-owned	11,799.6	A-	Xining, Qinghai	18,275.0	15.3%
Trust plan counterparty D	Trust company	State-owned	17,164.3	A	Chengdu, Sichuan	14,832.6	12.5%
Trust plan counterparty E	Trust company	Private	6,589.8	BBB+	Chongqing	11,835.0	9.9%
Total						**106,763.1**	**89.6%**

	As of December 31, 2018						
	Type of enterprise	Background	Total assets as of December 31, 2018[1]	Regulatory ratings/ Credit ratings	Place of incorporation	Amount	% of investment in trust plans
	(in millions of RMB, except percentages)						
Trust plan counterparty A	Trust company	State-owned	37,912.5	A-	Beijing	26,889.6	33.7%
Trust plan counterparty C	Trust company	State-owned	16,509.0	A-	Xining, Qinghai	14,455.4	18.1%
Trust plan counterparty B	Trust company	State-owned	7,110.9	A-	Beijing	9,396.4	11.8%
Trust plan counterparty E	Trust company	Private	7,783.8	BBB+	Chongqing	8,782.6	11.0%
Trust plan counterparty D	Trust company	State-owned	17,954.8	A	Chengdu, Sichuan	3,033.2	3.8%
Total						**62,557.2**	**78.4%**

	As of December 31, 2019						
	Type of enterprise	Background	Total assets as of December 31, 2019	Regulatory ratings/ Credit ratings	Place of incorporation	Amount	% of investment in trust plans
	(in millions of RMB, except percentages)						
Trust plan counterparty A	Trust company	State-owned	N/A[2]	A-	Beijing	20,753.4	33.7%
Trust plan counterparty D	Trust company	State-owned	N/A[2]	A	Chengdu, Sichuan	11,136.4	18.1%
Trust plan counterparty F	Trust company	State-owned	N/A[2]	N/A[2]	Lanzhou, Gansu	4,937.0	8.0%
Trust plan counterparty C	Trust company	State-owned	N/A[2]	A-	Xining, Qinghai	4,910.0	8.0%
Trust plan counterparty G	Trust company	State-owned	N/A[2]	N/A[2]	Xiamen, Fujian	3,580.0	5.8%
Total						**45,316.8**	**73.6%**

Notes:

(1) Source: each company's annual report.

(2) There is no publicly available and reliable information as of the Latest Practicable Date.

Concentration of Investment in Asset Management Plans

The following table sets forth the five largest end borrowers under our asset management plans as of the dates indicated.

	As of December 31, 2017				
	Industry	Background	Place of incorporation	Amount	% of investment in asset management plans
	(in millions of RMB, except percentages)				
Asset management plan borrower A	Real estate	Private	Dalian, Liaoning	3,741.2	3.1%
Asset management plan borrower B	Finance	Private	Hangzhou, Zhejiang	3,176.7	2.6%
Asset management plan borrower C	Real estate	State-owned	Tianjin	2,587.4	2.1%
Asset management plan borrower D	Water conservancy, environment and public facilities management	State-owned	Tianjin	2,500.0	2.1%
Asset management plan borrower E	Real estate	State-owned	Beijing	2,237.9	1.8%
Total				**14,243.2**	**11.7%**

	As of December 31, 2018				
	Industry	Background	Place of incorporation	Amount	% of investment in asset management plans
	(in millions of RMB, except percentages)				
Asset management plan borrower F	Finance	State-owned	Beijing	3,695.0	5.6%
Asset management plan borrower C	Real estate	State-owned	Tianjin	3,500.0	5.3%
Asset management plan borrower G	Lease and business services	State-owned	Tianjin	2,500.0	3.8%
Asset management plan borrower H	Finance	State-owned	Shenzhen, Guangdong	2,344.5	3.6%
Asset management plan borrower I	Lease and business services	Private	Tianjin	2,000.0	3.1%
Total				**14,039.5**	**21.4%**

	As of December 31, 2019				
	Industry	Background	Place of incorporation	Amount	% of investment in asset management plans
	(in millions of RMB, except percentages)				
Asset management plan borrower F	Finance	State-owned	Beijing	3,950.0	9.1%
Asset management plan borrower H	Finance	State-owned	Shenzhen, Guangdong	3,138.0	7.2%
Asset management plan borrower J	Finance	State-owned	Beijing	3,125.0	7.2%
Asset management plan borrower K	Finance	State-owned	Beijing	2,731.8	6.3%
Asset management plan borrower G	Lease and business services	State-owned	Tianjin	2,500.0	5.8%
Total				**15,444.8**	**35.6%**

The following table sets forth the five largest counterparties for our asset management plans as of the dates indicated.

As of December 31, 2017

	Type of enterprise	Background	Total assets as of December 31, 2017[1]	Regulatory ratings/ Credit ratings	Place of incorporation	Amount	% of investment in asset management plans
	(in millions of RMB, except percentages)						
Asset management plan counterparty A	Securities company	State-owned	299,943.3	A	Shanghai	50,369.2	41.3%
Asset management plan counterparty B	Securities company	State-owned	625,574.6	AA	Shenzhen, Guangdong	15,726.5	12.9%
Asset management plan counterparty C	Asset management company	State-owned	N/A[2]	N/A[2]	Shenzhen, Guangdong	9,815.2	8.0%
Asset management plan counterparty D	Securities company	State-owned	20,676.0	BB	Beijing	7,430.2	6.1%
Asset management plan counterparty E	Securities company	Private	42,093.2	A	Chengdu, Sichuan	6,231.0	5.1%
Total						**89,572.1**	**73.4%**

As of December 31, 2018

	Type of enterprise	Background	Total assets as of December 31, 2018[1]	Regulatory ratings/ Credit ratings	Place of incorporation	Amount	% of investment in asset management plans
	(in millions of RMB, except percentages)						
Asset management plan counterparty A	Securities company	State-owned	347,725.0	A	Shanghai	24,368.7	37.2%
Asset management plan counterparty B	Securities company	State-owned	653,132.7	AA	Shenzhen, Guangdong	18,631.9	28.5%
Asset management plan counterparty C	Asset management company	State-owned	N/A[2]	N/A[2]	Shanghai	5,238.0	8.0%
Asset management plan counterparty F	Securities company	State-owned	195,082.3	AA	Beijing	3,821.3	5.8%
Asset management plan counterparty G	Securities company	State-owned	211,813.6	AA	Shenzhen, Guangdong	3,740.7	5.7%
Total						**55,800.6**	**85.2%**

As of December 31, 2019

	Type of enterprise	Background	Total assets as of December 31, 2019[1]	Regulatory ratings/ Credit ratings	Place of incorporation	Amount	% of investment in asset management plans
	(in millions of RMB, except percentages)						
Asset management plan counterparty B	Securities company	State-owned	N/A[2]	AA	Shenzhen, Guangdong	20,991.3	48.5%
Asset management plan counterparty A	Securities company	State-owned	N/A[2]	A	Shanghai	10,521.5	24.3%
Asset management plan counterparty F	Asset management company	State-owned	N/A[2]	AA	Beijing	3,125.0	7.2%
Asset management plan counterparty G	Securities company	State-owned	N/A[2]	AA	Shenzhen, Guangdong	2,400.0	5.5%
Asset management plan counterparty H	Securities company	State-owned	N/A[2]	N/A[2]	Shenzhen, Guangdong	1,800.0	4.2%
Total						**38,837.8**	**89.7%**

Notes:

(1) Source: each company's annual reports.

(2) There is no publicly available and reliable information as of the Latest Practicable Date.

Concentration of Investment in Wealth Management Products Issued by Other Banks

The following table sets forth the five largest counterparties for our investment in wealth management products issued by other banks as of the dates indicated.

	As of December 31, 2017					
	Type of enterprise	**Total assets as of December 31, 2017[1]**	**Regulatory ratings/ Credit ratings**	**Place of incorporation**	**Amount**	**% of investment in wealth management products[2]**
	(in millions of RMB, except percentages)					
Bank A	Nationwide Joint-stock Commercial Bank	N/A[3]	A-	Jinan, Shandong	30,589.2	77.3%
Bank B	City commercial bank	701,913.5	AA-	Tianjin	5,018.9	12.7%
Bank C	City commercial bank	735,713.6	AA-	Guangzhou	3,144.5	8.0%
Bank D	Nationwide Joint-stock Commercial Bank	5,677,691.0	AA+	Beijing	800.0	2.0%
Total					**39,552.6**	**100.0%**

	As of December 31, 2018					
	Type of enterprise	**Total assets as of December 31, 2018[1]**	**Regulatory ratings/ Credit ratings**	**Place of incorporation**	**Amount**	**% of investment in wealth management products[2]**
	(in millions of RMB, except percentages)					
Bank B	City commercial bank	659,339.9	AA-	Tianjin	3,039.0	100.0%
Total					**3,039.0**	**100.0%**

Notes:

(1) Source: each company's annual reports.

(2) Refer to wealth management products issued by other banks.

(3) There is no publicly available and reliable information as of the Latest Practicable Date.

Concentration of Investment in Funds

The following table sets forth the five largest counterparties for our investment in funds as of the dates indicated.

	As of December 31, 2017						
	Type of enterprise	Background	Total assets as of December 31, 2017[1]	Regulatory ratings/ Credit ratings	Place of incorporation	Amount	% of investment in funds
	(in millions of RMB, except percentages)						
Fund investment counterparty A	Fund company	State-owned	N/A[2]	BBB	Shanghai	2,029.7	16.4%
Fund investment counterparty B[3]	Fund company	State-owned	N/A[2]	BBB+	Shanghai	1,808.2	14.6%
Fund investment counterparty C[3]	Fund company	State-owned	1,010.0	BBB+	Beijing	1,808.2	14.6%
Fund investment counterparty D[3]	Fund company	State-owned	8,072.9	BBB	Shenzhen, Guangdong	1,808.2	14.6%
Fund investment counterparty E [3]	Fund company	State-owned	9,464.2	A	Beijing	1,808.2	14.6%
Fund investment counterparty F[3]	Fund company	State-owned	1,048.0	A+	Shanghai	1,808.2	14.6%
Total						**11,070.7**	**89.4%**

	As of December 31, 2018						
	Type of enterprise	Background	Total assets as of December 31, 2018[1]	Regulatory ratings/ Credit ratings	Place of incorporation	Amount	% of investment in funds
	(in millions of RMB, except percentages)						
Fund investment counterparty D	Fund company	State-owned	7,826.8	BBB	Shenzhen, Guangdong	1,878.4	13.2%
Fund investment counterparty B	Fund company	State-owned	N/A[2]	BBB+	Shanghai	1,876.6	13.1%
Fund investment counterparty E	Fund company	State-owned	10,341.7	A	Beijing	1,880.8	13.2%
Fund investment counterparty F	Fund company	State-owned	3,297.0	A+	Shanghai	1,877.1	13.1%
Fund investment counterparty C	Fund company	State-owned	N/A[2]	BBB+	Beijing	1,876.9	13.1%
Total						**9,389.8**	**65.7%**

	As of December 31, 2019						
	Type of enterprise	Background	Total assets as of December 31, 2019	Regulatory ratings/ Credit ratings	Place of incorporation	Amount	% of investment in funds
	(in millions of RMB, except percentages)						
Fund investment counterparty B	Fund company	State-owned	8,700.0	BBB+	Shanghai	4,172.6	16.4%
Fund investment counterparty D	Fund company	State-owned	9,435.0	BBB	Shenzhen, Guangdong	3,659.6	14.4%
Fund investment counterparty C	Fund company	State-owned	1,297.0	BBB+	Beijing	3,037.2	11.9%
Fund investment counterparty G	Fund company	Private	1,973.4	A-	Shenzhen, Guangdong	2,529.1	9.9%
Fund investment counterparty F	Fund company	State-owned	3,609.0	A+	Shanghai	1,928.9	7.6%
Total						**15,327.4**	**60.2%**

Notes:

(1) Source: each company's annual reports.

(2) There is no publicly available and reliable information as of the Latest Practicable Date.

(3) Each of these five companies was the second largest counterparty for our investment in funds as of December 31, 2017.

Other Components of Our Assets

Other components of our assets consist primarily of (i) cash and deposits with the central bank, (ii) deposits with banks and other financial institutions, (iii) placements with banks and other financial institutions, (iv) derivative financial assets, (v) financial assets held under resale agreements, (vi) property and equipment, (vii) deferred tax assets and (viii) other assets.

Cash and deposits with the central bank consist primarily of cash, statutory deposit reserves, surplus deposit reserves and fiscal deposits. The statutory deposit reserve represents the minimum level of cash deposits that we are required to maintain with the PBoC. For details, please see the section headed "Supervision and Regulation – Required Deposit Reserve". Surplus deposit reserves are deposits with the PBoC in excess of statutory deposit reserves which we maintain for clearing purposes. Our cash and deposits with the central bank increased by 17.4% from RMB105,000.3 million as of December 31, 2017 to RMB123,250.0 million as of December 31, 2018, which was in line with the increase in our deposits from customers. Compared with that as of December 31, 2018, our cash and deposits with the central bank decreased by 24.5% to RMB93,013.7 million as of December 31, 2019, mainly because the statutory deposit reserve ratio lowered in 2019 and our surplus deposit reserves decreased in the end of 2019 due to our efforts in improving the efficiency of the use of funds.

Deposits with banks and other financial institutions refers to the amounts we maintained with other commercial banks. Our deposits with banks and other financial institutions increased significantly from RMB8,722.8 million as of December 31, 2017 to RMB25,923.1 million as of December 31, 2018, mainly due to our increased time deposits with other commercial banks for higher returns. Compared to that as of December 31, 2018, our deposits with banks and other financial institutions decreased by 45.8% to RMB14,051.6 million as of December 31, 2019, primarily attributable to our allocation of the funds on other assets when certain deposits with banks and other financial institutions became due in 2019. In May 2019, PBoC and the CBIRC took over control of Baoshang Bank Co., Ltd. due to severe credit risk concerns over its operations. As of December 31, 2019, we had RMB157.7 million of interbank deposits with Baoshang Bank Co., Ltd., representing 1.1% of our deposits with banks and other financial institutions. Please see "Risk Factors – Risks Relating to the PRC Banking Industry – We are subject to credit risks associated with interbank business" for discussions on the relevant risks, and see "Risk Management – Credit Risk Management – Credit Risk Management for Our Financial Market Business – Credit Risk Management for Interbank Market Transactions" for our interbank credit control mechanism.

The following table sets forth a breakdown of our deposits with banks and other financial institutions by the type of counterparties as of the dates indicated.

	As of December 31,					
	2017		2018		2019	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Domestic						
Large Commercial Banks	2,200.4	25.3%	3,390.2	13.1%	7,018.7	49.5%
Nationwide Joint-stock Commercial Banks	402.6	4.6%	152.8	0.6%	332.7	2.3%
City commercial banks	10.5	0.1%	14,418.7	55.8%	1,496.3	10.5%
Rural commercial banks	–	–	2,200.0	8.5%	60.0	0.4%
Other banks(1)	737.9	8.4%	2,432.0	9.4%	2,023.6	14.3%
Deposits with domestic banks	**3,351.4**	**38.4%**	**22,593.7**	**87.4%**	**10,931.3**	**77.0%**
Overseas						
Banks(2)	5,371.4	61.6%	3,263.3	12.6%	3,257.5	23.0%
Deposits with overseas banks	**5,371.4**	**61.6%**	**3,263.3**	**12.6%**	**3,257.5**	**23.0%**
Gross deposits with banks	**8,722.8**	**100.0%**	**25,857.0**	**100.0%**	**14,188.8**	**100.0%**
Interest accrued	–		107.0		43.4	
Less: Allowance for impairment losses	–		(40.9)		(180.6)	
Total	**8,722.8**		**25,923.1**		**14,051.6**	

Notes:

(1) Consist of private banks.

(2) Consist primarily of certain banks whose headquarters or relevant branches are located in the United States, Germany, Luxembourg, Canada or Hong Kong.

During our course of business operation, we may lend funds to banks and other financial institutions through the lending market taking into account various factors including interbank interest rates, market demand and our liquidity status. As of December 31, 2017, 2018 and 2019, our placements with banks and other financial institutions was RMB10,168.0 million, RMB2,059.1 million and RMB4,410.8 million, respectively.

The following table sets forth a breakdown of our placements with banks and other financial institutions by the type of counterparties as of the dates indicated.

	As of December 31,					
	2017		2018		2019	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Domestic						
Large Commercial Banks	1,952.7	19.2%	344.1	17.3%	–	–
Nationwide Joint-stock Commercial Banks	2,278.2	22.4%	–	–	1,002.6	22.8%
City commercial banks	650.9	6.4%	–	–	348.1	7.9%
Rural commercial banks	455.6	4.5%	–	–	–	–
Other banking financial institutions[1]	3,504.5	34.5%	1,650.0	82.7%	3,050	69.3%
Non-bank financial institutions	1,000.6	9.8%	–	–	–	–
Placements with domestic banks and other financial institutions	**9,842.5**	**96.8%**	**1,994.1**	**100.0%**	**4,400.7**	**100.0%**
Overseas						
Banks[2]	325.5	3.2%	–	–	–	–
Placements with overseas banks	**325.5**	**3.2%**	**–**	**–**	**–**	**–**
Gross placements with banks and other financial institutions	**10,168.0**	**100.0%**	**1,994.1**	**100.0%**	**4,400.7**	**100.0%**
Interest accrued	–		69.2		19.0	
Less: Allowance for impairment losses	–		(4.2)		(8.9)	
Total	**10,168.0**		**2,059.1**		**4,410.8**	

Notes:

(1) Include policy banks, foreign-funded banks and other banking financial institutions.

(2) Consist of a bank whose relevant branch is located in Hong Kong.

Our derivative financial assets consist primarily of interest rate swaps, exchange rate swaps, exchange rate forwards, precious metal derivatives and option contracts. As of December 31, 2017, 2018 and 2019, our derivative financial assets was RMB198.1 million, RMB393.4 million and RMB158.7 million, respectively.

Financial assets held under resale agreements consist of debt securities held under resale agreements. Our financial assets held under resale agreements increased from nil as of December 31, 2017 to RMB10,571.0 million as of December 31, 2018, primarily due to our increased financial assets held under resale agreements according to our liquidity management requirements. Our financial assets held under resale agreements decreased by 82.5% to RMB1,850.3 million as of December 31, 2019, mainly reflecting our adjustment of the scale of financial assets held under resale transactions based on our liquidity position.

Our property and equipment decreased by 3.0% from RMB4,039.9 million as of December 31, 2017 to RMB3,917.3 million as of December 31, 2018, which further decreased slightly by 2.9% to RMB3,804.2 million as of December 31, 2019, mainly due to the normal depreciation of our property and equipment resulting in a decrease in their book value.

Our deferred tax assets amounted to RMB4,829.4 million as of December 31, 2017. We have adopted IFRS 9 since January 1, 2018. As of January 1, 2018, our deferred tax assets decreased to RMB4,583.6 million under IFRS 9, primarily due to a decrease in the changes of fair value of relevant assets as a result of the reclassification of financial investments under IFRS 9. For details, see Note 23 of the Accountants' Report in Appendix I to this prospectus. Under IFRS 9, our deferred tax assets increased to RMB5,065.9 million as of December 31, 2018, which further increased by 25.6% to RMB6,365.1 million as of December 31, 2019. The increase was primarily due to an increase in our allowance for impairment losses.

Our other assets consist primarily of interest receivable, land use rights, prepayments and right-of-use assets. Our other assets decreased by 68.4% from RMB7,094.5 million as of December 31, 2017 to RMB2,238.4 million as of December 31, 2018, mainly attributable to the decreased interest receivables, because pursuant to the Notice of Issuing the Amended Formats of Financial Statements of Financial Enterprises for 2018 (《關於修訂印發2018年度金融企業財務報表格式的通知》) issued by the MOF in December 2018, interest accrued on financial instruments measured based on the effective interest rate method should be included in the book balance of relevant financial instruments and no longer be included in the "interest receivable" on the financial statements. Our other assets increased to RMB5,689.6 million as of December 31, 2019, mainly reflecting the recognition of right-of-use assets of RMB3,920.9 million as of December 31, 2019 as a result of the adoption of IFRS 16 in 2019.

LIABILITIES AND SOURCES OF FUNDS

Our total liabilities increased by 2.6% from RMB954,101.7 million as of December 31, 2017 to RMB978,592.2 million as of December 31, 2018, mainly attributable to increases in our deposits from customers, debt securities issued by us and financial assets sold under repurchase agreements. Our total liabilities further increased by 5.7% to RMB1,034,291.4 million as of December 31, 2019, primarily due to increases in our deposits from customers and borrowing from the central bank.

The following table sets forth the components of our total liabilities as of the dates indicated.

	As of December 31,					
	2017(1)		2018(2)		2019(2)	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Deposits from customers	582,103.3	61.0%	606,701.4	62.0%	647,764.6	62.6%
Deposits from banks and other financial institutions	151,789.2	15.9%	69,587.9	7.1%	78,547.4	7.6%
Placements from banks and other financial institutions	37,837.2	4.0%	19,535.0	2.0%	21,500.2	2.1%
Financial assets sold under repurchase agreements	2,213.8	0.2%	22,363.8	2.3%	23,069.1	2.2%
Derivative financial liabilities	2,109.8	0.2%	140.6	0.0%	171.8	0.0%
Debt securities issued	138,415.2	14.5%	218,679.0	22.3%	196,603.8	19.0%
Borrowing from the central bank	24,000.0	2.5%	28,595.8	2.9%	46,905.6	4.5%
Income tax payable	1,971.0	0.2%	397.7	0.0%	1,888.0	0.2%
Other liabilities(3)	13,662.2	1.5%	12,591.0	1.4%	17,840.9	1.8%
Total liabilities	**954,101.7**	**100.0%**	**978,592.2**	**100.0%**	**1,034,291.4**	**100.0%**

Notes:

(1) IAS 39 was adopted prior to January 1, 2018.

(2) IFRS 9 was adopted from January 1, 2018.

(3) Other liabilities consist primarily of interests payable, accrued staff cost, payment and collection clearance accounts, provision for credit commitment losses and lease liabilities.

Deposits from Customers

Deposits from customers have historically been our primary source of funding, representing 61.0%, 62.0% and 62.6% of our total liabilities as of December 31, 2017, 2018 and 2019, respectively. The following table sets forth our deposits from customers by product type as of the dates indicated.

	As of December 31,					
	2017		2018		2019	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Corporate deposits						
Demand	247,640.3	42.5%	168,401.2	28.2%	170,847.2	26.8%
Time	222,168.9	38.2%	232,134.0	38.8%	244,102.3	38.3%
Subtotal	469,809.2	80.7%	400,535.2	67.0%	414,949.5	65.1%
Personal deposits						
Demand	11,909.3	2.0%	17,583.1	2.9%	18,912.4	3.0%
Time	14,268.0	2.5%	17,195.7	2.9%	33,234.3	5.2%
Subtotal	26,177.3	4.5%	34,778.8	5.8%	52,146.7	8.2%
Pledged deposits[(1)]						
Acceptances	41,526.1	7.1%	114,437.4	19.1%	109,236.1	17.1%
Letters of credit and guarantees	8,909.1	1.5%	27,609.3	4.6%	35,327.8	5.5%
Letters of guarantees	3,662.1	0.6%	4,409.4	0.7%	4,429.9	0.7%
Others	31,541.8	5.5%	16,054.4	2.7%	21,532.6	3.4%
Subtotal	85,639.1	14.7%	162,510.5	27.1%	170,526.4	26.7%
Fiscal deposits	91.8	0.0%	245.5	0.1%	258.7	0.0%
Inward and outward remittances	385.9	0.1%	96.7	0.0%	53.6	0.0%
Total	**582,103.3**	**100.0%**	**598,166.7**	**100.0%**	**637,934.9**	**100.0%**
Interests accrued[(2)]	N/A		8,534.7		9,829.7	
Deposits from customers	**582,103.3**		**606,701.4**		**647,764.6**	

Notes:

(1) Refer to the funds deposited with us by customers as security in order to conduct different business.

(2) Pursuant to the relevant notice issued by the MOF in December 2018, the interest accrued on financial instruments measured based on the effective interest rate method should be included in the book balance of relevant financial instruments.

Our total deposits from customers (excluding interest accrued) increased by 2.8% from RMB582,103.3 million as of December 31, 2017 to RMB598,166.7 million as of December 31, 2018, and further increased by 6.6% to RMB637,934.9 million as of December 31, 2019, primarily due to our increased personal deposits and pledged deposits. For ease of comparing and analyzing the changes of deposits during the Track Record Period, except as otherwise indicated, the following discussions are based on our deposits from customers before taking into account interest accrued.

Our corporate deposits decreased by 14.7% from RMB469,809.2 million as of December 31, 2017 to RMB400,535.2 million as of December 31, 2018, primarily because our corporate customers issued more acceptances and letter of credits in 2018, as a result of which, certain of their deposits were re-categorized to be pledged deposits. The total of our deposits obtained from corporate customers, including corporate demand deposits, corporate time deposits and pledged deposits, increased by 1.4% from RMB555,448.3 million as of December 31, 2017 to RMB563,045.7 million as of December 31, 2018. Our corporate deposits increased by 3.6% to RMB414,949.5 million as of December 31, 2019, primarily because we kept developing the relevant deposit business by enriching our deposit products, improving customer experience and increasing marketing efforts.

Our deposits from individual customers, including personal demand deposits and personal time deposits, increased by 32.9% from RMB26,177.3 million as of December 31, 2017 to RMB34,778.8 million as of December 31, 2018, and further increased by 49.9% to RMB52,146.7 million as of December 31, 2019, primarily due to the development of our personal deposit business through new product offering and enhanced marketing efforts.

Our pledged deposits increased by 89.8% from RMB85,639.1 million as of December 31, 2017 to RMB162,510.5 million as of December 31, 2018, and further increased by 4.9% to RMB170,526.4 million as of December 31, 2019, primarily attributable to our efforts to offer more comprehensive products and services to customers.

Please see the section headed "Risk Factors – Risks Relating to Our Business – If we fail to maintain the growth rate of our deposits from customers or our deposits from customers decrease substantially, our liquidity, financial conditions and results of operations could be materially and adversely affected" in this prospectus.

Distribution of Deposits from Customers by Geographical Region

We classify the geographic distribution of deposits based on the location of the branch or sub-branch taking the deposits. The following table sets forth the distribution of our deposits from customers by geographic region as of the dates indicated.

	As of December 31,					
	2017		2018		2019	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Northern and Northeastern China	294,771.8	50.7%	307,876.5	51.5%	305,497.1	47.9%
Eastern China	143,283.0	24.6%	137,754.4	23.0%	160,650.8	25.2%
Central and Southern China	114,793.1	19.7%	124,111.0	20.7%	137,805.9	21.6%
Western China	29,255.4	5.0%	28,424.8	4.8%	33,981.1	5.3%
Total deposits from customers	**582,103.3**	**100.0%**	**598,166.7**	**100.0%**	**637,934.9**	**100.0%**

Distribution of Deposits from Customers by Currency

Most of our deposits from customers are Renminbi-denominated deposits. The following table sets forth the distribution of our deposits from customers by currency as of the dates indicated.

	As of December 31,					
	2017		2018		2019	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
RMB-denominated deposits	541,900.9	93.1%	574,971.3	96.1%	598,229.7	93.8%
USD-denominated deposits	35,788.4	6.1%	22,638.8	3.8%	38,900.0	6.1%
Other foreign currency-denominated deposits	4,414.0	0.8%	556.6	0.1%	805.2	0.1%
Total deposits from customers	**582,103.3**	**100.0%**	**598,166.7**	**100.0%**	**637,934.9**	**100.0%**

Distribution of Deposits from Customers by Remaining Maturity

The following table sets forth the distribution of our deposits from customers by remaining maturity as of the dates indicated.

	As of December 31, 2019											
	Repayable on demand		Due in less than 3 months		Due over 3 months up to 12 months		Due over 1 year up to 5 years		Due in more than 5 years		Total	
	Amount	% of total deposits	Amount	% of total deposits	Amount	% of total deposits	Amount	% of total deposits	Amount	% of total deposits	Total	% of total deposits
	(in millions of RMB, except percentages)											
Corporate deposits	166,208.2	26.1%	44,444.2	7.0%	61,591.4	9.7%	136,481.7	21.4%	6,224.0	1.0%	414,949.5	65.2%
Personal deposits	18,992.7	3.0%	9,687.6	1.5%	8,601.8	1.3%	14,864.6	2.3%	–	–	52,146.7	8.1%
Pledged deposits and others(1)	312.3	0.0%	58,634.4	9.2%	108,116.7	16.9%	3,775.3	0.6%	–	–	170,838.7	26.7%
Total deposits from customers	**185,513.2**	**29.1%**	**112,766.2**	**17.7%**	**178,309.9**	**27.9%**	**155,121.6**	**24.3%**	**6,224.0**	**1.0%**	**637,934.9**	**100.0%**

Note:

(1) Others mainly consists of fiscal deposits.

Distribution of Corporate Deposits by Size

The following table sets forth the distribution of our corporate deposits, in terms of total balance of deposits from a single corporate banking customer, by size of the deposits as of the dates indicated.

	As of December 31,					
	2017		2018		2019	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
RMB500 million or more	272,766.9	58.1%	247,511.5	61.8%	241,038.2	58.1%
RMB100 million up to less than RMB500 million	136,365.5	29.0%	97,657.7	24.4%	116,283.6	28.0%
RMB50 million up to less than RMB100 million	25,990.7	5.5%	22,283.5	5.6%	24,837.2	6.0%
Less than RMB50 million	34,686.1	7.4%	33,082.5	8.2%	32,790.5	7.9%
Total corporate deposits	**469,809.2**	**100.0%**	**400,535.2**	**100.0%**	**414,949.5**	**100.0%**

Distribution of Personal Deposits by Size

The following table sets forth the distribution of our personal deposits, in terms of total balance of deposits from a single retail banking customer, by size of the deposits as of the dates indicated.

	As of December 31,					
	2017		2018		2019	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
RMB5 million or more	5,756.9	22.0%	3,835.3	11.0%	4,507.7	8.6%
RMB1 million up to less than RMB5 million	4,915.5	18.8%	6,238.6	17.9%	9,693.9	18.6%
RMB0.1 million up to less than RMB1 million	11,253.5	43.0%	18,341.4	52.6%	30,991.3	59.5%
Less than RMB0.1 million	4,251.4	16.2%	6,363.5	18.5%	6,953.8	13.3%
Total personal deposits	**26,177.3**	**100.0%**	**34,778.8**	**100.0%**	**52,146.7**	**100.0%**

Other Components of Our Liabilities

Other components of our liabilities consisted primarily of (i) deposits from banks and other financial institutions, (ii) placements from banks and other financial institutions, (iii) financial assets sold under repurchase agreements, (iv) derivative financial liabilities, (v) debt securities issued, (vi) borrowing from the central bank, (vii) income tax payable and (viii) other liabilities.

Our deposits from banks and other financial institutions decreased by 54.2% RMB151,789.2 million as of December 31, 2017 to RMB69,587.9 million as of December 31, 2018, mainly because we adjusted our liability structure by increasing the issuance of certificates of interbank deposit with comparatively higher liquidity. Our deposits from banks and other financial institutions increased from RMB69,587.9 million as of December 31, 2018 to RMB78,547.4 million as of December 31, 2019, as we increased deposits from other banks and other financial institutions to fund our business growth.

Placements from banks and other financial institutions consist primarily of money market borrowings. As of December 31, 2017, 2018 and 2019, our placements from banks and other financial institutions amounted to RMB37,837.2 million, RMB19,535.0 million and RMB21,500.2 million, respectively. We used placements from banks and other financial institutions mainly for liquidity management and business development.

Our financial assets sold under repurchase agreements increased significantly from RMB2,213.8 million as of December 31, 2017 to RMB22,363.8 million as of December 31, 2018, primarily because we increased the financial assets sold under repurchase agreements to raise funds in 2018 based on our liquidity needs. Our financial assets sold under repurchase agreements increased by 3.2% to RMB23,069.1 million as of December 31, 2019, mainly as we adjusted the scale of repurchase transactions based on our liquidity position.

Our derivative financial liabilities decreased significantly from RMB2,109.8 million as of December 31, 2017 to RMB140.6 million as of December 31, 2018. Our derivative financial liabilities increased by 22.2% to RMB171.8 million as of December 31, 2019.

Debt securities issued consisted primarily of certificates of interbank deposit, financial bonds, subordinate bonds and tier-two capital debts that we issued. For details of our debt securities issued, please see "Financial Information – Capital Resources – Debt – Debt Securities Issued". Our debt securities issued amounted to RMB138,415.2 million, RMB218,679.0 million and RMB196,603.8 million as of December 31, 2017, 2018 and 2019, respectively.

Our borrowing from the central bank increased by 19.1% from RMB24,000.0 million as of December 31, 2017 to RMB28,595.8 million as of December 31, 2018 mainly because, based on the more flexible monetary policies adopted by the central bank in 2018, we increased the use of monetary policy instruments, such as medium-term lending facilities, to support our business development. Our borrowing from the central bank further increased by 64.0% to RMB46,905.6 million as of December 31, 2019, mainly because we obtained targeted medium-term lending facilities which were newly launched by the central bank, as a result of our extending credit support to micro and small enterprises and private enterprises to better serve the real economy in accordance with the relevant governmental policies.

Our income tax payable decreased by 79.8% from RMB1,971.0 million as of December 31, 2017 to RMB397.7 million as of December 31, 2018. Our income tax payable increased by significantly to RMB1,888.0 million as of December 31, 2019. The changes in our income tax payable during the Track Record Period was mainly attributable to (i) the changes in exchange gains or losses along with the fluctuation of exchange rates, and (ii) the impact of adopting IFRS 9 to replace IAS 39 on the amount of current taxable income in 2018.

Our other liabilities consisted primarily of interests payable, accrued staff cost, payment and collection clearance accounts, provision for credit commitment losses and lease liabilities. Our other liabilities decreased by 7.8% from RMB13,662.2 million as of December 31, 2017 to RMB12,591.0 million as of December 31, 2018, mainly attributable to the decreased interest payable, because pursuant to the Notice of Issuing the Amended Formats of Financial Statements of Financial Enterprises for 2018 (《關於修訂印發2018年度金融企業財務報表格式的通知》) issued by the MOF in December 2018, interest accrued on financial instruments measured based on the effective interest rate method should be included in the book balance of relevant financial instruments and no longer be included in the "interest payable" on the financial statements. Our other liabilities increased by 41.7% to RMB17,840.9 million as of December 31, 2019, mainly due to the recognition of lease liabilities of RMB3,956.3 million as of December 31, 2019 as a result of the adoption of IFRS 16 in 2019.

You should read the discussion and analysis set forth in this section in conjunction with our historical financial information, together with the accompanying notes, included in Appendix I to this prospectus. Our historical financial information has been prepared in accordance with IFRS. Capital adequacy ratios discussed in this section are calculated in accordance with applicable CBIRC guidelines and based on our financial statements prepared in accordance with PRC GAAP.

The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements due to a number of factors, including those set forth in "Forward-Looking Statements" and "Risk Factors".

OVERVIEW

We are the youngest Nationwide Joint-stock Commercial Bank in China and enjoy significant late-mover advantages. In 2019, we ranked 178th among the "Top 1000 World Banks" released by the Banker, moving up nine places compared with the previous year and ranking 27th among all PRC banks, in terms of tier-one capital as of December 31, 2018.

Since our establishment, we have successfully captured opportunities created by various national strategies in China and the advance of FinTech, and achieved rapid growth underpinned by an extensive branch network with national coverage, international business with strong growth potential, and the upgrades of technology and product innovation.

As of December 31, 2019, our total assets reached RMB1,116,930.0 million. Our deposits from customers and net loans and advances to customers experienced continued growth during the Track Record Period, which amounted to RMB647,764.6 million and RMB687,279.1 million, respectively, as of December 31, 2019. We have maintained stable business growth with strong profitability. For 2019, our net profit amounted to RMB8,192.8 million, representing a year-on-year growth rate of 15.7%. For 2019, our net interest margin and net interest spread were 2.21% and 2.03%, respectively, and our weighted average return on net assets reached 13.71%.

GENERAL FACTORS THAT AFFECT OUR RESULTS OF OPERATIONS

Our results of operations and financial condition have been, and will be, affected by various factors, including, among others, certain general factors set out below.

Economic Conditions of the PRC and the Beijing-Tianjin-Hebei region

We are a Nationwide Joint-stock Commercial Bank headquartered in Tianjin, the PRC. Our financial conditions and results of operations are affected by the economic conditions of the PRC, in particular, the Beijing-Tianjin-Hebei region, and the macroeconomic policies implemented by PRC Government.

From 2015 to 2019, according to the NBS, the PRC's nominal GDP grew at a CAGR of 9.5% from RMB68,886 billion in 2015 to RMB99,087 billion in 2019. The PRC's economic growth has resulted in a substantial increase in corporate financing activities and individual wealth, which has in turn contributed to the rapid growth of the corporate and retail banking business of PRC commercial banks. For example, according to the PBoC, total RMB-denominated loans and RMB-denominated deposits of the PRC financial institutions grew at a CAGR of 13.0% and 9.2%, respectively, from December 31, 2015 to December 31, 2019. According to the CBIRC, total assets of Nationwide Joint-stock Commercial Banks, in the banking industry have reached RMB51,782 billion as of December 31, 2019, representing a CAGR of 8.8% from RMB36,988 billion as of December 31, 2015.

Capitalizing on continued industry consolidation and improvement of market conditions, encouraged by various favorable policies promulgated by PRC Government, the Beijing-Tianjin-Hebei region has taken proactive measures to promote economic structural transformation, resulting in strong economic development in recent years. These policies have promoted, and are expected to further ensure, improvement and sustainable development of the economy of the Beijing-Tianjin-Hebei region. According to the NBS, the GDP for the Beijing-Tianjin-Hebei region amounted to RMB8,458 billion in 2019, representing a CAGR of 5.1% from RMB6,936 billion in 2015. For details, please see "Industry Overview – Overview – Economy of the Beijing-Tianjin-Hebei Region".

After three decades of rapid development, China's economy has entered a "new normal" stage, where the economy has transitioned to a stage targeting sustainable growth, emphasizing efficiency and quality, rather than merely quick expansion. The slowdown of growth in the overall economy and certain industries in China may affect the results of operations and financial condition of PRC commercial banks.

Interest Rates

Our operating income depends substantially on our net interest income. For 2017, 2018 and 2019, our net interest income accounted for 67.4%, 65.6% and 80.7% of our total operating income, respectively. Net interest income is affected by interest rates and the average balances of our interest-earning assets and interest-bearing liabilities. Interest rates applicable to us are affected by many factors that are beyond our control, such as the benchmark interest rates set by the PBoC, domestic and international economic and political conditions, and competition in the PRC banking industry.

In the PRC, interest rates on RMB-denominated loans and deposits are set by financial institutions with reference to the benchmark interest rates on loans and deposits published and adjusted from time to time by the PBoC. The PBoC has, in the past few years, made multiple downward adjustments to the benchmark interest rates for deposits and loans. In October 2015, the PBoC further lowered the benchmark interest rates for RMB-denominated one-year deposits and loans. On August 16, 2019, the PBoC announced to reform the mechanism used to establish the loan prime rate ("**LPR**"). According to the PBoC, commercial banks shall set interest rates on new loans by mainly referring to the LPR. The PBoC's benchmark interest rate adjustments for deposits and the LPR adjustments may be asymmetrical, which may impact our net interest spread.

In recent years, China has continued its interest rate liberalization and moved towards a market-based interest rate regime. Effective from June 8, 2012, the PBoC allowed financial institutions to set interest rates on RMB-denominated deposits at up to 110% of the PBoC benchmark rates. This cap was subsequently raised to 120%, 130% and 150% of the PBoC benchmark rates on November 22, 2014, March 1, 2015 and May 11, 2015, respectively. Effective from August 26, 2015, the PBoC removed the interest rate cap on RMB-denominated time deposits with maturities over one year. Effective from October 24, 2015, the PBoC removed the interest rate cap on RMB-denominated demand deposits as well as time deposits with maturities of less than one year. On July 20, 2013, the PBoC removed the interest rate floor on loans from financial institutions to allow them to set interest rates based on commercial considerations (except for residential mortgage loans where the original floor rate and cap rate remained unchanged and relevant authorities still stringently implement diversified credit policies). On August 16, 2019, the PBoC announced to reform the mechanism used to establish the LPR, which would be linked to rates set during open market operations, primarily the PBoC's medium-term lending facility (MLF), and better reflect market demand for funds. The liberalization of interest rates may bring more competition to the PRC banking industry, thereby affecting our business, results of operations and financial condition. In addition, PRC Government may guide interest rates from time to time in accordance with macroeconomic adjustment targets.

In addition, the market liquidity and competition may lead to fluctuations in the net interest spread for our interbank businesses. As a result, our net interest income may be impacted and our business, results of operations and financial condition may also be affected. Please also see "Risk Factors – Risks Relating to Our Business – Further development of interest rate liberalization, the PBoC's adjustments to the benchmark interest rate, the deposit insurance program and other regulatory changes in the PRC's banking industry may materially and adversely affect our results of operations".

Regulatory Environment

The PRC banking industry is highly regulated. PRC commercial banks, including Nationwide Joint-stock Commercial Banks, are mainly regulated by PBoC and CBIRC. Additionally, PRC commercial banks are also subject to the supervision and regulation of other regulatory authorities, including the CSRC, MOF, NAO, NDRC, SAT and SAIC and their authorized branches. Please see "Supervision and Regulation – Major Regulatory Authorities".

In recent years, PRC Government has implemented a series of macroeconomic and monetary policies, including: (i) adjusting the benchmark interest rates and the PBoC statutory deposit reserve ratios for commercial banks, as well as gradually liberalizing the regulation of interest rates; (ii) adopting a Macro Prudential Assessment system to monitor banks' capital adequacy ratios, assets and liabilities, liquidity, and risk; and (iii) promoting the growth of certain industries, or controlling overcapacity in certain other industries, by issuing industry development guidelines. For example, in order to support the development of the real economy and reduce the actual cost of financing in the society, the PBoC decided to lower the deposit reserve ratio of financial institutions (excluding finance companies, financial leasing companies, and car leasing companies) by 0.5 percentage points on September 16, 2019. These macroeconomic and monetary policies have had a significant impact on the lending activities of PRC commercial banks and borrowers' demand for bank financing, which in turn may affect the business, results of operations and financial condition of PRC commercial banks, including ours.

Our business, results of operations and financial condition are affected by changes in PRC banking laws, regulations and policies, such as the scope of the business activities PRC commercial banks are permitted to engage in, the interest and fees PRC commercial banks are allowed to charge, and the restrictions imposed by regulatory authorities on PRC commercial banks in respect of credit extended to borrowers in specific industries or specific loan products.

Development of China's Capital Markets and Internet Finance

Recently, China has launched a number of initiatives to develop its capital markets, including encouraging enterprises to seek direct financing from the capital markets utilizing different instruments, such as debt securities. These initiatives may affect the results of our corporate banking business. For example, the development of China's debt capital markets may impact our lending business, as certain corporate banking customers may issue debt securities at lower costs to meet their financing needs and thus have lower demand for bank loans.

Furthermore, our retail banking is experiencing challenges from internet finance companies, particularly the competition arising from the adoption of innovative financial products and technology. Similar to other commercial banks, we are facing strong challenges from internet finance companies due to various factors, including different regulatory regimes, technological capability, and market penetration units.

Competitive Landscape in the PRC Banking Industry

We compete primarily with other PRC commercial banks, in particular, other Nationwide Joint-stock Commercial Banks and regional commercial banks opening in those cities where we have a significant presence, mainly on product offerings and prices, service quality, brand recognition, outlets and information technology capabilities. We also mainly face competition from other banking financial institutions in the PRC.

In recent years, certain commercial banks in the PRC have completed initial public offerings, which have enabled them to obtain more funding and access to a wider range of financing sources. Therefore, they can offer more innovative products and higher quality services, and have increased their adaptability in a changing market environment. The increase in competition in the PRC banking industry may affect the pricing of our deposits, loans and fee and commission business. Please see "Business – Competition".

CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of our accounting policies described in Note 2 of the Accountants' Report attached as Appendix I to this prospectus, our management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates and we currently do not expect any significant changes to these estimates in the foreseeable future.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The following is a description of the key estimation uncertainties and the critical judgments that we have made in the process of applying our accounting policies that have the most significant effect on the amounts recognized in our financial statements and/or in the next twelve months. Please also see Note 2(28) to the Accountants' Report as set out in Appendix I of this prospectus.

Determination of control over investees

Determining whether we control such a structured entity, we need to assess the aggregate economic interests in the entity (including any carried interests and expected management fees) and the decision-making authority of the entity. For all these structured entities managed by us, the aggregate economic interest is in each case not significant and the decision makers establish, market and manage them according to restricted parameters as set out in the investment agreements as required by laws and regulations. As a result, we have a concluded that we act as agent as opposed to principal for the investors in all cases, and therefore we have not consolidated these structured entities.

Impairment of financial assets

Prior to January 1, 2018, we applied IAS 39 when assessing impairment of our financial assets. Under IAS 39, except for financial investments – fair value through profit or loss – we assess at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired, and impairment losses are incurred, only if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and if that loss event has an impact on the estimated future cash flows of the financial asset which can be reliably estimated.

We started to adopt IFRS 9 to replace IAS 39 on January 1 2018. In accordance with the requirements of IFRS 9, we use more forward-looking information rather than considering the existence of objective evidence of impairment as a prerequisite for recognition of credit losses, and we have developed a new expected credit loss impairment model to measure the expected credit losses, taking into account various factors such as macroscopic index, macroeconomic indicators and macro-financial scenario analysis. Under IFRS 9, we categorize and manage our financial assets' credit risk into the following stages: (i) Stage 1 refers to financial assets that have not experienced a significant increase in credit risk since origination and impairment recognized on the basis of 12 months' expected credit losses; (ii) Stage 2 refers to financial assets that have experienced a significant increase in credit risk since origination and where impairment is recognized on the basis of lifetime expected credit losses; and (iii) Stage 3 refers to financial assets that are in default and considered credit-impaired.

Fair Value of Financial Instruments

If there is an active market for a financial asset, the fair value of the financial asset is based on the current market price. If there is no active market for a financial asset, we determine the fair value of the financial instrument by using an appropriate valuation model, inquiry, or by reference to the valuation results of third-party valuation agencies. When we assess the fair value of financial instruments through a valuation model, we select appropriate models based on the risk characteristics, liquidity conditions, counterparty risks and pricing basis of specific financial instruments or trading strategies to ensure that the models truly and effectively reflect the fair value of financial assets. When we assess the fair value of financial instruments through inquiry or referring to the valuation results of third-party valuation agencies, we evaluate the authority, independence, and expertise of third-party valuation agencies.

During the Track Record Period, we had certain financial assets categorized within level 3 of fair value measurement ("**Level 3 Financial Assets**"). As of December 31, 2017, 2018 and 2019, our Level 3 Financial Assets amounted to nil, RMB522.4 million and RMB3,744.2 million, respectively, representing nil, 0.6% and 3.4%, respectively, of our total financial assets measured at fair value as of the same dates and nil, 0.1% and 0.3%, respectively, of our total assets as of the same dates.

We have formulated internal policies to ensure the reasonableness of fair value measurement on financial assets (including three levels) in line with our accounting policies, the applicable laws and regulations. Our Assets and Liabilities Management Department in the head office, which is composed of staff with sufficient industry-related experience and expertise, generally takes the lead to determine the appropriate valuation techniques and valuation models, to conduct timely, accurate and independent valuation of the financial instruments that need to be measured at fair value, and submits the valuation result including relevant parameters to the Assets and Liabilities Management Committee under the senior management for its approval.

Details of the fair value measurement of financial assets, particularly the fair value hierarchy, the valuation techniques and key inputs, including significant unobservable inputs, the relationship of unobservable inputs to fair value are disclosed in Note 43 of the Accountants' Report in Appendix I which was issued by the Reporting Accountants in accordance with Hong Kong Standard on Investment Circular Reporting Engagement 200 "Accountants' Report on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants.

In relation to the valuation of the Level 3 Financial Assets, our Directors have carefully reviewed the valuation related policies, the financial statements prepared in accordance with IFRS and other supporting documents, and have had sufficient understanding of the valuation model, methodologies and techniques. Based on the above, our Directors are of the view that the valuation analysis performed during the Track Record Period is fair and reasonable, and our financial statements are properly prepared. Our Directors are satisfied with the valuation work for the Level 3 Financial Assets performed during the Track Record Period. In relation to the valuation of the Level 3 Financial Assets, the Joint Sponsors have conducted relevant due diligence work, including (i) reviewing relevant notes in the Accountants' Report as contained in Appendix I, (ii) discussing with the Bank to understand the relevant policies and procedures, and (iii) interviewing with the Reporting Accountants to understand the work they have performed. Having considered the above, nothing has come to the Joint Sponsors' attention that would cause them to question the relevant valuation work performed on the Level 3 Financial Assets.

Impairment on Non-Financial Assets

Fixed assets, construction in-progress, and intangible assets with finite useful lives, among others, are tested for impairment if there is any indication that the assets may be impaired as of the balance sheet date. If the result of the impairment test indicates that the recoverable amount of an asset is less than its carrying amount, a provision for impairment and an impairment loss are recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell, and the present value of the future cash flows expected to be derived from the asset. Provision for asset impairment is determined and recognized on an individual asset basis. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of a group of assets to which the asset belongs is determined. A group of assets is the smallest group of assets that is able to generate independent cash inflows.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, irrespective of whether there is any indication that the assets may be impaired.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized as a gain immediately.

Tax

In the ordinary course of our business, there are certain transactions and activities for which the ultimate tax treatments have uncertainties. In accordance with current tax laws and regulations, as well as the policies applied by government authorities in previous years, we make tax estimates on the implementation of new tax laws and regulations, as well as events involving uncertainties. Where the final outcome of such tax matters is different from the amounts initially recorded, such difference will affect the current income tax and deferred income tax provisions in the period during which such a determination is made.

Impact of New Accounting Policies

IFRS 9

We have adopted IFRS 9 as issued by the IASB since January 1, 2018, which resulted in changes in our accounting policies. IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and liabilities; and the impairment of financial assets and hedge accounting.

The major differences between IFRS 9 and IAS 39 are the measurement categories and the approach for classifying financial assets. The classification of financial assets under IFRS 9 requires us to consider the business model and the contractual cash flow characteristics of financial assets to determine classification and subsequent measurement. Further, for financial assets that will be classified as "amortised cost" or "fair value through other comprehensive income" under IFRS 9, we are required to apply a new expected credit loss impairment model under IFRS 9, which, as compared to the incurred loss model in IAS 39, uses more forward-looking information instead of an objective evidence of impairment as a precondition for recognizing credit losses. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognized. Instead, an entity is required to recognize and measure either a 12-month expected credit loss or lifetime expected credit loss, depending on the asset and the facts and circumstances, which will result in an early recognition of credit losses. For details of the provision matrix for financial assets, please see Note 42(a) to the Accountants' Report in Appendix I. Please also see the section headed "Risk Factors – Risks Relating to Our Business – Changes in accounting standards or policies may materially affect our financial condition and results of operations". For the impact of IFRS 9 on our allowance for impairment losses on loans and advances to customers, please also see "Assets and Liabilities – Assets – Allowance for Impairment Losses on Loans to Customers – Changes to Allowance for Impairment Losses".

Under the expected credit loss impairment model, the expected credit losses rate ("ECL Rate") is calculated by dividing expected credit loss allowance by the balance of related assets. The level of ECL Rate is affected by various elements, such as the expected likelihood that the relevant borrowers will be unable to meet their repayment obligation, the estimated amount that we should be reimbursed upon default of borrowers, and the expected degree of loss arising from the exposure at default. The assessment of these elements is further based on types of factors, including but not limited to operational and financial conditions of counterparties or underlying financing parties, the realizable value of collateral, and the ability of the guarantors to fulfil their obligations, as well as the economic, legal, and regulatory environment.

As of December 31, 2018 and 2019 and March 31, 2020, the overall ECL Rate for our financial assets measured at amortized cost was 2.43%, 2.67% and 2.68%, respectively. This type of financial assets mainly includes loans and advances to customers and financial investments which are measured at amortized cost. As of December 31, 2019, the overall ECL Rate for financial assets measured at amortized cost experienced an increase as compared to the end of 2018, mainly due to (i) the increased ECL Rate for financial investments measured at amortized cost and (ii) the increased proportion of loans and advances to customers that generally have higher ECL Rate as compared to financial investments. As of March 31, 2020, the overall ECL Rate for financial assets measured at amortized cost further increased to 2.68% as compared to the end of 2019, which was mainly driven by the increased ECL Rate for loans and advances to customers measured at amortized cost.

The ECL Rate for loans and advances to customers measured at amortized cost decreased from 3.53% as of December 31, 2018 to 3.38% as of December 31, 2019, primarily attributable to the improved quality of our loans and advances to customers in 2019 as a result of our strengthened credit risk control and our efforts in recovering and disposing NPLs in accordance with relevant regulatory policies. The ECL Rate for loans and advances to customers measured at amortized cost increased to 3.39% as of March 31, 2020 compared to that as of December 31, 2019, mainly as we adjusted the forward-looking factors included in our expected credit loss model based on the economic environment.

Notwithstanding the outbreak of the COVID-19 pandemic, our ECL Rates for financial assets and loans and advances to customers measured at amortized cost only increased slightly between December 31, 2019 and March 31, 2020, mainly due to the following reasons: (i) Our asset quality remained stable in the first quarter of 2020 and is not expected to experience a material adverse change in the near future. Despite the pandemic, we are of the view that, leveraging continuous urbanization in China, efficient control on pandemic and strong domestic market demand, China's economy will continue to grow in the long run. For more description of China's economy and the impact of COVID-19 epidemic on the banking industry, please see "Industry Overview – Development Trend and Business Drivers". In the same time, we will continuously take efforts to proactively monitor and control credit risks. Considering the unchanged positive trend of China's economic development and our continued efforts in risk control, we believe our asset quality will continue to remain relatively stable. (ii) Our impairment allowance had already been maintained at a relatively sufficient level as of December 31, 2019. Since the outbreak of COVID-19 epidemic, we have closely monitored the borrowers' business operational status and financial conditions, analyzed their repayment ability and cautiously evaluated credit risks of loan portfolios.

The ECL Rate for financial investments measured at amortized cost increased from 1.56% as of December 31, 2018 to 1.61% as of December 31, 2019, and further increased to 1.64% as of March 31, 2020, which was mainly due to the increased provision on certain financial investments in 2019 and the first quarter of 2020 based on the actual level of risk and expected losses assessed with reference to different factors, such as days of default, in line with the principle of prudence.

For more details on the expected credit loss impairment model, please see Note 42 to the Accountants' Report in Appendix I.

The table below sets out certain key classification requirements of IFRS 9 that led to changes in classification of certain financial assets held by us.

Discounted bills	Discounted bills held within a business model whose objective was to collect contractual cash flows and sell financial assets. In addition, their contractual cash flows were identified as solely payments of principal and interest on the principal amount outstanding. Therefore, these assets were classified as financial assets at fair value through other comprehensive income under IFRS 9.
Financial investments	Certain debt instruments were originally classified as either receivables or certain available-for-sale financial assets, and their contractual cash flows were not identified as solely payments of principal and interest on the principal outstanding. Therefore, these assets were classified as financial assets at fair value through profit or loss under IFRS 9. Certain investments classified as receivables were held within a business model whose objective on the transaction date was to collect contractual cash flows and sell financial assets, and their contractual cash flows were identified as solely payments of principal and interest on the principal amount outstanding. Therefore, these assets were classified as financial assets at fair value through other comprehensive income under IFRS 9.

In addition, certain financial assets classification under IAS 39 is replaced by the classification under IFRS 9 at the same measure methods as follows: (i) certain financial assets originally classified as receivables were classified as financial assets at amortised cost under IFRS 9; (ii) certain financial assets originally classified as held-to-maturity investments were classified as financial assets at amortised cost under IFRS 9; and (iii) certain financial assets originally classified as available-for-sale financial assets were classified as financial assets at fair value through other comprehensive income under IFRS 9.

The adoption of IFRS 9 does not result in any significant impact on our financial position and performance compared to the adoption of IAS 39.

To better illustrate the impact of IFRS 9 on our financial results, we include, below, our financial position as of December 31, 2017 prepared under IAS 39, and those as of January 1, 2018 prepared in accordance with IFRS 9. For more details on the effect of the adjustments arising from the adoption of IFRS 9, please also see Note 2(1)(a) to the Accountants' Report in Appendix I.

	As of December 31, 2017	As of January 1, 2018[(1)]
	Prepared according to IAS 39	Prepared according to IFRS 9
	(RMB in million)	
Assets		
Cash and deposits with the central bank	105,000.3	105,000.3
Deposits with banks and other financial institutions	8,722.8	8,718.6
Placements with banks and other financial institutions	10,168.0	10,159.0
Derivative financial assets	198.1	198.1
Net loans and advances to customers	449,813.7	450,675.6
Net financial investments	412,648.6	412,466.5
Interest in associate	51.7	51.7
Property and equipment	4,039.9	4,039.9
Deferred tax assets	4,829.4	4,583.6
Other assets	7,094.5	7,094.5
Total assets	**1,002,567.0**	**1,002,987.8**
Liabilities		
Borrowing from the central bank	24,000.0	24,000.0
Deposits from banks and other financial institutions	151,789.2	151,789.2
Placements from banks and other financial institutions	37,837.2	37,837.2
Derivative financial liabilities	2,109.8	2,109.8
Financial assets sold under repurchase agreements	2,213.8	2,213.8
Deposits from customers	582,103.3	582,103.3
Income tax payable	1,971.0	1,971.0
Debt securities issued	138,415.2	138,415.2
Other liabilities	13,662.2	14,450.1
Total Liabilities	**954,101.7**	**954,889.6**
Equities		
Share capital	14,450.0	14,450.0
Surplus reserve	3,468.0	3,468.0
General reserve	12,562.9	12,562.9
Fair value reserve	(469.1)	(501.6)
Impairment reserve	N/A	37.0
Retained earnings	18,453.5	18,081.9
Total equity	**48,465.3**	**48,098.2**
Total liabilities and total equity	**1,002,567.0**	**1,002,987.8**

Note:

(1) Represents the beginning balance of 2018.

IFRS 15

In addition, we adopted IFRS 15 on January 1, 2018. IFRS 15 replaced IAS 18 that we adopted prior to January 1, 2018 regarding recognition, classification and measurement of revenue and cost. Compared to IAS 18, the adoption of IFRS 15 since January 1, 2018 has not resulted in any significant impact on our financial position and performance. Please also see Note 2(1)(a) to the Accountants' Report in Appendix I.

IFRS 16

We adopted IFRS 16 on January 1, 2019, replacing IAS 17 that we had adopted prior to January 1, 2019. IFRS 16 primarily affected our accounting as a lessee of the lease for certain office premises which are currently classified as operating leases. Under IFRS 16, we recognized right-of-use assets and lease liabilities on our balance sheet for most leases which were classified as operating leases under IAS 17. We decided to apply recognition exemptions to leases with less than 12 months of lease term and leases of low-value assets. We used the modified retrospective approach for the adoption of IFRS 16, and recognized right-of-use assets of approximately RMB4,315.9 million and lease liabilities of approximately RMB4,222.1 million as of January 1, 2019. There was no adjustment to the balance of equity as of January 1, 2019, and we did not restate the comparative information.

The adoption of IFRS 16 does not have any significant impact on our financial position and results of operations compared with the results had we applied IAS 17.

SELECTED FINANCIAL DATA

The following table sets forth our results of operations for the years indicated.

	For the year ended December 31,		
	2017	2018	2019
	(in millions of RMB)		
Interest income	40,865.2	44,721.5	51,487.3
Interest expense	(23,844.8)	(29,493.6)	(28,576.9)
Net interest income	**17,020.4**	**15,227.9**	**22,910.4**
Fee and commission income	8,900.9	7,128.7	5,434.3
Fee and commission expense	(214.9)	(771.4)	(1,208.5)
Net fee and commission income	**8,686.0**	**6,357.3**	**4,225.8**
Net trading (losses)/gains	(553.0)	(492.6)	196.4
Net (losses)/gains arising from investment securities	(13.7)	1,985.1	961.9
Other operating income(1)	110.4	132.4	84.0
Operating income	**25,250.1**	**23,210.1**	**28,378.5**
Operating expenses	(9,071.4)	(8,675.7)	(8,856.9)
Impairment losses on assets	(7,755.0)	(6,507.9)	(9,566.9)
Share of profits/(losses) of associates	1.7	1.0	(52.8)
Profit before tax	**8,425.4**	**8,027.5**	**9,901.9**
Income tax	(1,671.6)	(947.3)	(1,709.1)
Net profit	**6,753.8**	**7,080.2**	**8,192.8**

Note:

(1) Consists primarily of government grants and rental income.

The following table sets forth profitability indicators for the years indicated.

	For the year ended December 31,		
	2017	2018	2019
Profitability indicators			
Return on average assets[(1)]	0.73%	0.70%	0.76%
Weighted average return on net assets[(2)]	15.12%	13.59%	13.71%
Net interest spread[(3)]	1.60%	1.46%	2.03%
Net interest margin[(4)]	1.77%	1.54%	2.21%
Cost-to-income ratio[(5)]	34.22%	35.40%	29.50%

Notes:

(1) Calculated by dividing net profit for the period by the average balance of total assets at the beginning and the end of the year.

(2) Calculated according to the Compilation Rules for Information Disclosures by Companies that Offer Securities to the Public (No. 9): Calculation and Disclosure of Rate of Return on Equity and Earnings per Share (2010 Revision) (《公開發行證券的公司信息披露編報規則第9號-淨資產收益率和每股收益的計算及披露(2010年修訂)》) issued by the CSRC. When calculating the weighted average return on net assets, the effect from undated capital bonds has been deducted from the "weighted average net assets".

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

(4) Calculated by dividing net interest income by the average balance of total interest-earning assets.

(5) Calculated by dividing total operating expenses (excluding taxes and surcharges) by total operating income.

Return on average assets decreased from 0.73% in 2017 to 0.70% in 2018 reflecting a faster growth of our total assets as compared to the growth of net profit, primarily because the average yield on our interest-earning assets grew at a slower pace than the average cost of interest-bearing liabilities, which was further due to (i) our continuous adjustment of the financial investment structure in line with the relevant regulatory policies, and (ii) the increased average cost of deposits from customers. Return on average assets increased from 0.70% in 2018 to 0.76% in 2019, reflecting that the growth of net profit outpaced that of our total assets, which was primarily attributable to (i) the increase in the average yield on our loans and advances, and (ii) the decrease in our average cost on interest-bearing liabilities, particularly the decreased average cost on our certificates of interbank deposit issued and deposits from banks and other financial institutions.

Our weighted average return on net assets decreased from 15.12% in 2017 to 13.59% in 2018, reflecting a faster growth of our weighted average net assets as compared to the increase in our net profit in 2018, primarily attributable to a decline in our net interest spread in 2018 mainly driven by (i) the decreased average yield of financial investments as we adjusted the financial investment structure in line with the relevant regulatory policies, and (ii) the increased average cost of our deposits from customers. Our weighted average return on net assets increased to 13.71% in 2019, reflecting that our net profit grew faster than our weighted average net assets in 2019 as a result of our increased net interest spread, which was further attributable to (i) the increased average yield of our loans and advances, and (ii) the declined average cost on our deposits from banks and other financial institutions and our certificates of interbank deposit issued.

For the analysis of changes in our net interest spread and net interest margin, please see "– Results of Operations for the Years Ended December 31, 2018 and 2019 – Net Interest Spread and Net Interest Margin" and "– Results of Operations for the Years Ended December 31, 2017 and 2018 – Net Interest Spread and Net Interest Margin". For the analysis of fluctuations in our cost-to-income ratio, please see "– Results of Operations for the Years Ended December 31, 2018 and 2019 – Operating Expenses" and "– Results of Operations for the Years Ended December 31, 2017 and 2018 – Operating Expenses".

The following table sets forth certain regulatory indicators as of the dates indicated, calculated in accordance with the requirements of the PRC banking regulatory authorities and applicable accounting standards.

	Regulatory requirement	As of December 31,		
		2017	2018	2019
Capital adequacy indicators				
Core tier-one capital adequacy ratio(1)	≥7.5%	8.12%	8.61%	8.06%
Tier-one capital adequacy ratio(2)	≥8.5%	8.12%(2)	8.61%	10.63%
Capital adequacy ratio(3)	≥10.50%	11.43%	11.77%	13.07%
Asset quality indicators				
NPL ratio(4)	≤5.00%	1.74%	1.84%	1.78%
Allowance coverage ratio(5)	≥150.00%	185.89%	186.96%	187.73%
Allowance to gross loan ratio(6)	≥2.50%	3.24%	3.44%	3.34%
Other indicator				
Loan-to-deposit ratio(7)	N/A	79.86%	94.53%	110.99%

Notes:

(1) Calculated by dividing core tier-one capital, net of core tier-one capital deductions, by risk-weighted assets. For details, please see "Supervision and Regulation – Supervision over Capital Adequacy" and "– Capital Resources – Capital Adequacy".

(2) Calculated by dividing tier-one capital, net of tier-one capital deductions, by risk-weighted assets. Pursuant to the Notice on Arranging Related Matters in the Transitional Period of Carrying out Capital Management Measures of Commercial Banks (Trial) issued by the CBRC, our tier-one capital adequacy ratio as of December 31, 2017 had complied with the applicable regulatory requirement for 2017. For details, please see "Supervision and Regulation – Supervision over Capital Adequacy" and "– Capital Resources – Capital Adequacy".

(3) Calculated by dividing total capital, net of capital deductions, by risk-weighted assets. For details, please see "Supervision and Regulation – Supervision over Capital Adequacy" and "– Capital Resources – Capital Adequacy".

(4) Calculated by dividing total NPLs by gross loans and advances to customers.

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

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

(7) Calculated by dividing total loans and advances to customers by total deposits from customers. Prior to October 1, 2015, PRC commercial banks were required to maintain a loan-to-deposit ratio of no more than 75%. Effective from October 1, 2015, the PRC Commercial Banking Law was amended and the 75% maximum loan-to-deposits ratio was repealed.

RESULTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2019

Net Interest Income

Net interest income was the largest component of our operating income, representing 65.6% and 80.7% of our operating income for 2018 and 2019, respectively.

The following table sets forth our interest income, interest expense and net interest income for the years indicated.

	For the year ended December 31,	
	2018	2019
	(in millions of RMB)	
Interest income	44,721.5	51,487.3
Interest expense	(29,493.6)	(28,576.9)
Net interest income	**15,227.9**	**22,910.4**

Our net interest income increased by 50.5% from RMB15,227.9 million for 2018 to RMB22,910.4 million for 2019, primarily due to (i) a 15.1% increase in interest income, and (ii) a 3.1% decrease in interest expense.

The following table sets forth the average balances of our interest-earning assets and interest-bearing liabilities, the related interest income or expense, and the related average yield on assets or related average cost on liabilities for the years indicated.

	For the year ended December 31,					
	2018			2019		
	Average balance	Interest income/ expense	Average yield/cost(1)	Average balance	Interest income/ expense	Average yield/cost(1)
	(in millions of RMB, except percentages)					
Interest-earning assets						
Loans and advances to customers	533,577.4	27,479.5	5.15%	637,887.8	36,658.8	5.75%
Financial investments(2)	320,616.9	15,045.7	4.69%	268,466.5	12,286.7	4.58%
Deposits with the central bank(3)	87,118.6	1,264.6	1.45%	79,069.5	1,152.9	1.46%
Deposits with banks and other financial institutions	19,894.0	311.9	1.57%	32,133.8	822.3	2.56%
Placements with banks and other financial institutions	10,064.4	262.8	2.61%	9,292.0	331.1	3.56%
Financial assets held under resale agreements	14,787.1	357.0	2.41%	11,078.6	235.5	2.13%
Total interest-earning assets	**986,058.4**	**44,721.5**	**4.54%**	**1,037,928.2**	**51,487.3**	**4.96%**
Interest-bearing liabilities						
Deposits from customers	574,752.9	13,760.6	2.39%	629,608.6	16,789.7	2.67%
Deposits from banks and other financial institutions	121,082.9	5,045.4	4.17%	75,744.4	2,302.1	3.04%
Placements from banks and other financial institutions	29,831.8	779.8	2.61%	21,022.0	652.5	3.10%

	For the year ended December 31,					
	2018			2019		
	Average balance	Interest income/ expense	Average yield/cost[(1)]	Average balance	Interest income/ expense	Average yield/cost[(1)]
	(in millions of RMB, except percentages)					
Borrowing from the central bank	26,716.4	879.1	3.29%	28,657.5	941.8	3.29%
Financial assets sold under repurchase agreements	20,108.6	588.6	2.93%	26,401.3	683.0	2.59%
Debt securities issued[(4)]	186,480.6	8,440.1	4.53%	194,448.4	7,207.8	3.71%
Total interest-bearing liabilities	**958,973.2**	**29,493.6**	**3.08%**	**975,882.2**	**28,576.9**	**2.93%**
Net interest income		**15,227.9**			**22,910.4**	
Net interest spread[(5)]			**1.46%**			**2.03%**
Net interest margin[(6)]			**1.54%**			**2.21%**

Notes:

(1) Calculated by dividing interest income/expense by average balance.

(2) Consists of financial investments measured at amortised costs and financial investments measured at fair value through other comprehensive income.

(3) Consists primarily of statutory deposit reserves, surplus deposit reserves and fiscal deposits with the PBoC.

(4) Consists of certificates of interbank deposit, financial bonds, subordinate bonds and tier-two capital debts issued by us.

(5) Calculated as the difference between the average yield on total interest-earning assets and the average cost of total interest-bearing liabilities.

(6) Calculated by dividing net interest income by the average balance of total interest-earning assets.

The following table sets forth the allocation of changes in our interest income and interest expense due to changes in volume and changes in rate for the years indicated. Changes in volume are measured by changes in the average balances, and changes in rate are measured by changes in the average rates. Changes caused by both volume and rate have been allocated to changes in volume.

	For the year ended December 31,		
	2019 vs. 2018		
	Increase/(decrease) due to		
	Volume[(1)]	Rate[(2)]	Net Increase/ (decrease)[(3)]
	(in millions of RMB)		
Assets			
Loans and advances to customers	5,977.8	3,201.5	9,179.3
Financial investments	(2,406.3)	(352.7)	(2,759.0)
Deposits with the central bank[(4)]	(120.4)	8.7	(111.7)
Deposits with banks and other financial institutions	313.4	197.0	510.4
Placements with banks and other financial institutions	(27.3)	95.6	68.3
Financial assets held under resale agreements	(80.1)	(41.4)	(121.5)
Changes in interest income	**3,657.1**	**3,108.7**	**6,765.8**

	For the year ended December 31,		
	2019 vs. 2018		
	Increase/(decrease) due to		
	Volume(1)	Rate(2)	Net Increase/ (decrease)(3)
	(in millions of RMB)		
Liabilities			
Deposits from customers	1,419.8	1,609.3	3,029.1
Deposits from banks and other financial institutions	(1,375.1)	(1,368.2)	(2,743.3)
Placements from banks and other financial institutions	(273.5)	146.2	(127.3)
Borrowing from the central bank	62.7	–	62.7
Financial assets sold under repurchase agreements	162.8	(68.4)	94.4
Debt securities issued(5)	296.8	(1,529.1)	(1,232.3)
Changes in interest expense	**293.5**	**(1,210.2)**	**(916.7)**
Changes in net interest income	**3,363.6**	**4,318.9**	**7,682.5**

Notes:

(1) Represents the average balance for the year minus the average balance for the previous year, multiplied by the average yield/cost for the year.

(2) Represents the average yield/cost for the year minus the average yield/cost for the previous year, multiplied by the average balance for the previous year.

(3) Represents interest income/expense for the year minus interest income/expense for the previous year.

(4) Consists primarily of statutory deposit reserves, surplus deposit reserves and fiscal deposits with the PBoC.

(5) Consists of certificates of interbank deposit, financial bonds, subordinate bonds and tier-two capital debts issued by us.

Interest Income

Our interest income increased by 15.1% from RMB44,721.5 million in 2018 to RMB51,487.3 million in 2019, primarily due to (i) a 5.3% increase in the average balance of interest-earning assets from RMB986,058.4 million in 2018 to RMB1,037,928.2 million in 2019, and (ii) an increase in the average yield on interest-earning assets from 4.54% in 2018 to 4.96% in 2019. The increase in the average balance of interest-earning assets was primarily attributable to an increase in loans and advances to customers and deposits with banks and other financial institutions, which was in line with our business growth. The increase in the average yield on interest-earning assets was primarily attributable to an increase in the average yield on loans and advances to customers and deposits with banks and other financial institutions.

The following table sets forth a breakdown of our interest income for the years indicated.

	For the year ended December 31,			
	2018		2019	
	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)			
Interest income from				
Loans and advances to customers				
Corporate loans and advances	18,946.4	42.4%	23,679.9	46.0%
Personal loans	8,402.1	18.8%	12,529.0	24.3%
Discounted bills	131.0	0.3%	449.9	0.9%
Subtotal	**27,479.5**	**61.5%**	**36,658.8**	**71.2%**
Financial investments	15,045.7	33.6%	12,286.7	23.9%
Deposits with banks and other financial institutions	311.9	0.7%	822.3	1.6%
Placements with banks and other financial institutions	262.8	0.6%	331.1	0.6%
Financial assets held under resale agreements	357.0	0.8%	235.5	0.5%
Deposits with the central bank	1,264.6	2.8%	1,152.9	2.2%
Total interest income	**44,721.5**	**100.0%**	**51,487.3**	**100.0%**

Interest Income from Loans and Advances to Customers

Our interest income from loans and advances to customers was the largest component of our interest income, representing 61.5% and 71.2% of our interest income for 2018 and 2019, respectively.

The following table sets forth the average balance, interest income and average yield for each component of our loans and advances to customers for the years indicated.

	For the year ended December 31,					
	2018			2019		
	Average balance	Interest income	Average yield[(1)]	Average balance	Interest income	Average yield[(1)]
	(in millions of RMB, except percentages)					
Corporate loans and advances	379,638.9	18,946.4	4.99%	430,815.9	23,679.9	5.50%
Personal loans	151,280.2	8,402.1	5.55%	195,427.1	12,529.0	6.41%
Discounted bills	2,658.3	131.0	4.93%	11,644.8	449.9	3.86%
Total loans and advances to customers	**533,577.4**	**27,479.5**	**5.15%**	**637,887.8**	**36,658.8**	**5.75%**

Note:

(1) Calculated by dividing interest income by average balance.

Our interest income from loans and advances to customers increased by 33.4% from RMB27,479.5 million in 2018 to RMB36,658.8 million in 2019, primarily due to (i) a 19.5% increase in the average balance of loans and advances to customers from RMB533,577.4 million to RMB637,887.8 million, and (ii) an increase in the average yield of loans and advances to customers from 5.15% to 5.75%. The increase in the average balance of loans and advances to customers primarily reflected the overall growth of our lending business. The increase in the average yield on loans and advances to customers was primarily attributable to the increases in the average yield of corporate loans and advances and personal loans.

Interest income from corporate loans and advances was the largest component of our interest income from loans and advances to customers, representing 68.9% and 64.6% of our total interest income from loans and advances to customers for 2018 and 2019, respectively.

Corporate Loans and Advances

Our interest income from corporate loans and advances increased by 25.0% from RMB18,946.4 million in 2018 to RMB23,679.9 million in 2019, primarily because (i) the average balance of our corporate loans and advances increased by 13.5% from RMB379,638.9 million in 2018 to RMB430,815.9 million in 2019, and (ii) the average yield on our corporate loans and advances also increased from 4.99% in 2018 to 5.50% in 2019. The increase in the average balance of our corporate loans and advances was primarily attributable to our implementation of the bank-wide development plans and our continued endeavors to increase corporate loans and advances granted by us through enhancing marketing efforts, enriching products and improving customer experience. The increase in the average yield on our corporate loans and advances was primarily attributable to our efforts to improve our pricing management and strategies and to optimize the mix of our corporate loans and advances by increasing the proportion of the corporate loans and advances which had relatively higher interest rates.

Personal Loans

Our interest income from personal loans increased by 49.1% from RMB8,402.1 million in 2018 to RMB12,529.0 million in 2019, primarily because (i) the average balance of personal loans increased by 29.2% from RMB151,280.2 million in 2018 to RMB195,427.1 million in 2019, and (ii) the average yield on personal loans increased from 5.55% in 2018 to 6.41% in 2019. The increase in the average balance of our personal loans was primarily attributable to our continued efforts to grow our personal loan business, particularly the personal consumption loans, to meet different consumer demands and optimize our loan portfolios. The increase in the average yield on our personal loans was primarily due to the increased proportion of personal consumption loans which generally have higher yields.

Discounted Bills

Our interest income from discounted bills increased significantly from RMB131.0 million in 2018 to RMB449.9 million in 2019, primarily because the average balance of our discounted bills increased significantly from RMB2,658.3 million to RMB11,644.8 million, which was offset by the decrease in the average yield on discounted bills from 4.93% in 2018 to 3.86% in 2019. The increase in the average balance of our discounted bills was mainly due to our increased discounted bills transactions towards the end of 2018 as a result of increased market demand, which led to an increase in the average balance in 2019. The decrease in the average yield on our discounted bills was mainly attributable to the decline in the market interest rate of discounted bills.

Interest Income from Financial Investments

In 2018 and 2019, our interest income generated from our financial investments amounted to RMB15,045.7 million and RMB12,286.7 million, respectively, accounting for 33.6%, and 23.9% of our total interest income.

Our interest income from financial investments decreased by 18.3% from RMB15,045.7 million in 2018 to RMB12,286.7 million in 2019, primarily due to: (i) a 16.3% decrease in the average balance of our financial investments from RMB320,616.9 million in 2018 to RMB268,466.5 million in 2019; and (ii) a decrease in the average yield on our financial investments from 4.69% in 2018 to 4.58% in 2019. The decrease in the average balance of our financial investments was primarily because, in response to regulatory policies issued by PBoC and CBIRC in recent years, we limited and reduced the scale of certain SPV investment. For details on the impact of recent regulatory policies on our financial investments, please see "Assets and Liabilities – Assets – Financial Investments – Distribution of Financial Investments by Product Type". The decrease in the average yield on our financial investments was primarily due to the decreased scale of our SPV investment, thereby increasing the proportion of debt securities investment which has comparatively lower yields.

The following table sets forth a breakdown of our interest income from our debt securities investment and SPV investment as well as their respective average yield for the years indicated.

	For the year ended December 31,					
	2018			2019		
	Amount	% of total	Average yield[(1)]	Amount	% of total	Average yield[(1)]
	(in millions of RMB, except percentages)					
Debt securities investment	4,509.5	30.0%	3.43%	5,541.2	45.1%	3.47%
SPV investment	10,536.2	70.0%	5.57%	6,745.5	54.9%	6.21%
Total	**15,045.7**	**100.0%**	**4.69%**	**12,286.7**	**100.0%**	**4.58%**

Note:

(1) Calculated by dividing our interest income from the corresponding assets by the average balance of these assets.

In 2018 and 2019, our interest income from SPV investment represented 70.0% and 54.9%, respectively, of our total interest income from our financial investment business. The average yield on our SPV investment increased from 5.57% in 2018 to 6.21% in 2019, because: (i) certain SPV investments matured in 2019, and the remaining SPV investments generally had comparatively longer maturity thereby having higher average yield; and (ii) although the scale of our SPV investment reduced due to the impact of the relevant regulatory policies, we prudently elected to invest in asset management plans with high yields in accordance with our business strategy while maintaining strict risk control. The average yield on our debt securities investment amounted to 3.43% and 3.47% in 2018 and 2019, respectively, which remained relatively stable.

Interest Income from Deposits with Banks and Other Financial Institutions

Interest income from deposits with banks and other financial institutions represented 0.7% and 1.6% of our interest income in 2018 and 2019, respectively.

Our interest income from deposits with banks and other financial institutions increased from RMB311.9 million in 2018 to RMB822.3 million in 2019, primarily due to (i) a 61.5% increase in the average balance of our deposits with banks and other financial institutions from RMB19,894.0 million in 2018 to RMB32,133.8 million in 2019, and (ii) an increase in the average yield on our deposits with banks and other financial institutions from 1.57% in 2018 to 2.56% in 2019. The increase in the average balance of our deposits with banks and other financial institutions was primarily due to the increased average balance of time deposits we maintained with other banks. The increase in the average yield on our deposits with banks and other financial institutions was mainly attributable to the increased proportion of time deposits which had comparatively high yields.

Interest Income from Placements with Banks and Other Financial Institutions

Interest income from placements with banks and other financial institutions represented 0.6% and 0.6% of our interest income in 2018 and 2019, respectively.

Our interest income from placements with banks and other financial institutions increased by 26.0% from RMB262.8 million in 2018 to RMB331.1 million in 2019, primarily due to an increase in the average yield on our placements with banks and other financial institutions from 2.61% in 2018 to 3.56% in 2019, which was partially offset by a 7.7% decrease in the average balance of our placements with banks and other financial institutions from RMB10,064.4 million in 2018 to RMB9,292.0 million in 2019.

Interest Income from Financial Assets Held under Resale Agreements

Interest income from financial assets held under resale agreements represented 0.8% and 0.5% of our interest income in 2018 and 2019, respectively.

Our interest income from financial assets held under resale agreements decreased by 34.0% from RMB357.0 million in 2018 to RMB235.5 million in 2019, primarily due to (i) a 25.1% decrease in the average balance of our financial assets held under resale agreements from RMB14,787.1 million in 2018 to RMB11,078.6 million in 2019, and (ii) a decrease in the average yield on our financial assets held under resale agreements from 2.41% to 2.13%. The average balance of our financial assets held under resale agreements decreased in 2019, as we reduced the scale of financial assets held under resale transactions according to our liquidity position. The decrease in the average yield on our financial assets held under resale agreements was primarily due to lower market interest rates as market liquidity improved in 2019, which in turn led to a decrease in the yield on reverse repurchase transactions.

Interest Income from Deposits with the Central Bank

Our deposits with the central bank consist primarily of statutory deposit reserves, surplus deposit reserves and fiscal deposits with the PBoC. Interest income from deposits with the central bank represented 2.8% and 2.2% of our interest income in 2018 and 2019, respectively.

Interest income from deposits with the central bank decreased by 8.8% from RMB1,264.6 million in 2018 to RMB1,152.9 million in 2019, primarily due to a 9.2% decrease in the average balance of our deposits with the central bank from RMB87,118.6 million to RMB79,069.5 million. The decrease in average balance of our deposits with the central bank was mainly attributable to the decreased statutory deposit reserve ratio. The average yield on deposits with the central bank was 1.45% and 1.46% in 2018 and 2019, respectively, which remained relatively stable.

Interest Expense

Our interest expense decreased by 3.1% from RMB29,493.6 million in 2018 to RMB28,576.9 million in 2019, primarily because the average cost on interest-bearing liabilities decreased from 3.08% to 2.93%, which was partially offset by a 1.8% increase in the average balance of interest-bearing liabilities from RMB958,973.2 million to RMB975,882.2 million. The following table sets forth a breakdown of our interest expense for the years indicated.

	For the year ended December 31,			
	2018		2019	
	Amount	% of total	Amount	% of total
	(in millions of RMB, except for percentages)			
Interest expense on				
Deposits from customers	13,760.6	46.7%	16,789.7	58.8%
Deposits from banks and other financial institutions	5,045.4	17.1%	2,302.1	8.1%
Placements from banks and other financial institutions	779.8	2.6%	652.5	2.3%
Financial assets sold under repurchase agreements	588.6	2.0%	683.0	2.3%
Debt securities issued	8,440.1	28.6%	7,207.8	25.2%
Borrowing from the central bank	879.1	3.0%	941.8	3.3%
Total interest expense	**29,493.6**	**100.0%**	**28,576.9**	**100.0%**

Interest Expense on Deposits from Customers

Deposits from customers were our primary source of funding. Our interest expense on deposits from customers accounted for 46.7% and 58.8% of our total interest expense in 2018 and 2019, respectively.

The following table sets forth the average balance, interest expense and average cost of our deposits from customers by product type for the years indicated.

	For the year ended December 31,					
	2018			2019		
	Average balance	Interest expense	Average cost(1)	Average balance	Interest expense	Average cost(1)
	(in millions of RMB, except percentages)					
Corporate deposits						
Time	238,615.2	8,908.2	3.73%	242,384.1	9,077.1	3.74%
Demand	213,861.1	1,589.9	0.74%	175,765.7	1,268.0	0.72%
Subtotal	**452,476.3**	**10,498.1**	**2.32%**	**418,149.8**	**10,345.1**	**2.47%**
Personal deposits						
Time	14,475.6	551.4	3.81%	25,319.3	982.8	3.88%
Demand	14,186.2	51.0	0.36%	21,341.4	76.2	0.36%
Subtotal	**28,661.8**	**602.4**	**2.10%**	**46,660.7**	**1,059.0**	**2.27%**
Pledged deposits and others(2)	**93,614.8**	**2,660.1**	**2.84%**	**164,798.1**	**5,385.6**	**3.27%**
Total deposits from customers	**574,752.9**	**13,760.6**	**2.39%**	**629,608.6**	**16,789.7**	**2.67%**

Notes:

(1) Calculated by dividing interest expense by average balance.

(2) Others mainly consists of fiscal deposits.

Our interest expense on deposits from customers increased by 22.0% from RMB13,760.6 million in 2018 to RMB16,789.7 million in 2019, primarily because (i) the average cost on deposits from customers increased from 2.39% in 2018 to 2.67% in 2019, and (ii) the average balance of deposits from customers increased by 9.5% from RMB574,752.9 million in 2018 to RMB629,608.6 million in 2019. The increase in the average cost on deposits from customers was mainly due to the increased proportion of time deposits with relatively high cost. The increase in the average balance of deposits from customers primarily resulted from our endeavor to develop deposit business by enhancing marketing efforts, improving service quality and optimizing product portfolios in accordance with our bank-wide business development plan.

Interest Expense on Deposits from Banks and Other Financial Institutions

Our interest expense on deposits from banks and other financial institutions accounted for 17.1% and 8.1% of our total interest expense in 2018 and 2019, respectively.

Our interest expense on deposits from banks and other financial institutions decreased by 54.4% from RMB5,045.4 million in 2018 to RMB2,302.1 million in 2019, primarily because (i) the average balance of deposits from banks and other financial institutions decreased by 37.4% from RMB121,082.9 million in 2018 to RMB75,744.4 million in 2019, and (ii) the average cost on deposits from banks and other financial institutions decreased from 4.17% in 2018 to 3.04% in 2019. The decrease in the average balance of deposits from banks and other financial institutions was primarily as a result of our issuance of more certificates of interbank deposits which had higher liquidity and optimization of the liability structure. The decrease in the average cost on deposits from banks and other financial institutions was primarily attributable to (i) a decrease in market interest rates as a result of the increased market liquidity, and (ii) our enhancing our active liability management, shortening the terms of deposits from banks and other financial institutions, and optimizing the liability structure.

Interest Expense on Placements from Banks and Other Financial Institutions

Our interest expense on placements from banks and other financial institutions accounted for 2.6% and 2.3% of our total interest expense in 2018 and 2019, respectively.

Our interest expense on placements from banks and other financial institutions decreased by 16.3% from RMB779.8 million in 2018 to RMB652.5 million in 2019, primarily due to a 29.5% decrease in the average balance of placements from banks and other financial institutions from RMB29,831.8 million in 2018 to RMB21,022.0 million in 2019, which was partially offset by an increase in the average cost on placements from banks and other financial institutions from 2.61% in 2018 to 3.10% in 2019.

Interest Expense on Financial Assets Sold under Repurchase Agreements

Our interest expense on financial assets sold under repurchase agreements accounted for 2.0% and 2.3% of our total interest expense in 2018 and 2019, respectively.

Our interest expense on financial assets sold under repurchase agreements increased by 16.0% from RMB588.6 million in 2018 to RMB683.0 million in 2019, primarily because the average balance of financial assets sold under repurchase agreements increased by 31.3% from RMB20,108.6 million in 2018 to RMB26,401.3 million in 2019, which was partially offset by a decrease in the average cost on financial assets sold under repurchase agreements from 2.93% in 2018 to 2.59% in 2019. The increase in the average balance of financial assets sold under repurchase agreements primarily reflected the increased scale of repurchase transactions we carried out to raise funds in accordance with our liquidity needs. The decrease in the average cost on financial assets sold under repurchase agreements was primarily due to (i) an increase in short-term transactions which generally have lower interest rates; and (ii) a decrease in the interbank market interest rate as a result of increased market liquidity.

Interest Expense on Debt Securities Issued

Interest expense on debt securities issued accounted for 28.6% and 25.2% of our interest expense in 2018 and 2019, respectively. Please see the subsection headed "– Capital Resources – Debt – Debt Securities Issued".

Our interest expense on debt securities issued decreased by 14.6% from RMB8,440.1 million in 2018 to RMB7,207.8 million in 2019, primarily because the average cost on debt securities issued decreased from 4.53% in 2018 to 3.71% in 2019, which was partially offset by a 4.3% increase in the average balance of debt securities issued from RMB186,480.6 million in 2018 to RMB194,448.4 million in 2019. The decrease in the average cost on debt securities issued was primarily attributable to (i) a decline in the market interest rates as a result of increased market liquidity, and (ii) the reduced duration of the certificates of interbank deposit issued by us, which resulted in a decrease in the average interest rate of certificates of interbank deposit issued. The increase in the average balance of debt securities issued was primarily because we issued a number of certificates of interbank deposit in 2018 and 2019 and issued financial bonds in 2018 which we believe constitute a stable source of funding. Please see "Financial Information – Capital Resources – Debt – Debt Securities Issued" for details of our certificate of interbank deposits issued during the Track Record Period.

Interest Expense on Borrowing from the Central Bank

Our interest expense on borrowing from the central bank accounted for 3.0% and 3.3% of our interest expense in 2018 and 2019, respectively.

Our interest expense on borrowing from the central bank increased by 7.1% from RMB879.1 million in 2018 to RMB941.8 million in 2019, primarily due to a 7.3% increase in average balance of borrowing from the central bank from RMB26,716.4 million in 2018 to RMB28,657.5 million in 2019. The average cost of borrowing from the central bank remained stable at 3.29% in 2018 and 2019.

Net Interest Spread and Net Interest Margin

Net interest spread is the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities. Net interest margin is the ratio of net interest income to the average balance of total interest-earning assets.

Our net interest spread increased from 1.46% in 2018 to 2.03% in 2019, primarily because (i) our average yield on interest-earning assets increased from 4.54% in 2018 to 4.96% in 2019, and (ii) our average costs on interest-bearing liabilities decreased from 3.08% in 2018 to 2.93% in 2019. Our average yield on interest-earning assets increased in 2019, primarily attributable to an increase in the average yield of loans and advances to customers, as we increased the proportion of personal loans which had relatively high yields to optimize our asset structure, and our successful efforts to improve pricing management. Our average cost on interest-bearing liabilities decreased in 2019, primarily due to a decrease in the average cost on deposits from banks and other financial institutions and on the certificates of interbank deposit issued by us.

Our net interest margin increased from 1.54% in 2018 to 2.21% in 2019, primarily because the growth of the net interest income outpaced the growth of the average balance.

Net Fee and Commission Income

The following table sets forth, for the years indicated, the principal components of our net fee and commission income.

	For the year ended December 31,	
	2018	**2019**
	(in millions of RMB)	
Fee and commission income		
Agency service fees	2,933.8	2,455.3
Consulting service fees	1,673.4	678.4
Custodian service fees	1,331.5	1,090.4
Credit commitments and asset management fees	330.1	279.9
Settlement and clearing fees	381.2	486.2
Bank card fees	86.5	153.9
Others	392.2	290.2
Subtotal	**7,128.7**	**5,434.3**
Fee and commission expense		
Agency service fees	(124.1)	(72.6)
Bank card fees	(144.0)	(115.5)
Consulting service fees	(19.3)	(32.9)
Settlement and clearing fees	(52.9)	(37.3)
Information service fees	(420.9)	(936.1)
Others	(10.2)	(14.1)
Subtotal	**(771.4)**	**(1,208.5)**
Net fee and commission income	**6,357.3**	**4,225.8**

Our net fee and commission income decreased by 33.5% from RMB6,357.3 million in 2018 to RMB4,225.8 million in 2019, primarily because of (i) a 23.8% decrease in fee and commission income from RMB7,128.7 million in 2018 to RMB5,434.3 million in 2019, and (ii) a 56.7% increase in fee and commission expense from RMB771.4 million in 2018 to RMB1,208.5 million in 2019.

The decrease in fee and commission income was mainly due to (i) a 59.5% decrease of the consulting service fees from RMB1,673.4 million in 2018 to RMB678.4 million in 2019 due to our adjustment of business mix and proactive reduction of offering the consulting services associated with wealth management business according to the changing market and regulatory environment; (ii) a 18.1% decrease of the custodian service fees from RMB1,331.5 million in 2018 to RMB1,090.4 million in 2019 mainly attributable to the intensified market competition; and (iii) a 16.3% decrease of the agency service fees from RMB2,933.8 million in 2018 to RMB2,455.3 million in 2019 primarily due to a reduction in management fees we recognized from offering wealth management products, which was further attributable to our adjustment of wealth management business and transition into offering non-principal protected, NAV-measured products whose funds were mainly invested in standardized products, such as debt securities with relatively low risks and yields, in response to the relevant regulatory policies issued in recent years. For details on the recent regulatory policies and the adjustment of our wealth management business, please see "Business – Our Principal Businesses – Financial Markets – Wealth Management" and "Supervision and Regulation – Regulation on Principal Commercial Banking Activities – Wealth Management Business".

The increase in fee and commission expenses was primarily attributable to a significant increase of the information service fees from RMB420.9 million in 2018 to RMB936.1 million in 2019, which was in line with the rapid growth of our personal consumption loan business.

Net Trading (Losses)/Gains

We recorded net trading losses of RMB492.6 million for 2018, and recognized net trading gains of RMB196.4 million for 2019. The net trading losses or gains mainly reflected the fluctuations in market interest rates, foreign exchange rates and commodity prices.

Net Gains Arising from Investment Securities

Our net gains arising from investment securities decreased by 51.5% from RMB1,985.1 million for 2018 to RMB961.9 million for 2019, primarily due to a significant decrease in net gains of financial investments at fair value through profit or loss as a result of our decreased scale of SPV investment.

Other Components of Our Operating Income

Other components of our operating income consisted primarily of governmental grants and rental income. Other components of our operating income were RMB132.4 million and RMB84.0 million in 2018 and 2019, respectively, representing 0.6% and 0.3% of our operating income, respectively. This decrease in other components of our operating income was primarily due to a decrease in government grants.

Operating Expenses

The following table sets forth the principal components of our total operating expenses for the years indicated.

	For the year ended December 31,	
	2018	2019
	(in millions of RMB)	
Staff costs	5,243.3	5,350.9
Depreciation and amortization	547.2	1,398.8
Taxes and surcharges	293.2	354.2
Rental and property management expenses	988.9	173.0
Interest expense on lease liabilities	–	174.0
Other general and administrative expenses(1)	1,603.1	1,406.0
Total operating expenses	**8,675.7**	**8,856.9**
Cost-to-income ratio(2)	35.40%	29.50%

Notes:

(1) Consist primarily of business marketing expenses, electronic equipment operating costs, security expenses, cash transport charges and insurance premiums for deposits.

(2) Calculated by dividing total operating expenses (excluding taxes and surcharges) by total operating income.

Our operating expenses increased by 2.1% from RMB8,675.7 million in 2018 to RMB8,856.9 million in 2019, primarily due to increases in staff costs, depreciation and amortization.

Our cost-to-income ratio (excluding taxes and surcharges) was 35.40% and 29.50% in 2018 and 2019, respectively. This decrease in our cost-to-income ratio primarily reflected our effective cost control over other general and administrative expenses and the increase of our operating income.

Staff Costs

Staff costs were the largest component of our operating expenses, representing 60.4% of our total operating expenses in 2018 and 2019, respectively.

The following table sets forth the components of our staff costs for the years indicated.

	For the year ended December 31,	
	2018	**2019**
	(in millions of RMB)	
Salaries, bonuses and allowances	3,707.8	3,783.0
Social insurance and annuity	565.9	605.3
Housing allowances	315.9	367.6
Staff welfare	176.5	171.0
Employee education expenses and labour union expenses	155.7	122.6
Others	321.5	301.4
Total staff costs	**5,243.3**	**5,350.9**

Our staff costs increased by 2.1% from RMB5,243.3 million in 2018 to RMB5,350.9 million in 2019, primarily due to the increased salaries, bonuses and allowances.

Depreciation and Amortization

Our depreciation and amortization consists primarily of depreciation of fixed assets, depreciation of right-of-use assets, amortization of intangible assets and amortization of long-term deferred expenses. Our depreciation and amortization increased significantly from RMB547.2 million in 2018 to RMB1,398.8 million in 2019, primarily because we started to recognize right-of-use assets under IFRS 16 on January 1, 2019 which resulted in an increase in depreciation of right-of-use assets at the amount of RMB819.9 million for 2019.

Taxes and Surcharges

Our taxes and surcharges increased by 20.8% from RMB293.2 million in 2018 to RMB354.2 million in 2019, primarily due to an increase in our payment for value-added tax.

Rental and Property Management Expenses

Our rental and property management expenses decreased by 82.5% from RMB988.9 million in 2018 to RMB173.0 million in 2019, primarily due to the application of IFRS 16 in 2019. For details on the impact of adopting IFRS 16 on our results of operations, see the subsection headed "– Critical Accounting Judgments and Key Sources of Estimation Uncertainty – Impact of New Accounting Policies".

Interest Expense on Lease Liabilities

Our interest expense on lease liabilities amounted to nil and RMB174.0 million in 2018 and 2019, respectively, mainly reflecting the impact of IFRS 16 which we started to adopt in 2019. For details on the impact of adopting IFRS 16 on our results of operations, see the subsection headed "– Critical Accounting Judgments and Key Sources of Estimation Uncertainty – Impact of New Accounting Policies".

Other General and Administrative Expenses

Our other general and administrative expenses primarily consist of business marketing expenses, electronic equipment operating costs, security expenses, cash transport charges and insurance premiums for deposits. Other general and administrative expenses decreased by 12.3% from RMB1,603.1 million in 2018 to RMB1,406.0 million in 2019, primarily reflecting our efforts to control over other general and administrative expenses.

Impairment Losses on Assets

The following table sets forth the principal components of our impairment losses on assets for the years indicated.

	For the year ended December 31,	
	2018	**2019**
	(in millions of RMB)	
Impairment losses/(reversals) on assets:		
Loans and advances to customers	7,245.8	8,789.2
Financial investments	(902.8)	807.1
Deposits with banks and other financial institutions	36.7	139.7
Credit commitments	131.0	(171.9)
Others	(2.8)	2.8
Total	**6,507.9**	**9,566.9**

Impairment losses on assets increased by 47.0% from RMB6,507.9 million in 2018 to RMB9,566.9 million in 2019, primarily because (i) we recorded impairment losses on financial investments of RMB807.1 million in 2019 compared to impairment reversals on financial investments of RMB902.8 million in 2018; and (ii) the impairment losses on loans and advances to customers increased from RMB7,245.8 million in 2018 to RMB8,789.2 million in 2019.

Our impairment losses on loans and advances to customers increased by 21.3% from RMB7,245.8 million in 2018 to RMB8,789.2 million in 2019, primarily due to the increased loans and advances to customers as a result of our business growth.

We recognized impairment reversal on financial investments of RMB902.8 million in 2018, and impairment losses on financial investments of RMB807.1 million in 2019, which was primarily due to (i) the increased provision on certain financial investments in 2019 based on the actual level of risk and days of default in line with the principle of prudence, and (ii) our reducing SPV investment in 2018 in accordance with relevant regulatory policies, which resulted in a substantial decrease in the impairment allowance on financial investments as of the end of 2018 as compared to the beginning of 2018.

Our impairment losses on credit commitments was RMB131.0 million in 2018, mainly attributable to the increased bank acceptances. In 2019, we recorded impairment reversals on credit commitments of RMB171.9 million, as (i) the proportion of bank acceptance business with low risks increased and the level of security deposits was improved, and (ii) certain bank acceptances matured in 2019 and became advances, as a result of which, their impairment losses were included in the impairment losses on loans and advances rather than those on credit commitments.

Our impairment losses on deposits with banks and other financial institutions increased significantly from RMB36.7 million in 2018 to RMB139.7 million in 2019, primarily attributable to increased credit risks relating to certain counterparties.

Income Tax

The following table sets forth the reconciliation between the income tax calculated at the statutory income tax rate applicable to our profit before tax and our actual income tax for the years indicated.

	For the year ended December 31,	
	2018	**2019**
	(in millions of RMB)	
Profit before tax	8,027.5	9,901.9
Income tax calculated at applicable statutory tax rate of 25%	2,006.9	2,475.5
Non-deductible expenses	71.0	94.4
Non-taxable income[(1)]	(760.4)	(868.9)
Others[(2)]	(370.2)	8.1
Income tax	**947.3**	**1,709.1**

Notes:

(1) Non-taxable income mainly represents interest income from PRC government bonds and municipal debt securities, and dividend income from funds, which is non-taxable in accordance with PRC tax regulations.

(2) Consists primarily of differences from annual filings and the impact of changing accounting policies on the amount of current taxable income.

Our income tax expenses increased by 80.4% from RMB947.3 million in 2018 to RMB1,709.1 million in 2019 primarily attributable to the impact of adopting IFRS 9 to replace IAS 39 on the amount of current taxable income in 2018. Since January 1, 2018, we have adopted IFRS 9 to replace IAS 39. As a result, certain of our financial assets measured at amortized cost that were interest-earning under IAS 39 were reclassified to financial assets measured at fair value through profit or loss which were not interest-earning under IFRS 9, and thereby, upon changing the accounting policy, we reversed the accrued interest arising from such assets in the book. Since the income tax corresponding to this interest income had already been paid prior to 2018, we did not pay taxes repetitively when this income was actually received in 2018, which further resulted in a comparatively low taxable income in 2018.

Our effective income tax rate was 11.8% and 17.3% in 2018 and 2019, respectively.

The following table sets forth the components of our income tax expenses for the years indicated.

	For the year ended December 31,	
	2018	**2019**
	(in millions of RMB)	
Current income tax – PRC enterprise income tax	1,678.9	3,237.0
Deferred income tax	(731.6)	(1,527.9)
Total income tax	**947.3**	**1,709.1**

Net Profit

Primarily as a result of all the foregoing factors, our net profit increased by 15.7% from RMB7,080.2 million in 2018 to RMB8,192.8 million in 2019.

Other Comprehensive Income

Changes in Fair Value and Provision for Impairment Losses of Financial Assets Measured at Fair Value through Other Comprehensive Income

According to IFRS 9 which we have adopted since January 1, 2018, financial assets measured at fair value through other comprehensive income consist of debt securities, SPV investment, equity investments and discounted bills, which were originally classified as (i) available-for-sale financial assets, (ii) investments classified as receivables, or (iii) loans and advances to customers under IAS 39. We recorded a gain from changes in fair value of financial assets measured at fair value through other comprehensive income at the amount of RMB752.8 million and RMB73.2 million in 2018 and 2019, respectively. We incurred impairment losses of RMB4.8 million and impairment gains of RMB612.8 million on such financial assets in 2018 and 2019, respectively, in accordance with the expected credit loss model under IFRS 9.

RESULTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2018

Net Interest Income

Net interest income was the largest component of our operating income, representing 67.4% and 65.6% of our operating income in 2017 and 2018, respectively.

The following table sets forth our interest income, interest expense and net interest income for the years indicated.

	For the years ended December 31,	
	2017	2018
	(in millions of RMB)	
Interest income	40,865.2	44,721.5
Interest expense	(23,844.8)	(29,493.6)
Net interest income	**17,020.4**	**15,227.9**

Our net interest income decreased by 10.5% from RMB17,020.4 million in 2017 to RMB15,227.9 million in 2018, primarily due to a 23.7% increase in the interest expense for the same periods, which was partially offset by a 9.4% increase in the interest income. Our interest income increased at a slower rate than our interest expense, mainly because interest income from financial investments measured at fair value through profit or loss previously recognized in the "interest income" under IAS 39 was recognized in the "net gains arising from investment securities" or "net trading gains" under IFRS 9.

The following table sets forth the average balances of our interest-earning assets and interest-bearing liabilities, the related interest income or expense, and the related average yield on assets or related average cost on liabilities for the years indicated.

	For the year ended December 31,					
	2017			2018		
	Average balance	Interest income/ expense	Average yield/ cost(1)	Average balance	Interest income/ expense	Average yield/ cost(1)
	(in millions of RMB, except percentages)					
Interest-earning assets						
Loans and advances to customers	416,645.4	18,904.8	4.54%	533,577.4	27,479.5	5.15%
Financial investments(2)	419,821.9	19,885.0	4.74%	320,616.9	15,045.7	4.69%
Deposits with the central bank(3)	88,002.8	1,313.2	1.49%	87,118.6	1,264.6	1.45%
Deposits with banks and other financial institutions	12,327.5	125.7	1.02%	19,894.0	311.9	1.57%
Placements with banks and other financial institutions	6,804.8	121.9	1.79%	10,064.4	262.8	2.61%
Financial assets held under resale agreements	16,014.2	514.6	3.21%	14,787.1	357.0	2.41%
Total interest-earning assets	**959,616.6**	**40,865.2**	**4.26%**	**986,058.4**	**44,721.5**	**4.54%**

	For the year ended December 31,					
	2017			2018		
	Average balance	Interest income/ expense	Average yield/ cost(1)	Average balance	Interest income/ expense	Average yield/ cost(1)
	(in millions of RMB, except percentages)					
Interest-bearing liabilities						
Deposits from customers	544,897.2	10,797.3	1.98%	574,752.9	13,760.6	2.39%
Deposits from banks and other financial institutions	164,545.9	6,179.3	3.76%	121,082.9	5,045.4	4.17%
Placements from banks and other financial institutions	33,660.7	828.5	2.46%	29,831.8	779.8	2.61%
Borrowing from the central bank	19,760.3	622.2	3.15%	26,716.4	879.1	3.29%
Financial assets sold under repurchase agreements	20,540.7	609.1	2.97%	20,108.6	588.6	2.93%
Debt securities issued(4)	113,463.5	4,808.4	4.24%	186,480.6	8,440.1	4.53%
Total interest-bearing liabilities	**896,868.3**	**23,844.8**	**2.66%**	**958,973.2**	**29,493.6**	**3.08%**
Net interest income		**17,020.4**			**15,227.9**	
Net interest spread(5)			**1.60%**			**1.46%**
Net interest margin(6)			**1.77%**			**1.54%**

Notes:

(1) Calculated by dividing interest income/expense by average balance.

(2) Under IAS 39, such financial investments consists of financial investments measured at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and investments classified as receivables. Under IFRS 9, such financial investments consists of financial investments measured at amortised costs and financial investments measured at fair value through other comprehensive income. For details, see "Assets and Liabilities – Assets – Financial Investments".

(3) Consists primarily of statutory deposit reserves, surplus deposit reserves and fiscal deposits with the PBoC.

(4) Consists of certificates of interbank deposit, financial bonds, subordinate bonds and tier-two capital debts issued by us.

(5) Calculated as the difference between the average yield on total interest-earning assets and the average cost of total interest-bearing liabilities.

(6) Calculated by dividing net interest income by the average balance of total interest-earning assets.

The following table sets forth the allocation of changes in our interest income and interest expense due to changes in volume and changes in rate for the years indicated according to the accounting policies that we adopted. Changes in volume are measured by changes in the average balances, and changes in rate are measured by changes in the average rates. Changes caused by both volume and rate have been allocated to changes in volume.

	Year ended December 31, 2018 vs. 2017		
	Increase/(decrease) due to		
	Volume(1)	Rate(2)	Net Increase/ (decrease)(3)
	(in millions of RMB)		
Assets			
Loans and advances to customers	6,033.2	2,541.5	8,574.7
Financial investments	(4,629.4)	(209.9)	(4,839.3)
Deposits with the central bank(4)	(13.4)	(35.2)	(48.6)
Deposits with banks and other financial institutions	118.4	67.8	186.2
Placements with banks and other financial institutions	85.1	55.8	140.9
Financial assets held under resale agreements	(29.4)	(128.2)	(157.6)
Changes in interest income	**1,564.5**	**2,291.8**	**3,856.3**
Liabilities			
Deposits from customers	729.1	2,234.2	2,963.3
Deposits from banks and other financial institutions	(1,808.5)	674.6	(1,133.9)
Placements from banks and other financial institutions	(99.2)	50.5	(48.7)
Borrowing from the central bank	229.2	27.7	256.9
Financial assets sold under repurchase agreements	(12.3)	(8.2)	(20.5)
Debt securities issued(5)	3,302.7	329.0	3,631.7
Changes in interest expense	**2,341.0**	**3,307.8**	**5,648.8**
Changes in net interest income	**(776.5)**	**(1,016.0)**	**(1,792.5)**

Notes:

(1) Represents the average balance for the year minus the average balance for the previous year, multiplied by the average yield/cost for the year.

(2) Represents the average yield/cost for the year minus the average yield/cost for the previous year, multiplied by the average balance for the previous year.

(3) Represents interest income/expense for the year minus interest income/expense for the previous year.

(4) Consists primarily of statutory deposit reserves, surplus deposit reserves and fiscal deposits with the PBoC.

(5) Consists of certificates of interbank deposit, financial bonds, subordinate bonds and tier-two capital debts issued by us.

Interest Income

Our interest income increased from RMB40,865.2 million in 2017 to RMB44,721.5 million in 2018, mainly attributable (i) a 2.8% increase in the average balance of our interest-earning assets from RMB959,616.6 million in 2017 to RMB986,058.4 million in 2018, and (ii) an increase in the average yield on our interest-earning assets from 4.26% in 2017 to 4.54% in 2018. The increase in the average balance of our interest-earning assets was primarily attributable to the increase in the average balance of our loans and advances to customers, while the increase in the average yield on our interest-earning assets was mainly due to the increase in the average yield on our loans and advances to customers.

The following table sets forth a breakdown of our interest income for the years indicated.

	For the year ended December 31,			
	2017		2018	
	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)			
Interest income from				
Loans and advances to customers				
Corporate loans and advances	14,459.1	35.4%	18,946.4	42.4%
Personal loans	4,368.7	10.7%	8,402.1	18.8%
Discounted bills	77.0	0.2%	131.0	0.3%
Subtotal	**18,904.8**	**46.3%**	**27,479.5**	**61.5%**
Financial investments	19,885.0	48.7%	15,045.7	33.6%
Deposits with banks and other financial institutions	125.7	0.3%	311.9	0.7%
Placements with banks and other financial institutions	121.9	0.3%	262.8	0.6%
Financial assets held under resale agreements	514.6	1.2%	357.0	0.8%
Deposits with the central bank	1,313.2	3.2%	1,264.6	2.8%
Total interest income	**40,865.2**	**100.0%**	**44,721.5**	**100.0%**

Interest Income from Loans and Advances to Customers

Our interest income from loans and advances to customers represented 46.3% and 61.5% of our interest income in 2017 and 2018, respectively.

Our interest income from loans and advances to customers increased by 45.4% from RMB18,904.8 million in 2017 to RMB27,479.5 million in 2018, primarily due to (i) a 28.1% increase in the average balance of loans and advances to customers from RMB416,645.4 million in 2017 to RMB533,577.4 million in 2018, and (ii) an increase in the average yield on loans and advances to customers from 4.54% in 2017 to 5.15% in 2018. The increase in the average balance of loans and advances to customers was primarily due to the continued development of our corporate and retail banking business. The increase in the average yield on loans and advances to customers was primarily attributable to the increased average yield on corporate loans and personal loans as a result of our pricing management and our development of quality products that allowed us to generate comparatively higher yields, while keeping our risks under control.

The following table sets forth the average balance, interest income and average yield for each component of our loans and advances to customers for the years indicated.

	For the year ended December 31,					
	2017			2018		
	Average balance	Interest income	Average yield(1)	Average balance	Interest income	Average yield(1)
	(in millions of RMB, except percentages)					
Corporate loans and advances	315,258.1	14,459.1	4.59%	379,638.9	18,946.4	4.99%
Personal loans	99,398.3	4,368.7	4.40%	151,280.2	8,402.1	5.55%
Discounted bills	1,989.0	77.0	3.87%	2,658.3	131.0	4.93%
Total loans and advances to customers	**416,645.4**	**18,904.8**	**4.54%**	**533,577.4**	**27,479.5**	**5.15%**

Note:

(1) Calculated by dividing interest income by average balance.

Interest income from corporate loans and advances was the largest component of our interest income from loans and advances to customers, representing 76.5% and 68.9% of our total interest income from loans and advances to customers in 2017 and 2018, respectively.

Corporate Loans and Advances

Our interest income from corporate loans and advances increased by 31.0% from RMB14,459.1 million in 2017 to RMB18,946.4 million in 2018, primarily, because (i) the average balance of our corporate loans and advances increased by 20.4% from RMB315,258.1 million in 2017 to RMB379,638.9 million in 2018 and (ii) the average yield on our corporate loans and advances increased from 4.59% in 2017 to 4.99% in 2018. The increase in the average balance of our corporate loans and advances was primarily attributable to our continued efforts to increase our corporate loans and advances through implementing the bank-wide business development plans, marketing efforts, enriching products and improving customer experience. The increase in the average yield on our corporate loans and advances was mainly because (i) we selected to extend more loans to certain clients which had relatively high yields, while maintaining strict risk control, and (ii) we continuously optimized our pricing mechanism to improve the overall profitability of our loan products.

Personal Loans

Our interest income from personal loans increased by 92.3% from RMB4,368.7 million in 2017 to RMB8,402.1 million in 2018, primarily because (i) the average balance of personal loans increased by 52.2% from RMB99,398.3 million in 2017 to RMB151,280.2 million in 2018, and (ii) the average yield on personal loans increased from 4.40% in 2017 to 5.55% in 2018. The increase in the average balance of our personal loans was primarily attributable to our efforts to develop our personal loan business by enriching products, broadening the channels of obtaining customers and enhancing marketing efforts. The increase in the average yield on our personal loans was primarily because we continued to optimize the structure of personal loan portfolios to allocate more resources to personal consumption loans which had relatively high yields, while maintaining risk under control.

Discounted Bills

Our interest income from discounted bills increased by 70.1% from RMB77.0 million in 2017 to RMB131.0 million in 2018, primarily because (i) the average yield on discounted bills increased 3.87% in 2017 to 4.93% in 2018, and (ii) the average balance of our discounted bills increased by 33.7% from RMB1,989.0 million in 2017 to RMB2,658.3 million in 2018. The average balance of our discounted bills increased mainly because we increased the scale of discounted bills in 2018 in consideration of various factors such as the market interest rates, the relatively lower risk and higher liquidity of discounted bills. The increase in the average yield on our discounted bills resulted from accelerated turnover of bill assets in 2018.

Interest Income from Financial Investments

Interest income from financial investments represented 48.7% and 33.6% of our interest income in 2017 and 2018, respectively.

Our interest income from financial investments decreased by 24.3% from RMB19,885.0 million in 2017 to RMB15,045.7 million in 2018. The decrease in our interest income from financial investment was primarily because of (i) a decrease in the average yield on our financial investments from 4.74% in 2017 to 4.69% in 2018; and (ii) a 23.6% decrease in the average balance of the financial investments from RMB419,821.9 million in 2017 to RMB320,616.9 million in 2018. The decrease in the average yield of our financial investments was primarily attributable to (i) the increase of debt securities investment which generally have lower risk and returns, and (ii) the reduction of our SPV investment due to the impact of the relevant regulatory policies, which generally have comparatively high yields. For details on the impact of recent regulatory policies on our financial investments, please see "Assets and Liabilities – Assets – Financial Investments – Distribution of Financial Investments by Product Type". The average balance of our financial investments decreased because (i) we reduced the scale of SPV investment in response to the relevant regulatory policies; and (ii) certain financial investments measured at fair value through profit or loss were no longer considered as interest-earning assets under IFRS 9, as their interest income previously recognized in "interest income" under IAS 39 was recognized in "net trading gains" or "net gains from investment securities" under IFRS 9.

The following table sets forth a breakdown of our interest income from our debt securities investment and SPV investment as well as their respective average yield for the years indicated.

	For the year ended December 31,					
	2017			2018		
	Amount	% of total	Average yield[1]	Amount	% of total	Average yield[1]
	(in millions of RMB, except percentages)					
Debt securities investment	3,731.9	18.8%	3.30%	4,509.5	30.0%	3.43%
SPV investment	16,153.1	81.2%	5.27%	10,536.2	70.0%	5.57%
Total	**19,885.0**	**100.0%**	**4.74%**	**15,045.7**	**100.0%**	**4.69%**

Note:

(1) Calculated by dividing (i) our interest income from the corresponding assets in the year, by (ii) the average balance of these assets.

In 2017 and 2018, our interest income from SPV investment represented 81.2% and 70.0% of our total interest income from our financial investment business, respectively. The average yield on our SPV investment changed from 5.27% in 2017 to 5.57% in 2018, mainly because the interest income from financial investments measured at fair value through profit or loss under IAS 39, which mainly comprised investment in wealth management products with comparatively lower yields, was recognized in "net gains from investment securities" rather than "interest income" in accordance with IFRS 9, and such financial investments were no longer considered as interest-earning assets. The average yield on our debt securities investment increased from 3.30% in 2017 to 3.43% in 2018, mainly attributable to the fluctuation of market interest rates.

Interest Income from Deposits with Banks and Other Financial Institutions

Interest income from deposits with banks and other financial institutions represented 0.3% and 0.7% of our interest income in 2017 and 2018, respectively.

Our interest income from deposits with banks and other financial institutions increased significantly from RMB125.7 million in 2017 to RMB311.9 million in 2018, primarily due to (i) a 61.4% increase in the average balance of our deposits with banks and other financial institutions from RMB12,327.5 million in 2017 to RMB19,894.0 million in 2018, and (ii) an increase in the average yield on our deposits with banks and other financial institutions from 1.02% in 2017 to 1.57% in 2018. The increase in the average balance of our deposits with banks and other financial institutions was primarily due to the increased time deposits we maintained with other banks. The average yield on our deposits with banks and other financial institutions experienced an increase, mainly because we increased the proportion of time deposits which had comparatively high yields, to diversify our asset portfolio and achieve better return while maintaining adequate risk control.

Interest Income from Placements with Banks and Other Financial Institutions

Interest income from placements with banks and other financial institutions represented 0.3% and 0.6% of our interest income in 2017 and 2018, respectively.

Our interest income from placements with banks and other financial institutions increased significantly from RMB121.9 million in 2017 to RMB262.8 million in 2018, primarily due to (i) a 47.9% increase in the average balance of our placements with banks and other financial institutions from RMB6,804.8 million in 2017 to RMB10,064.4 million in 2018, and (ii) an increase in the average yield on our placements with banks and other financial institutions from 1.79% in 2017 to 2.61% in 2018.

Interest Income from Financial Assets Held under Resale Agreements

Interest income from financial assets held under resale agreements represented 1.2% and 0.8% of our interest income in 2017 and 2018, respectively.

Our interest income from financial assets held under resale agreements decreased by 30.6% from RMB514.6 million in 2017 to RMB357.0 million in 2018, primarily due to (i) a 7.7% decrease in the average balance of our financial assets held under resale agreements from RMB16,014.2 million in 2017 to RMB14,787.1 million in 2018, and (ii) a decrease in average yield on our financial assets held under resale agreements from 3.21% in 2017 to 2.41% in 2018. The decrease in the average balance of our financial assets held under resale agreements mainly reflected our adjustment of the scale of reverse repurchase transactions based on our liquidity position which was in line with our prudent risk management policies. The average yield on our financial assets held under resale agreements also decreased due to the declined market interest rate as a result of the improved market liquidity.

Interest Income from Deposits with the Central Bank

Our deposits with the central bank consist primarily of statutory deposit reserves, surplus deposit reserves and fiscal deposits with the PBoC. Interest income from deposits with the central bank represented 3.2% and 2.8% of our interest income in 2017 and 2018, respectively.

Interest income from deposits with the central bank decreased by 3.7% from RMB1,313.2 million in 2017 to RMB1,264.6 million in 2018, primarily because (i) the average balance of our deposits with the central bank decreased slightly from RMB88,002.8 million in 2017 to RMB87,118.6 million in 2018, and (ii) the average yield on deposits with the central bank decreased from 1.49% in 2017 to 1.45% in 2018.

Interest Expense

The following table sets forth a breakdown of our interest expense for the years indicated.

	For the year ended December 31,			
	2017		2018	
	Amount	% of total	Amount	% of total
	(in millions of RMB, except for percentages)			
Interest expense on				
Deposits from customers	10,797.3	45.3%	13,760.6	46.7%
Deposits from banks and other financial institutions	6,179.3	25.9%	5,045.4	17.1%
Placements from banks and other financial institutions	828.5	3.5%	779.8	2.6%
Financial assets sold under repurchase agreements	609.1	2.5%	588.6	2.0%
Debt securities issued	4,808.4	20.2%	8,440.1	28.6%
Borrowing from the central bank	622.2	2.6%	879.1	3.0%
Total interest expense	**23,844.8**	**100.0%**	**29,493.6**	**100.0%**

Our interest expense increased by 23.7% from RMB23,844.8 million in 2017 to RMB29,493.6 million in 2018, primarily because (i) the average balance of interest-bearing liabilities increased by 6.9% from RMB896,868.3 million in 2017 to RMB958,973.2 million in 2018, and (ii) the average cost on interest-bearing liabilities increased from 2.66% in 2017 to 3.08% in 2018.

Interest Expense on Deposits from Customers

Deposits from customers were our primary source of funding. Our interest expense on deposits from customers accounted for 45.3% and 46.7% of our total interest expense in 2017 and 2018, respectively.

The following table sets forth the average balance, interest expense and average cost of our deposits from customers by product type for the years indicated.

	For the year ended December 31,					
	2017			2018		
	Average balance	Interest expense	Average cost(1)	Average balance	Interest expense	Average cost(1)
	(in millions of RMB, except percentages)					
Corporate deposits						
Time	211,779.7	7,312.4	3.45%	238,615.2	8,908.2	3.73%
Demand	238,438.0	1,679.1	0.70%	213,861.1	1,589.9	0.74%
Subtotal	**450,217.7**	**8,991.5**	**2.00%**	**452,476.3**	**10,498.1**	**2.32%**
Personal deposits						
Time	13,859.2	478.7	3.45%	14,475.6	551.4	3.81%
Demand	14,129.2	50.9	0.36%	14,186.2	51.0	0.36%
Subtotal	**27,988.4**	**529.6**	**1.89%**	**28,661.8**	**602.4**	**2.10%**
Pledged deposits and others(2)	**66,691.1**	**1,276.2**	**1.91%**	**93,614.8**	**2,660.1**	**2.84%**
Total deposits from customers	**544,897.2**	**10,797.3**	**1.98%**	**574,752.9**	**13,760.6**	**2.39%**

Notes:

(1) Calculated by dividing interest expense by average balance.

(2) Others mainly consists of fiscal deposits.

Our interest expense on deposits from customers increased by 27.4% from RMB10,797.3 million in 2017 to RMB13,760.6 million in 2018, primarily because (i) the average cost on deposits from customers increased from 1.98% in 2017 to 2.39% in 2018, and (ii) the average balance of deposits from customers increased by 5.5% from RMB544,897.2 million in 2017 to RMB574,752.9 million in 2018. The increase in the average cost on deposits from customers was mainly due to: (i) the intensified market competition as a result of the deepening of interest rate liberalization; (ii) the increased proportion of time deposits which had relatively high interest rates; and (iii) the increased cost of pledged deposits resulting from a higher proportion of pledged deposits with longer terms. The increase in the average balance of deposits from customers was primarily attributable to our efforts to develop deposit business by conscientiously implementing our bank-wide business development plan, increasing marketing efforts, improving service quality and efficiency, and further optimizing product portfolios.

Interest Expense on Deposits from Banks and Other Financial Institutions

Our interest expense on deposits from banks and other financial institutions accounted for 25.9% and 17.1% of our total interest expense in 2017 and 2018, respectively.

Our interest expense on deposits from banks and other financial institutions decreased by 18.3% from RMB6,179.3 million in 2017 to RMB5,045.4 million in 2018, primarily because the average balance of deposits from banks and other financial institutions decreased by 26.4% from RMB164,545.9 million in 2017 to RMB121,082.9 million in 2018, which was partially offset by the increase in the average cost on deposits from banks and other financial institutions from 3.76% in 2017 to 4.17% in 2018. The decrease in the average balance of deposits from banks and other financial institutions was primarily because we optimized our liability structure to raise more funds through issuing certificates of interbank deposit in accordance with our liquidity risk management policies. The increase in the average cost on deposits from banks and other financial institutions was primarily attributable to our adjustment of the liabilities' maturity structure based on liquidity needs which in turn affected the average cost.

Interest Expense on Placements from Banks and Other Financial Institutions

Our interest expense on placements from banks and other financial institutions accounted for 3.5% and 2.6% of our total interest expense in 2017 and 2018, respectively.

Our interest expense on placements from banks and other financial institutions decreased by 5.9% from RMB828.5 million in 2017 to RMB779.8 million in 2018, primarily because the average balance of placements from banks and other financial institutions decreased by 11.4% from RMB33,660.7 million in 2017 to RMB29,831.8 million in 2018, which was partially offset by the increase in the average cost on placements from banks and other financial institutions from 2.46% in 2017 to 2.61% in 2018.

Interest Expense on Financial Assets Sold under Repurchase Agreements

Our interest expense on financial assets sold under repurchase agreements accounted for 2.5% and 2.0% of our total interest expense in 2017 and 2018, respectively.

Our interest expense on financial assets sold under repurchase agreements decreased by 3.4% from RMB609.1 million in 2017 to RMB588.6 million in 2018, primarily because (i) the average cost on financial assets sold under repurchase agreements decreased from 2.97% in 2017 to 2.93% in 2018, and (ii) the average balance of financial assets sold under repurchase agreements decreased by 2.1% from RMB20,540.7 million in 2017 to RMB20,108.6 million in 2018.

Interest Expense on Debt Securities Issued

Interest expense on debt securities issued accounted for 20.2% and 28.6% of our total interest expense in 2017 and 2018, respectively. Please see the subsection headed "– Capital Resources – Debt – Debt Securities Issued".

Our interest expense on debt securities issued increased by 75.5% from RMB4,808.4 million in 2017 to RMB8,440.1 million in 2018, primarily because (i) the average balance of debt securities issued increased by 64.4% from RMB113,463.5 million in 2017 to RMB186,480.6 million in 2018, and (ii) the average cost on debt securities issued increased from 4.24% in 2017 to 4.53% in 2018. The increase in the average balance of debt securities issued was primarily attributable to the issuance of certificates of interbank deposit and financial bonds in 2018 to replenish our working capital for business development. Please see "Financial Information – Capital Resources – Debt – Debt Securities Issued" for details of our certificate of interbank deposits issued during the Track Record Period. The increase in the average cost on debt securities issued mainly reflected an increase in the interest rates of certificates of interbank deposits issued by us as a result of the increased duration of the certificates of interbank deposit issued.

Interest Expense on Borrowing from the Central Bank

Our interest expense on borrowing from the central bank accounted for 2.6% and 3.0% of our total interest expense in 2017 and 2018, respectively.

Our interest expense on borrowing from the central bank increased by 41.3% from RMB622.2 million in 2017 to RMB879.1 million in 2018, primarily due to (i) a 35.2% increase in average balance of borrowing from the central bank from RMB19,760.3 million in 2017 to RMB26,716.4 million in 2018, and (ii) an increase in average cost of borrowing from the central bank from 3.15% in 2017 to 3.29% in 2018.

Net Interest Spread and Net Interest Margin

Net interest spread is the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities. Net interest margin is the ratio of net interest income to the average balance of total interest-earning assets.

Our net interest spread decreased from 1.60% in 2017 to 1.46% in 2018, and our net interest margin decreased from 1.77% in 2017 to 1.54% in 2018. The decrease in our net interest spread and net interest margin was mainly due to (i) increased average cost of deposits from customers, and (ii) the decreased average yield on financial investments as we adjusted the structure of our financial investments in line with the relevant regulatory policies.

Net Fee and Commission Income

The following table sets forth, for the years indicated, the principal components of our net fee and commission income.

	For the year ended December 31,	
	2017	2018
	(in millions of RMB)	
Fee and commission income		
Consulting service fees	2,574.9	1,673.4
Custodian service fees	1,284.2	1,331.5
Credit commitments and asset management fees	335.6	330.1
Agency service fees	4,254.9	2,933.8
Bank card fees	50.5	86.5
Settlement and clearing fees	284.3	381.2
Others	116.5	392.2
Subtotal	**8,900.9**	**7,128.7**
Fee and commission expense		
Settlement and clearing fees	(26.0)	(52.9)
Consulting service fees	(15.2)	(19.3)
Bank card fees	(54.0)	(144.0)
Agency service fees	(86.7)	(124.1)
Information service fees	(19.4)	(420.9)
Others	(13.6)	(10.2)
Subtotal	**(214.9)**	**(771.4)**
Net fee and commission income	**8,686.0**	**6,357.3**

Our net fee and commission income decreased by 26.8% from RMB8,686.0 million in 2017 to RMB6,357.3 million in 2018, primarily because of a 19.9% decrease in fee and commission income from RMB8,900.9 million in 2017 to RMB7,128.7 million in 2018, which was partially offset by a significant increase in fee and commission expense from RMB214.9 million in 2017 to RMB771.4 million in 2018.

The decrease in fee and commission income was mainly attributable to (i) a 31.0% decrease in agency service fees from RMB4,254.9 million in 2017 to RMB2,933.8 million in 2018 mainly attributable to a reduction in management fees we recognized from offering wealth management products, which was further due to our transition into offering non-principal protected, NAV-measured products in response to the recent regulatory policies and the funds received from these products were mainly invested in standardized products, such as debt securities with relatively low risks and yields, and (ii) a 35.0% decrease in consulting service fees from RMB2,574.9 million in 2017 to RMB1,673.4 million in 2018, as we proactively reduced offering the consulting services associated with wealth management business in line with the tightened regulatory environment and the changing market. For details of the relevant regulatory policies and our adjustment of business mix, please see "Business – Our Principal Businesses – Financial Markets – Wealth Management" and "Supervision and Regulation – Regulation on Principal Commercial Banking Activities – Wealth Management Business".

The increase in fee and commission expense was mainly attributable to: (i) a significant increase of the information service fees from RMB19.4 million in 2017 to RMB420.9 million in 2018 which was in line with the rapid growth of our personal consumption loan business; (ii) a significant increase of the bank card fees from RMB54.0 million in 2017 to RMB144.0 million in 2018 as a result of an increase in the issuance and transaction volume of our bank cards, which benefited from the development and marketing of our bank card business; and (iii) a 43.1% increase in the agency service fees from RMB86.7 million in 2017 to RMB124.1 million in 2018 which was due to the development of our agency service business, such as sales of wealth management products, debt securities underwriting, and agency services in relation to issuing letters of credit.

Net Trading Losses

We recorded net trading losses of RMB553.0 million and RMB492.6 million in 2017 and 2018, respectively, which was mainly reflected the fluctuations in market interest rates, foreign exchange rates and commodity prices.

We have adopted IFRS 9 to replace IAS 39 since January 1, 2018. Under IFRS 9, interest income from investment in debt securities for trading measured at fair value through profit or loss is recognized in "net trading losses" under IFRS 9.

Net (Losses)/Gains Arising from Investment Securities

Our net losses arising from investment securities in 2017 amounted to RMB13.7 million under IAS 39. We have adopted IFRS 9 to replace IAS 39 since January 1, 2018. Assuming we had applied IFRS 9 in 2017, we would have recorded net gains rather than net losses arising from investment securities in 2017, mainly because interest income from certain financial investments measured at fair value through profit or loss under IAS 39 would have been recognized in "net gains from investment securities" according to IFRS 9.

Our net gains arising from investment securities amounted to RMB1,985.1 million in 2018, which would be less than the result in 2017 assuming we had applied IFRS 9 in 2017, mainly attributable to the decreased scale of our SPV investment in line with the relevant regulatory policies.

Other Components of Our Operating Income

Other components of our operating income consisted primarily of government grants and rental income. Other components of our operating income was RMB110.4 million and RMB132.4 million in 2017 and 2018, respectively, representing 0.4% and 0.6% of our operating income, respectively.

Operating Expenses

The following table sets forth the principal components of our total operating expenses for the years indicated.

	For the year ended December 31,	
	2017	2018
	(in millions of RMB)	
Staff costs	5,132.6	5,243.3
Depreciation and amortization	550.5	547.2
Taxes and surcharges	263.0	293.2
Rental and property management expenses	899.1	988.9
Other general and administrative expenses[1]	2,226.2	1,603.1
Total operating expenses	**9,071.4**	**8,675.7**
Cost-to-income ratio[2]	34.22%	35.40%

Notes:

(1) Consist primarily of business marketing expenses, electronic equipment operating costs, security expenses, cash transport charges and insurance premiums for deposits.

(2) Calculated by dividing total operating expenses (excluding taxes and surcharges) by total operating income.

Our operating expenses decreased by 4.4% from RMB9,071.4 million in 2017 to RMB8,675.7 million in 2018, primarily due to a decrease in our other general and administrative expenses which was further attributable to our continued efforts to control operating expenses.

Our cost-to-income ratio (excluding taxes and surcharges) was 34.22% and 35.40% in 2017 and 2018, respectively. The increase in our cost-to-income ratio was primarily attributable to a decrease in our operating income in 2018.

Staff Costs

Staff costs were the largest component of our operating expenses, representing 56.6% and 60.4% of our total operating expenses in 2017 and 2018, respectively.

The following table sets forth the components of our staff costs for the years indicated.

	For the year ended December 31,	
	2017	**2018**
	(in millions of RMB)	
Salaries, bonuses and allowances	3,741.7	3,707.8
Social insurance and annuity	513.3	565.9
Housing allowances	298.2	315.9
Staff welfare	159.4	176.5
Employee education expenses and labour union expenses	141.4	155.7
Others	278.6	321.5
Total staff costs	**5,132.6**	**5,243.3**

Our staff costs increased by 2.2% from RMB5,132.6 million in 2017 to RMB5,243.3 million in 2018, primarily due to the increases in the social insurance and annuity as well as housing allowances as a result of an increase in the relevant contribution base.

The salaries, bonuses and allowances was the largest component of our staff costs, representing 72.9% and 70.7% of our total staff costs in 2017 and 2018, respectively. Salaries, bonuses and allowances remained relatively stable in 2017 and 2018, which amounted to RMB3,741.7 million and RMB3,707.8 million, respectively.

Depreciation and Amortization

Our depreciation and amortization consists primarily of depreciation of our fixed assets, amortization of intangible assets and amortization of long-term deferred expenses. Our depreciation and amortization amounted to RMB550.5 million in 2017 and RMB547.2 million in 2018, which remained relatively stable.

Taxes and Surcharges

Our taxes and surcharges increased by 11.5% from RMB263.0 million in 2017 to RMB293.2 million in 2018, primarily due to an increase in our payment for value-added tax.

Rental and Property Management Expenses

Our rental and property management expenses increased by 10.0% from RMB899.1 million in 2017 to RMB988.9 million in 2018, primarily driven by the properties we newly rented for our newly established outlets.

Other General and Administrative Expenses

Our other general and administrative expenses primarily consist of business marketing expenses, electronic equipment operating costs, security expenses, cash transport charges and insurance premiums for deposits. Other general and administrative expenses decreased by 28.0% from RMB2,226.2 million in 2017 to RMB1,603.1 million in 2018, primarily reflecting our continuous efforts to control our operating expenses.

Impairment Losses on Assets

The following table sets forth the principal components of our impairment losses on assets for the years indicated.

	For the year ended December 31,	
	2017	2018
	(in millions of RMB)	
Impairment losses/(reversals) on assets:		
Loans and advances to customers	5,756.4	7,245.8
Financial investments	1,998.6	(902.8)
Deposits with banks and other financial institutions	–	36.7
Credit commitments	–	131.0
Others	–	(2.8)
Total	**7,755.0**	**6,507.9**

Our impairment losses on assets decreased from RMB7,755.0 million in 2017 to RMB6,507.9 million in 2018, mainly because we recorded impairment losses on financial investments of RMB1,998.6 million in 2017 but recorded impairment reversals on financial investments of RMB902.8 million in 2018, which was further due to our reduction of certain SPV investment in response to the new regulatory policies issued by PRC Government in recent years. The changes in the impairment losses on financial investments was partially offset by (i) a 25.9% increase in our impairment losses on loans and advances to customers from RMB5,756.4 million in 2017 to RMB7,245.8 million in 2018, which was mainly due to the increased scale of our loans and advances to customers, and (ii) the increase of impairment losses on credit commitments from nil in 2017 to RMB131.0 million in 2018, mainly because of the adoption of the "expected credit loss" model under IFRS 9 and our increased bank acceptances.

Income Tax

The following table sets forth the reconciliation between the income tax calculated at the statutory income tax rate applicable to our profit before tax and our actual income tax for the years indicated.

	For the year ended December 31,	
	2017	2018
	(in millions of RMB)	
Profit before tax	8,425.4	8,027.5
Income tax calculated at applicable statutory tax rate of 25%	2,106.4	2,006.9
Non-deductible expenses	151.5	71.0
Non-taxable income(1)	(592.1)	(760.4)
Others(2)	5.8	(370.2)
Income tax	**1,671.6**	**947.3**

Notes:

(1) Non-taxable income mainly represents interest income from PRC government bonds and municipal debt securities, and dividend income from funds, which is non-taxable in accordance with PRC tax regulations.

(2) Consists primarily of differences from annual filings and the impact of changing accounting policies on the amount of current taxable income.

Our income tax decreased from RMB1,671.6 million in 2017 to RMB947.3 million in 2018. Our effective income tax rate decreased from 19.8% in 2017 and 11.8% in 2018. The decrease in our income tax and effective income tax rate was primarily due to an increase in the non-taxable income and the impact of changing accounting policies on the amount of current taxable income. For more details on the impact of changing accounting policies on taxable income, please see "Financial Information – Results of Operations for the Years Ended December 31, 2018 and 2019 – Income Tax".

The following table sets forth the components of our income tax expenses for the years indicated.

	For the year ended December 31,	
	2017	2018
	(in millions of RMB)	
Current income tax – PRC enterprise income tax	3,352.3	1,678.9
Deferred income tax	(1,680.7)	(731.6)
Total income tax	**1,671.6**	**947.3**

Net Profit

Primarily as a result of all the foregoing factors, our net profit increased by 4.8% from RMB6,753.8 million in 2017 to RMB7,080.2 million in 2018.

Other Comprehensive Income

Changes in Fair Value of Available-for-sale Financial Assets

Most of our available-for-sale financial assets are available-for-sale debt securities measured at fair value. In 2017, we recorded a loss from changes in fair value of available-for-sale financial assets at the amount of RMB346.9 million under IAS 39, primarily due to the declined market price of debt securities.

Changes in Fair Value and Provision for Impairment Losses of Financial Assets Measured at Fair Value through Other Comprehensive Income

According to IFRS 9, which we have adopted since January 1, 2018, financial assets measured at fair value through other comprehensive income consist of debt securities, SPV investment, equity investments and discounted bills, which were originally classified as: (i) available-for-sale financial assets; (ii) investments classified as receivables; or (iii) loans and advances to customers under IAS 39. In 2018, we recorded a gain from changes in fair value of financial assets measured at fair value through other comprehensive income at the amount of RMB752.8 million under IFRS 9. We also recorded impairment losses of RMB4.8 million on such financial assets in 2018 in accordance with the expected credit loss model under IFRS 9.

SUMMARY OF OPERATING RESULTS

Summary Business Segment Information

We have three principal business segments: corporate banking, retail banking and financial markets. Please see "Business – Our Principal Businesses". The following table sets forth our operating results for each of our principal segments for the years indicated.

	For the year ended December 31,														
	2017					2018					2019				
	Corporate banking	Retail banking	Financial markets	Others[1]	Total	Corporate banking	Retail banking	Financial markets	Others[1]	Total	Corporate banking	Retail banking	Financial markets	Others[1]	Total
	(in millions of RMB, except percentages)														
External net interest income/(expense)[2]	7,242.8	3,951.1	5,826.5	–	17,020.4	8,111.7	7,874.2	(758.0)	–	15,227.9	8,909.0	11,555.5	2,445.9	–	22,910.4
Internal net interest income/(expense)[3]	4,568.7	(2,178.4)	(2,390.3)	–	–	2,015.5	(4,498.4)	2,482.9	–	–	1,694.9	(5,803.6)	4,108.7	–	–
Net interest income	**11,811.5**	**1,772.7**	**3,436.2**	**–**	**17,020.4**	**10,127.2**	**3,375.8**	**1,724.9**	**–**	**15,227.9**	**10,603.9**	**5,751.9**	**6,554.6**	**–**	**22,910.4**
Net fee and commission income	1,919.9	274.1	6,485.2	6.8	8,686.0	1,858.1	25.3	4,501.2	(27.3)	6,357.3	1,727.8	(284.6)	2,803.4	(20.8)	4,225.8
Net trading (losses)/gains	(9.8)	–	(543.2)	–	(553.0)	37.6	–	(530.2)	–	(492.6)	39.8	–	156.6	–	196.4
Net (losses)/gains arising from investment securities	–	–	(23.5)	9.8	(13.7)	8.9	–	1,964.3	11.9	1,985.1	73.2	2.4	842.1	44.2	961.9
Other operating income[4]	0.8	8.3	0.2	101.1	110.4	4.7	8.0	0.2	119.5	132.4	11.1	9.0	4.9	59.0	84.0
Operating income[5]	**13,722.4**	**2,055.1**	**9,354.9**	**117.7**	**25,250.1**	**12,036.5**	**3,409.1**	**7,660.4**	**104.1**	**23,210.1**	**12,455.8**	**5,478.7**	**10,361.6**	**82.4**	**28,378.5**
Operating expenses	**(4,752.7)**	**(2,945.9)**	**(1,184.7)**	**(188.1)**	**(9,071.4)**	**(4,558.4)**	**(3,053.5)**	**(880.4)**	**(183.4)**	**(8,675.7)**	**(4,508.4)**	**(3,242.6)**	**(877.8)**	**(228.1)**	**(8,856.9)**
Impairment losses on assets	(5,170.1)	(800.9)	(1,784.0)	–	(7,755.0)	(6,598.7)	(681.8)	772.6	–	(6,507.9)	(7,060.7)	(1,556.6)	(949.6)	–	(9,566.9)
Share of profits of associates	–	–	–	1.7	1.7	–	–	–	1.0	1.0	–	–	–	(52.8)	(52.8)
Profit/(loss) before tax	**3,799.6**	**(1,691.7)**	**6,386.2**	**(68.7)**	**8,425.4**	**879.4**	**(326.2)**	**7,552.6**	**(78.3)**	**8,027.5**	**886.7**	**679.5**	**8,534.2**	**(198.5)**	**9,901.9**

Notes:

(1) Consists primarily of income and expenses that are not directly attributable to any specific segment.

(2) Consists of net interest income/(expense) from external clients or activities.

(3) Consists of net interest income/(expense) attributable to each segment's transactions with other segments.

(4) Consists primarily of government grants and rental income.

(5) Our operating income from these segments represents the net interest income derived solely from the respective lines of business, which is further added/deducted by net fee and commission income/(expense), net gains/(losses) on trading activities, net gains/(losses) arising from investment securities or other operating income/(expense), as applicable, attributable to the respective lines of business.

Operating income from our corporate banking business represented 54.3%, 51.9% and 43.9% of our total operating income in 2017, 2018 and 2019, respectively. Operating income from our corporate banking business decreased by 12.3% from RMB13,722.4 million in 2017 to RMB12,036.5 million in 2018, mainly due to decreased net interest income as a result of the decreased net interest spread, which was primarily attributable to the increase in average costs of deposits from customers. Operating income from our corporate banking business increased by 3.5% from RMB12,036.5 million for 2018 to RMB12,455.8 million for 2019, primarily due to an increase in net interest income mainly resulting from the growth of our corporate loan business.

Operating income from our retail banking business represented 8.1%, 14.7% and 19.3% of our total operating income in 2017, 2018 and 2019, respectively. Operating income from our retail banking business increased by 65.9% from RMB2,055.1 million in 2017 to RMB3,409.1 million in 2018, which further increased by 60.7% to RMB5,478.7 million in 2019. The continued increase in our operating income from our retail banking business was primarily attributable to the rapid growth of the scale of our personal loan and the increased average yield on personal loans. In 2017 and 2018, we incurred loss before tax of RMB1,691.7 million and RMB326.2 million, respectively, primarily due to the fact that our operating expenses associated with retail banking were at a relatively high level in 2017 and 2018 as compared to our operating income from the retail banking business, which was further due to a comparatively large amount of fixed expenses associated with the retail banking business. Loss before tax from our retail banking business decreased from RMB1,691.7 million in 2017 to RMB326.2 million in 2018, and this segment recognized a profit before tax of RMB679.5 million in 2019. The above changes in operating results were mainly due to the significant increase in our net interest income from the retail banking business, as the scale and average yield of personal loans achieved significant growth during the Track Record Period as a result of our efforts in developing retail banking business, while the operating expenses remained relatively stable.

Operating income from our financial market business represented 37.0%, 33.0% and 36.5% of our total operating income in 2017, 2018 and 2019, respectively. Operating income from our financial market business decreased by 18.1% from RMB9,354.9 million in 2017 to RMB7,660.4 million in 2018, primarily due to (i) the decreased scale of our financial investments mainly resulting from the impact from relevant regulatory policies, (ii) the decreased net fee and commission income scale and cost of certificates of interbank deposit issued by us driven by our needs for business expansion and the impact of market conditions. Operating income from our financial market business increased by 35.3% from RMB7,660.4 million in 2018 to RMB10,361.6 million in 2019, primarily attributable to the decreased interest expense on deposits from banks and other financial institutions and certificates of interbank deposit as we adjusted our liabilities structure based our business strategy, risk management policies and the market conditions.

Summary of Operating Results by Geographic Regions

In presenting information on the basis of geographic regions, operating income is gathered according to the locations of the outlets that generated the income. For the purpose of presentation, we categorize such information by geographic regions. The following table sets forth the total operating income of each of the geographic regions for the years indicated.

	For the years ended December 31,					
	2017		2018		2019	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except for percentages)					
Northern and Northeastern China	14,761.3	58.5%	11,680.6	50.3%	17,362.2	61.2%
Eastern China	4,885.9	19.4%	4,486.6	19.3%	4,130.5	14.6%
Central and Southern China	4,568.8	18.1%	5,788.2	24.9%	5,177.3	18.2%
Western China	1,034.1	4.0%	1,254.7	5.5%	1,708.5	6.0%
Total	**25,250.1**	**100.0%**	**23,210.1**	**100.0%**	**28,378.5**	**100.0%**

Since our establishment in Tianjin, our businesses operations in Northern and Northeastern China, have become the largest sources of our operating income. In 2017, 2018 and 2019, the operating income from our operations in Northern and Northeastern China accounted for 58.5%, 50.3% and 61.2%, respectively, of our total operating income.

CASH FLOWS

The following table sets forth our cash flows for the years indicated.

	For the years ended December 31,		
	2017	2018	2019
	(in millions of RMB)		
Cash flows from operating activities before changes in operating assets and liabilities	2,219.1	6,984.5	14,857.7
Cash flows from changes in operating assets and liabilities	(25,629.7)	(171,348.7)	(54,790.6)
Income tax paid	(2,507.0)	(3,252.2)	(1,746.6)
Net cash flows used in operating activities	**(25,917.6)**	**(167,616.4)**	**(41,679.5)**
Net cash flows generated from investing activities	3,456.3	119,053.2	27,207.5
Net cash flows generated from/(used in) financing activities	33,802.4	71,251.1	(12,073.0)
Effect of exchange rate fluctuations on cash and cash equivalents	(358.9)	501.7	387.6
Net increase/(decrease) in cash and cash equivalents	**10,982.2**	**23,189.6**	**(26,157.4)**

Cash Flows Generated from/(Used in) Operating Activities

Cash flows generated from operating activities are primarily attributable to increases in deposits from customers. Cash flows used in operating activities are primarily attributable to increases in loans and advances to customers.

The net increase in our deposits from customers was RMB91,912.5 million, RMB16,063.4 million and RMB39,768.2 million in 2017, 2018 and 2019, respectively. We incurred a net decrease in our financial assets sold under repurchase agreements of RMB5,785.8 million in 2017. We had a net increase in our financial assets sold under repurchase agreements of RMB20,127.6 million and RMB705.2 million in 2018 and 2019, respectively. We had a net decrease in our deposits from banks and other financial institutions of RMB23,419.1 million and RMB82,832.5 million in 2017 and 2018, respectively. We had a net increase in our deposits from banks and other financial institutions of RMB8,981.9 million in 2019. We had a net increase in our placements from banks and other financial institutions of RMB25,594.0 million and RMB1,905.5 million in 2017 and 2019, respectively. We had a net decrease in our placements from banks and other financial institutions of RMB18,522.4 million in 2018.

The net increase in our loans and advances to customers amounted to RMB112,698.9 million, RMB102,978.3 million and RMB148,710.0 million in 2017, 2018 and 2019, respectively. For a discussion on increases in our loans and advances to customers during the Track Record Period, please see "Assets and Liabilities – Assets – Loans and Advances to Customers". We had a net increase in financial assets held for trading of RMB10,223.9 million, RMB560.5 million in 2017 and 2018, respectively. We had a net decrease of RMB319.2 million in financial assets held for trading in 2019. In addition we had a net increase in deposits with the central bank of RMB5,601.5 million in 2017, and a net decrease in deposits with the central bank of RMB5,142.8 million and RMB7,828.7 million in 2018 and 2019, respectively. We had a net increase in our placements with banks and other financial institutions of RMB1,400.0 million and RMB2,750.7 million in 2018 and 2019, respectively, and a net decrease in our placements with banks and other financial institutions of RMB300.0 million in 2017.

Primarily as a result of the foregoing, our net cash flows used in operating activities was RMB25,917.6 million, RMB167,616.4 million and RMB41,679.5 million in 2017, 2018 and 2019, respectively. The net cash used in operating activities during the Track Record Period was mainly due to increases in our loans and advances to customers. To improve our cash flow position, we will continue to increase our efforts to attract deposits from customers by offering diversified deposit products to address demands of different customer groups, further expand sources of funding through various approaches such as, borrowing from the central bank and issuing debt securities, as well as closely monitor the cash flows used in our credit extension business and optimize the asset structure. Please also see "Risk Factors – Risks Relating to Our Business – We had net cash flows used in operating activities during the Track Record Period. If we have operating cash outflows in the future, our liquidity and financial conditions may be materially and adversely affected".

Cash Flows Generated from/(Used in) Investing Activities

Cash flows generated from investing activities are primarily attributable to proceeds from the disposal and redemption of investments. We received cash from the disposal sale and redemption of investments of RMB159,985.7 million, RMB147,477.6 million and RMB248,534.2 million in 2017, 2018 and 2019, respectively.

Our cash flows used in investing activities are primarily attributable to payments on acquisition of investments. We used cash of RMB175,782.8 million, RMB41,934.8 million and RMB233,337.1 million in 2017, 2018 and 2019, respectively, to purchase investments.

Cash Flows Generated from/(Used in) Financing Activities

Our cash flows generated from financing activities are primarily attributable to proceeds from debt securities issued. Our proceeds from debt securities issued was RMB192,284.9 million, RMB411,810.6 million and RMB370,682.0 million in 2017, 2018 and 2019, respectively.

Our cash flows used in financing activities are primarily attributable to principal and interest paid on debt securities issued and dividends paid. Our repayment of the principal of debt securities was RMB154,926.0 million, RMB332,617.1 million and RMB392,380.8 million in 2017, 2018 and 2019, respectively. Our interest paid in relation to debt securities issued was RMB4,151.5 million, RMB7,875.1 million and RMB7,584.1 million in 2017, 2018 and 2019, respectively. Our dividends paid was RMB67.3 million and RMB2,061.0 million in 2018 and 2019, respectively.

LIQUIDITY

Deposits from customers are our significant source of funding for loans and investment portfolios. Deposits from customers with remaining maturities of less than one year or repayable on demand represented 83.6%, 84.1% and 74.4% of total deposits from customers as of December 31, 2017, 2018 and 2019, respectively. For additional information about our short-term liabilities and sources of funds, please see “Assets and Liabilities – Liabilities and Sources of Funds” and “Supervision and Regulation – Other Risk Management Ratios”.

We monitor the maturities of assets and liabilities, enhance cash flow active management, and implement forward-looking active liabilities management through broadening sources and channels of obtaining funds, as well as maintaining the adequacy of high-grade and high-quality liquid assets, to meet the funding needs for paying matured debts and developing business. Please see “Risk Management – Liquidity Risk Management”.

The following table sets forth, as of December 31, 2019, the remaining maturities of our assets and liabilities.

	As of December 31, 2019							
	Indefinite	Repayable on demand	Less than 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	More than 5 years	Total
	(in millions of RMB)							
Assets								
Cash and deposits with the central bank	64,534.8	28,478.9	–	–	–	–	–	**93,013.7**
Deposits with banks and other financial institutions	–	12,357.5	506.2	555.3	632.6	–	–	**14,051.6**
Placements with banks and other financial institutions	–	–	–	1,002.6	3,408.2	–	–	**4,410.8**
Financial assets held under resale agreements	–	–	1,850.3	–	–	–	–	**1,850.3**
Loans and advances to customers	7,718.4	2,517.7	50,460.5	54,213.5	230,715.5	224,557.4	117,096.1	**687,279.1**
Financial investments	4,782.8	16,790.7	9,856.7	10,588.9	66,970.6	166,993.2	24,324.0	**300,306.9**
Others[(1)]	15,858.9	–	–	–	–	–	–	**15,858.9**
Total assets	**92,894.9**	**60,144.8**	**62,673.7**	**66,360.3**	**301,726.9**	**391,550.6**	**141,420.1**	**1,116,771.3**
Liabilities								
Borrowing from the central bank	–	–	5,150.1	–	41,755.5	–	–	**46,905.6**
Deposits from banks and other financial institutions	–	18.5	24,164.2	18,151.4	35,761.3	452.0	–	**78,547.4**
Placements from banks and other financial institutions	–	–	4,074.6	3,524.3	13,901.3	–	–	**21,500.2**
Financial assets sold under repurchase agreements	–	–	22,025.3	173.5	870.3	–	–	**23,069.1**
Deposits from customers	258.8	185,303.3	62,388.9	52,474.3	181,369.5	159,719.1	6,250.7	**647,764.6**
Debt securities issued	–	–	9,028.6	61,912.5	85,768.4	30,903.8	8,990.5	**196,603.8**
Other[(2)]	19,728.9	–	–	–	–	–	–	**19,728.9**
Total liabilities	**19,987.7**	**185,321.8**	**126,831.7**	**136,236.0**	**359,426.3**	**191,074.9**	**15,241.2**	**1,034,119.6**
Net position	**72,907.2**	**(125,177.0)**	**(64,158.0)**	**(69,875.7)**	**(57,699.4)**	**200,475.7**	**126,178.9**	**82,651.7**

Notes:

(1) Consists primarily of interest in associate, property and equipment, deferred tax assets and other assets.

(2) Consists primarily of income tax payables and other liabilities.

We have been closely monitoring the maturity profile of our assets and liabilities while actively monitoring various liquidity indicators. As of December 31, 2019, the Bank's primary liquidity risk indicators, such as the liquidity ratio, liquidity coverage ratio and net stable funding ratio, had all complied with the regulatory requirements, and the indicators of liquidity matching ratio had also met the standard earlier than the date required by the regulatory authority. For details of our liquidity indicators, please see "Supervision and Regulation – Other Risk Management Ratios".

Although based on our experience, a majority of the maturing liabilities businesses, including maturing deposits, will be rolled over and continue to remain with us, we have still paid high attention to the negative liquidity position for time bands from "repayable on demand" to "between 3 and 12 months", and have actively taken various measures to ensure that we have sufficient funds to meet obligations as the liabilities become due. For example, we have closely monitored and controlled the scale of short-term maturity liabilities and gradually reduce the cash outflow of maturity funds. We have also been focusing on maintaining stable sources of funding and increasing our deposits from customers. Moreover, we have strengthened the management on maturity assets, to ensure that the scale of cash inflows from assets with different maturities remains relatively stable and gradually increase the scale of cash inflows from short-term maturity assets. In addition, to meet potential liquidity demand, we have taken the initiative to hold highly liquid financial assets, such as debt securities issued by PRC Government and policy banks, and use deposits with central banks and deposits with banks and other financial institutions for the purposes of daily liquidity management and settlement. If we need to take further action to tackle our liquidity gap, we can utilize our cash and surplus deposit reserves and obtain funds from disposing our highly liquid financial assets on short-notice, or as required. We may also quickly obtain financing in the interbank market and through issuing interbank certificates of deposit. For details of our liquidity risk management measures, please see "Risk Management – Liquidity Risk Management".

CAPITAL RESOURCES

Shareholders' Equity

The following table sets forth the components of the changes in our total equity attributable to shareholders for the periods indicated.

	Shareholders' equity
	(in millions of RMB)
As of January 1, 2017	**41,463.4**
Share capital	595.0
Surplus reserve	675.4
General reserve	2,076.2
Fair value reserve(2)	(346.9)
Retained earnings	4,002.2
As of December 31, 2017	**48,465.3**
As of January 1, 2018	**48,098.3**
Surplus reserve	708.0
General reserve	78.4
Fair value reserve(2)	752.8
Impairment reserve(3)	(4.8)
Retained earnings	6,226.4
As of December 31, 2018	**55,859.1**
Other equity instruments(1)	19,961.6
Surplus reserve	833.6
General reserve	1,440.4
Fair value reserve(2)	73.2
Impairment reserve(3)	612.8
Retained earnings	3,857.9
As of December 31, 2019	**82,638.6**

Notes:

(1) consist of undated capital bonds issued by us in September 2019.

(2) Represents the accumulated gains or losses arising from changes in fair value of (a) available-for-sale financial assets under IAS 39, and (b) financial assets measured at fair value through other comprehensive income under IFRS 9.

(3) Represents the provision for impairment losses on financial assets measured at fair value through other comprehensive income which was recognized in other comprehensive income in accordance with IFRS 9.

In September 2019, we issued undated capital bonds in a principal amount of RMB20,000.0 million. As of December 31, 2019, after deducting the issuance fees, the book value of undated capital bonds amounted to RMB19,961.6 million, which was recognized in "other equity instruments" and was included as "other tier-one capital" on our net capital base.

We have adopted IFRS 9 commencing from January 1, 2018 and made adjustments to fair value reserve, impairment reserve and retained earnings according to IFRS 9. For details on differences between IAS 39 and IFRS 9, and the impact of adopting IFRS 9 on our results of operations, please see the subsection headed "– Critical Accounting Judgments and Key Sources of Estimation Uncertainty – Impact of New Accounting Policies".

Debt

Debt Securities Issued

During the Track Record Period and as of the Latest Practicable Date, we issued a number of certificates of interbank deposit as follows:

- In 2017, we issued a number of certificates of interbank deposit with total nominal amount of RMB186,070.0 million and a duration between 1-12 months. The effective interest rates ranged from 3.60% to 5.25%;

- In 2018, we issued a number of certificates of interbank deposit with total nominal amount of RMB383,450.0 million and duration between 1-12 months. The effective interest rates ranged from 2.00% to 5.08%;

- In 2019, we issued a number of certificates of interbank deposit with total nominal amount of RMB375,410.0 million and duration between 1-12 months. The effective interest rates ranged from 2.40% to 3.42%; and

- From January 1, 2020 and up to the Latest Practicable Date, we issued a number of certificates of interbank deposit with total nominal amount of RMB155,370.0 million and duration between 1-12 months. The effective interest rates ranged from 1.20% to 3.10%.

As of December 31, 2017, 2018 and 2019, the fair value of our certificates of interbank deposit issued was RMB103,657.9 million, RMB156,310.6 million and RMB147,574.7 million, respectively.

In addition, as of the Latest Practicable Date, we issued financial bonds in each of 2015, 2017, 2018 and 2020 consisting of:

- three-year financial bonds with face value of RMB8,000.0 million issued in February 2020 with coupon interest rate of 3.24% per annum;

- three-year financial bonds with face value of RMB10,000.0 million issued in January 2020 with coupon interest rate of 3.47% per annum;
- three-year financial bonds with face value of RMB10,000.0 million issued in 2018 with coupon interest rate of 4.07% per annum;
- three-year financial bonds with face value of RMB20,000.0 million issued in 2018 with coupon interest rate of 4.09% per annum;
- two-year financial bonds with face value of RMB5,000.0 million issued in 2018 with coupon interest rate of 5.15% per annum;
- two-year financial bonds with face value of RMB10,000.0 million issued in 2017 with coupon interest rate of 5.40% per annum; and
- two phases of financial bonds with a face value of RMB8,000.0 million and RMB2,000.0 million, respectively, issued in 2015 with a maturity of three years and five years, respectively, and coupon interest rate of 4.10% and 4.25% per annum, respectively.

As of December 31, 2017, 2018 and 2019, the fair value of financial bonds issued was RMB19,890.2 million, RMB47,413.4 million and RMB37,313.7 million, respectively.

Furthermore, we issued tier-two capital debts in 2014 and 2015, consisting of:

- 10-year tier-two capital debts in 2014 with face value of RMB3,100.0 million and coupon interest rate of 6.10% per annum; and
- 10-year tier-two capital debts in 2015 with face value of RMB9,000.0 million and coupon interest rate of 5.15% per annum.

We have the option to redeem these 10-year tier-two capital debts on the last day of the fifth interest-bearing year, subject to approval of the CBIRC. The 10-year tier-two capital debts issued by us in 2014 had all been redeemed by us in 2019. For the 10-year tier-two capital debts issued by us in 2015, we exercised the redemption right on June 24, 2020 (being the last day of the fifth interest-bearing year) to redeem all such tier-two capital debts. As of December 31, 2017, 2018 and 2019, the fair value of tier-two capital debts issued was RMB12,013.9 million, RMB12,260.2 million and RMB9,054.1 million, respectively.

In 2012, we also issued 15-year fixed interest rate subordinated bonds with face value of RMB950.0 million and coupon interest rate of 5.68% per annum. We have the option to redeem these 15-year subordinated bonds on the last day of the tenth interest-bearing year, subject to approval of relevant authorities. As of December 31, 2017, 2018 and 2019, the fair value of subordinated bonds issued was RMB946.5 million, RMB992.9 million and RMB991.2 million, respectively.

Capital Adequacy

We are subject to capital adequacy requirements as promulgated by the CBIRC. We are required to maintain our capital adequacy ratio above the minimum level required by the CBIRC during the transitional period.

The following table sets forth, as of the dates indicated, certain information relating to our capital adequacy ratio, calculated in accordance with the Capital Administrative Measures (Provisional) and PRC GAAP.

	As of December 31,		
	2017	2018	2019
	(in millions of RMB, except percentage)		
Core tier-one capital			
Share capital	14,450.0	14,450.0	14,450.0
Capital reserve	20.0	20.0	20.0
Surplus reserve	3,468.0	4,176.1	5,009.6
General reserve	12,562.9	12,641.3	14,081.7
Other comprehensive income	(469.1)	283.4	969.5
Retained earnings	18,433.5	24,288.3	28,288.8
Total core tier-one capital	**48,465.3**	**55,859.1**	**62,819.6**
Core tier-one capital deductions	(90.6)	(123.0)	(232.0)
Net core tier-one capital	**48,374.7**	**55,736.1**	**62,587.6**
Other tier-one capital	–	–	19,961.6
Net tier-one capital	**48,374.7**	**55,736.1**	**82,549.2**
Tier-two capital	**19,690.1**	**20,468.5**	**18,914.5**
Net capital base[1]	**68,064.8**	**76,204.6**	**101,463.7**
Total risk-weighted assets	**595,553.9**	**647,222.3**	**776,353.5**
Core tier-one capital adequacy ratio	8.12%	8.61%	8.06%
Tier-one capital adequacy ratio	8.12%	8.61%	10.63%
Capital adequacy ratio	11.43%	11.77%	13.07%

Note:

(1) Also referred to in this prospectus as "regulatory capital".

We closely monitor capital adequacy ratios to ensure compliance with regulatory requirements. Taking into account our business development plan, we may take various measures to comply with the applicable regulatory capital adequacy requirements, including (i) raising capital by issuing new shares and debt securities, (ii) increasing retained earnings by continually improving profitability, and (iii) properly controlling the growth of risk-weighted assets.

As of December 31, 2017, 2018 and 2019, our core tier-one capital adequacy ratio was 8.12%, 8.61% and 8.06%, respectively. As of the same dates, our tier-one capital adequacy ratio was 8.12%, 8.61% and 10.63%, respectively, and our capital adequacy ratio was 11.43%, 11.77% and 13.07%, respectively, all of which was in compliance with the CBIRC requirements.

OFF-BALANCE SHEET COMMITMENTS

Our off-balance sheet commitments consist primarily of bank acceptances, letters of credit and letters of guarantee issued. The following table sets forth the contractual amounts of our off-balance sheet commitments as of the dates indicated.

	As of December 31,		
	2017	**2018**	**2019**
		(in millions of RMB)	
Loan commitment			
– Original contractual maturity within one year	450.0	–	–
– Original contractual maturity more than one year (inclusive)	6,274.1	830.3	–
Credit card commitment	3,335.2	5,290.9	5,069.9
Bank acceptances	94,054.2	155,296.9	167,506.5
Letter of credit	51,660.3	68,464.1	67,528.8
Letter of guarantee	26,991.1	25,619.2	21,315.1
Operating lease commitment	4,615.6	4,626.2	–
Capital commitment	625.4	222.1	142.5
Total	**188,005.9**	**260,349.7**	**261,562.8**

Our total off-balance sheet commitments increased by 38.5% from RMB188,005.9 million as of December 31, 2017 to RMB260,349.7 million as of December 31, 2018, which further increased by 0.5% to RMB261,562.8 million as of December 31, 2019. The continued increase in our off-balance sheet commitments was primarily due to (i) the increased market demand for bank acceptances mainly resulting from the comparatively low discount rate in the market in 2018 and 2019, and (ii) our endeavor to develop our on-line electronic bank acceptance business.

TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

The following table sets forth the face value of our known contractual obligations by remaining contract maturity classified into the categories specified below as of December 31, 2019. For the remaining maturities of our assets and liabilities as of December 31, 2019, please see "– Liquidity".

	As of December 31, 2019			
	Less than 1 year	Between 1 and 5 years	More than 5 years	Total
	(in millions of RMB)			
On-balance sheet contractual obligations				
Certificates of interbank deposit issued	149,008.8	–	–	149,008.8
Financial bonds issued	6,997.0	29,957.1	–	36,954.1
Tier-two capital debts issued	–	–	8,990.5	8,990.5
Subordinate bonds issued	–	946.7	–	946.7
Subtotal	156,005.8	30,903.8	8,990.5	195,900.1
Off-balance sheet contractual obligations				
Acceptances	167,506.5	–	–	167,506.5
Letters of credit	67,293.1	235.7	–	67,528.8
Letters of guarantees	14,924.5	5,710.6	680.0	21,315.1
Credit card commitments	5,069.9	–	–	5,069.9
Subtotal	254,794.0	5,946.3	680.0	261,420.3
Total	**410,799.8**	**36,850.1**	**9,670.5**	**457,320.4**

RELATED PARTY TRANSACTIONS

During the Track Record Period, we entered into transactions with certain of our related parties, such as taking deposits from, extending credit facilities to, and providing other banking services to, the related parties. These transactions were conducted on normal commercial terms and in the ordinary course of our business. Our Directors believe that these related party transactions were carried out on an arm's-length basis and would not distort our results of operations during the Track Record Period or cause such results not to be reflective of our future performance. For more details, please see Note 40 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 losses on bank's on-balance sheet and off-balance sheet businesses due to adverse changes in market prices, mainly including interest rate risk, exchange rate risk, commodity risk and stock risk. The market risks we face exist in our trading book and banking book. The trading book records the freely tradable financial instruments and commodity positions held by the bank for trading purposes, or to avoid the risks of other items in the trading book. The banking book records assets and liabilities which are formed from long-term positions held to manage the banks' liquidity, regulatory reserves, or to maximize profits. Generally, assets and liabilities in the banking book will be held to maturity.

Interest Rate Risk in the Banking Book

Interest rate risk in the banking book refers to the risk of losses in the banking book's economic value and overall income arising from adverse changes in the level of interest rates, term structure and other relevant aspects. Currently, we carry out our quantitative management of interest rate risk in the banking book mainly through measurement tools such as gap analysis, sensitivity analysis and duration analysis to ensure that our interest rate risk in the banking book remains within the range of our risk appetite. In addition, we summarize the repricing gaps based on the repricing dates of various interest-earning assets and interest-bearing liabilities, and use them to calculate interest rate sensitivity. Furthermore, we regularly carry out stress tests on the interest rate risk in the banking book, which mainly include examining the impact of interest rate changes on stress-bearing indicators, such as indicators relating to profitability and capital adequacy.

Repricing Gap Analysis

The following table sets forth, as of December 31, 2019, the results of our gap analysis based on the earlier of (i) the next expected repricing dates, and (ii) the final maturity dates for our assets and liabilities.

	As of December 31, 2019					
	Non-interest bearing	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	(in millions of RMB)					
Assets						
Cash and deposits with the central bank	463.1	92,550.6	–	–	–	93,013.7
Deposits with banks and other financial institutions	43.4	13,396.3	611.9	–	–	14,051.6
Placements with banks and other financial institutions	19.0	992.8	3,399.0	–	–	4,410.8
Derivative financial assets	158.7	–	–	–	–	158.7
Financial assets held under resale agreements	0.7	1,849.6	–	–	–	1,850.3
Loans and advances to customers	2,822.4	348,310.5	261,183.4	71,190.9	3,771.9	687,279.1
Financial investments	16,285.8	44,817.9	63,062.0	154,003.4	22,137.8	300,306.9
Others[(1)]	15,858.9	–	–	–	–	15,858.9
Total assets	**35,652.0**	**501,917.7**	**328,256.3**	**225,194.3**	**25,909.7**	**1,116,930.0**
Liabilities						
Borrowing from the central bank	605.6	5,000.0	41,300.0	–	–	46,905.6
Deposits from banks and other financial institutions	608.8	42,009.3	35,929.3	–	–	78,547.4
Placements from banks and other financial institutions	280.0	7,358.1	13,862.1	–	–	21,500.2
Derivative financial liabilities	171.8	–	–	–	–	171.8
Financial assets sold under repurchase agreements	22.5	22,179.1	867.5	–	–	23,069.1
Deposits from customers	9,885.8	298,670.1	177,863.2	155,121.5	6,224.0	647,764.6
Debt securities issued	703.8	70,741.3	94,254.9	30,903.8	–	196,603.8
Others[(2)]	19,728.9	–	–	–	–	19,728.9
Total liabilities	**32,007.2**	**445,957.9**	**364,077.0**	**186,025.3**	**6,224.0**	**1,034,291.4**
Asset-liability gap	**3,644.8**	**55,959.8**	**(35,820.7)**	**39,169.0**	**19,685.7**	**82,638.6**

Notes:

(1) Consists primarily of interest in associate, property and equipment, deferred tax assets and other assets.

(2) Consists primarily of income tax payables and other liabilities.

Sensitivity Analysis

We use sensitivity analysis to measure the potential effect of changes in interest rates on our net interest income. The following table sets forth, as of the dates indicated, the results of our interest rate sensitivity analysis based on our assets and liabilities at the same date.

	As of December 31,					
	2017		2018		2019	
	Net profit	Equity	Net profit	Equity	Net profit	Equity
	(in millions of RMB)					
+100 basis-point.	(1,191.6)	(1,050.4)	(562.4)	(320.4)	29.2	290.9
-100 basis-point	1,191.6	1,050.4	562.4	320.4	(29.2)	(290.9)

Based on our assets and liabilities as of December 31, 2019, if interest rates increase by 100 basis points instantaneously, our net profit for the next 12 months would increase by RMB29.2 million, and if interest rates decrease by 100 basis points instantaneously, our net profit for the next 12 months would decrease by RMB29.2 million. Based on our assets and liabilities as of December 31, 2019, if interest rates increase by 100 basis points instantaneously, our shareholder's equity would increase by RMB290.9 million for the next 12 months, and if the interest rates decrease by 100 basis points instantaneously, our shareholders' equity would decrease by RMB290.9 million for the next 12 months.

We conduct interest rate sensitivity analysis based on the following assumptions: the yield curve moves parallel following interest rate changes; the asset and liability portfolio has a static interest rate risk structure; and all positions will be retained and rolled over upon maturity. However, the following factors are not taken into account: change of business after the balance sheet date; the impact of interest rate changes on customer behavior; relationships between complex structural products and interest rate changes; the impact of changes in interest rates on market prices; the impact of changes in interest rates on off-balance sheet products; and the impact of risk management approaches.

Exchange Rate Risk

The exchange rate risk refers to the risk of financial losses due to adverse changes in exchange rates. Most of our business is denominated in RMB, and the remainder is carried out with USD, HKD and other foreign currencies. The following table sets forth our financial assets and liabilities by currency as of the date indicated:

	As of December 31, 2019			
	RMB	USD (RMB equivalent)	Others (RMB equivalent)	Total
	(in millions of RMB)			
Assets				
Cash and deposits with the central bank	90,799.9	2,202.9	10.9	93,013.7
Deposits with banks and other financial institutions	5,121.3	7,800.0	1,130.3	14,051.6
Placements with banks and other financial institutions	3,052.2	1,358.6	–	4,410.8
Derivative financial assets	158.7	–	–	158.7
Financial assets held under resale agreements	1,850.3	–	–	1,850.3
Loans and advances to customers	660,182.7	26,012.2	1,084.2	687,279.1
Financial investments	293,876.4	6,311.0	119.5	300,306.9
Others(1)	15,833.1	25.7	0.1	15,858.9
Total assets	**1,070,874.6**	**43,710.4**	**2,345.0**	**1,116,930.0**
Liabilities				
Borrowing from the central bank	46,905.6	–	–	46,905.6
Deposits from banks and other financial institutions	78,547.2	–	0.2	78,547.4
Placements from banks and other financial institutions	4,129.4	17,370.8	–	21,500.2
Derivative financial liabilities	171.8	–	–	171.8
Financial assets sold under repurchase agreements	23,069.1	–	–	23,069.1
Deposits from customers	607,404.4	39,550.9	809.3	647,764.6
Debt securities issued	196,603.8	–	–	196,603.8
Others(2)	18,094.4	134.2	1,500.3	19,728.9
Total liabilities	**974,925.7**	**57,055.9**	**2,309.8**	**1,034,291.4**
Net position	**95,948.9**	**(13,345.5)**	**35.2**	**82,638.6**

Notes:

(1) Consists primarily of interest in associate, property and equipment, deferred tax assets and other assets.

(2) Consists primarily of income tax payables and other liabilities.

We mainly use foreign exchange exposure analysis, scenario simulation analysis, and stress tests to measure and analyze exchange rate risks, and set limits on foreign exchange transactions to monitor and control exchange rate risks. Meanwhile, we effectively manage the on-balance sheet foreign exchange risk exposure through derivative financial instruments, such as foreign exchange swaps and foreign exchange forwards, thereby maintaining foreign exchange exposure at a relatively low level.

CAPITAL EXPENDITURE

Our capital expenditure during the Track Record Period was primarily for acquisition of properties for, and renovation of, our outlets, purchases of self-service banking equipment, and development of our information systems.

Our capital expenditure amounted to RMB705.2 million, RMB720.6 million and RMB535.1 million in 2017, 2018 and 2019, respectively. As of December 31, 2019, we had authorized capital commitments of RMB142.5 million, among which RMB93.8 million were contracted capital commitments.

INDEBTEDNESS

As of April 30, 2020 (being the date for the purpose of this indebtedness statement, before this prospectus is printed), we have the following indebtedness:

- certificates of interbank deposit in an aggregate principal amount of RMB150,130.0 million;
- tier-two capital debts in an aggregate principal amount of RMB9,000.0 million;
- subordinate bonds in an aggregate principal amount of RMB950.0 million;
- financial bonds in an aggregate principal amount of RMB50,000.0 million; and
- lease liabilities in an amount of RMB3,844.9 million.

In May 2020, the CBIRC and the PBOC approved that we may issue financial bonds in an aggregate principal amount of up to RMB10.0 billion. The entire proceeds to be raised from this issuance of bonds will be used to grant loans to micro and small enterprises. As of the date of this prospectus, we have not issued such bonds. In addition, on June 24, 2020, we exercised our redemption right to redeem all the 10-year tier-two capital debts issued by us in 2015 with face value of RMB9,000.0 million.

Except as disclosed above, we did not have, as of April 30, 2020, any material and outstanding mortgages, charges, 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. Our Directors have confirmed that except as disclosed in this prospectus, there has not been any material change in our indebtedness or contingent liabilities since April 30, 2020 up to the date of this prospectus.

RULE 13.13 TO RULE 13.19 OF THE LISTING RULES

We confirm that there are no circumstances which will trigger disclosure requirements under Rule 13.13 to Rule 13.19 of the Listing Rules.

DIVIDENDS

Whether to pay dividends, the amount of dividends to be paid, or the dividend payout ratio, is based on our results of operations, cash flows, financial condition, capital adequacy ratios, future business prospects, statutory and regulatory restrictions on the payment of dividends by us, and other factors that our Board of Directors considers relevant. We currently do not have a pre-determined dividend payout ratio.

Pursuant to our Articles of Association, our Board of Directors is responsible for formulating profit distribution plans and submitting proposals in respect of profit distribution plans to the Shareholders at a general meeting for approval. 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. Pursuant to PRC laws and our Articles of Association, after the Listing, dividends may only be distributed from our distributable profits calculated in accordance with PRC GAAP or IFRS (or the accounting standards of the overseas jurisdictions where our Shares are listed), whichever is lower. Barring the development of new accounting standards or related amendments, we expect no material differences between our net profit calculated in accordance with PRC GAAP and that prepared under IFRS beginning January 1, 2020.

Under PRC laws and our Articles of Association, after the Listing, we may only pay dividends out of our distributable profits, and such distributable profits represent the lower of: (i) our net profit attributable to our shareholders for a period plus the distributable profit or net of the accumulated losses, if any, at the beginning of such period as determined under PRC GAAP; (ii) the unconsolidated net profit of our Bank for the period plus distributable profit or net of accumulated losses, if any, at the beginning of such period, as determined under PRC GAAP; (iii) our net profit attributable to our equity holders for the period plus distributable profit or net of accumulated losses, if any, at the beginning of such period, as determined under IFRS; and (iv) the unconsolidated net profit of our Bank for the period plus distributable profit or net of accumulated losses, if any, at the beginning of such period, as determined under IFRS, less:

- appropriations we are required to make to the statutory surplus reserve, which is currently 10% of the unconsolidated net profit of our Bank as determined under PRC GAAP, until such reserve reaches an amount equal to 50% of our registered capital;
- a general reserve we are required to set aside; and
- appropriations to a discretionary surplus reserve as approved by the shareholders in a general meeting.

Under relevant MOF regulations, we are required to maintain a general reserve of no less than 1.5% of the balance of our risk-bearing assets from our net profit after tax. This general reserve constitutes part of our reserves. As of December 31, 2019, the balance of our general reserve amounted to RMB14,081.7 million, which was in compliance with the MOF requirements in respect of appropriation of the general reserve.

Any distributable profit that is not distributed in a given year is retained and available for distribution in subsequent years. However, generally, 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 dividends 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, the general reserve, and any discretionary surplus reserve as approved at a shareholders' general meeting. If we make any profit distributions in violation of these rules, our Shareholders are required to return the amounts they received in such profit distributions to us.

The CBIRC has the authority to prohibit any bank that fails to meet the relevant capital adequacy ratio requirements, or has violated other relevant PRC banking regulations, from paying dividends or making other forms of distributions. As of December 31, 2019, we had a capital adequacy ratio of 13.07%, a tier-one capital adequacy ratio of 10.63%, and a core tier-one capital adequacy ratio of 8.06%, which were all in compliance with the relevant CBIRC regulations. For details, please see "Supervision and Regulation – Supervision Over Capital Adequacy – Regulatory Requirements on Capital Adequacy Ratios".

During the Track Record Period, we had declared and distributed special dividends in aggregate of RMB2,128.3 million to certain shareholders who had completed the contribution obligation in relation to the second capital increase. For details on our capital increase, please see "History and Development – Our History – Changes in the Registered Capital of our Bank". As of the Latest Practicable Date, such dividends had been fully paid up.

As approved by our Shareholders' general meeting in October 2019, immediately after the completion of the Global Offering, all the Shareholders are entitled to our accumulated retained earnings prior to the Listing, subject to compliance with our Articles of Association and relevant regulatory requirements.

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.

LISTING EXPENSES

Assuming an Offer Price of HK$4.87, being the mid-point of the indicative Offer Price range, the listing expenses to be borne by us are estimated to be approximately RMB327.1 million (equivalent to approximately HK$357.5 million which mainly includes professional fees, underwriting commissions and the maximum amount of the discretionary incentive fee and other fees, and represents approximately 2.5% of the estimated gross proceeds of the Global Offering accruing to us, assuming the Over-allotment Option is not exercised). RMB7.9 million of the listing expenses were reflected in our statements of profit or loss and other comprehensive income during the Track Record Period. After December 31, 2019, approximately RMB36.0 million is expected to be charged to our statement of profit or loss and other comprehensive income, and approximately RMB283.2 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 listing expenses to have a material adverse impact on our results of operations for the year ending December 31, 2020.

UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted net tangible assets is prepared based on our net tangible assets attributable to our Shareholders as of December 31, 2019 derived from our financial information as of December 31, 2019 as set out in the Accountants' Report set forth in Appendix I to this prospectus, adjusted as described below.

The unaudited pro forma statement of adjusted net tangible assets has been prepared to show the effect on our net tangible assets as of December 31, 2019 as if the Global Offering had occurred on December 31, 2019. The unaudited pro forma adjusted net tangible assets per share are calculated in accordance with Rule 4.29 of the Listing Rules.

The unaudited pro forma statement of adjusted net tangible assets 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 Shareholders of the Bank as of December 31, 2019	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted net tangible assets attributable to Shareholders of the Bank	Unaudited pro forma adjusted net tangible assets per Share	
	RMB Million Note(1)	RMB Million Notes(2)/(5)	RMB Million Note(3)	RMB Note(4)	HK$ Notes(5)
Based on an offer price of HK$4.75 per H Share	62,541.5	12,204.4	74,745.9	4.31	4.71
Based on an offer price of HK$4.98 per H Share	62,541.5	12,798.2	75,339.7	4.35	4.75

Notes:

(1) The net tangible assets attributable to Shareholders of the Bank as of December 31, 2019 are based on the total equity of the Bank of RMB82,638.6 million, after deduction of intangible assets of RMB135.5 million and perpetual bonds classified as equity instruments of RMB19,961.6 million.

(2) The estimated net proceeds from the Global Offering for the purpose of unaudited pro forma adjusted net tangible assets are based on the Offer Price of HK$4.75 per H Share (being the low-end of the proposed Offer Price range) and HK$4.98 per H Share (being the high-end of the proposed Offer Price range), and there are 2,880,000,000 H Shares newly issued in the Global Offering, after deduction of the underwriting fees and other related listing expenses payable by the Bank (excluding listing expenses of RMB7.9 million which have already been charged to statements of profit or loss and other comprehensive income during the Track Record Period) and taking no account of any H Shares which may be issued upon the exercise of the Over-allotment Option.

(3) The unaudited pro forma adjusted net tangible assets attributable to Shareholders of the Bank do not take into account the financial results or other transactions of the Bank subsequent to December 31, 2019.

(4) The unaudited pro forma adjusted net tangible assets per Share attributable to Shareholders of the Bank are arrived at after the adjustments for the estimated net proceeds from the Global Offering as described in Note (2) and on the basis of 17,330,000,000 Shares in issue assuming that the Global Offering has been completed on December 31, 2019, and taking no account of any H Shares which may be issued upon the exercise of the Over-allotment Option.

(5) The estimated net proceeds from the Global Offering and the unaudited pro forma adjusted net tangible assets per Share are translated into or from Renminbi at the rate of RMB0.9150 to HK$1.00, the exchange rate set by the PBoC prevailing on June 19, 2020. No representation is made that the Hong Kong dollar amounts have been, could have been or could be converted to Renminbi, or vice versa, at that rate or at any other rate.

RECENT DEVELOPMENTS AND NO MATERIAL ADVERSE CHANGE

Our business has continued to experience growth since December 31, 2019.

From January 1, 2020 and up to the Latest Practicable Date, we issued certificates of interbank deposit in an aggregate principal amount of RMB155,370.0 million and financial bonds in an aggregate principal amount of RMB18,000.0 million. In addition, on June 24, 2020, we exercised our redemption right to redeem all the 10-year tier-two capital debts issued by us in 2015 with face value of RMB9,000.0 million. For details, see "– Capital Resources – Debt – Debt Securities Issued". In May 2020, the CBIRC and the PBOC approved that we may issue financial bonds in an aggregate principal amount of up to RMB10.0 billion. The entire proceeds to be raised from this issuance of bonds will be used to grant loans to micro and small enterprises. As of the date of this prospectus, we have not issued such bonds.

Since early 2020, PRC Government has introduced a wide range of fiscal and monetary easing initiatives aimed at countering the impact of the COVID-19 epidemic, including encouraging banks and financial institutions to enhance their credit support to affected enterprises and individuals. On February 15, 2020, CBIRC announced that it may raise regulatory tolerance of banks' non-performing loans to businesses facing liquidity difficulties due to COVID-19. In addition, on March 1, 2020, CBIRC, PBoC and other PRC regulatory authorities jointly issued the Notice on Temporary Deferment of Repayment on Principal and Interest for Loans to Micro, Small and Medium Enterprises (Yin Bao Jian Fa [2020] No. 6)《關於對中小微企業貸款實施臨時性延期還本付息的通知》(銀保監發[2020]6號), according to which, qualified micro, small and medium enterprises (including individual business owners and owners of micro and small enterprises) facing temporary liquidity difficulties due to the outbreak of COVID-19 can make applications with banks to defer repayment of principal and interest expenses payable from January 25 to June 30, 2020, and overdue loan repayments during the relevant period will not be subject to penalties. On June 1, 2020, CBIRC, PBoC and other PRC regulatory authorities further jointly issued the Notice on the Further Implementation of Periodic Deferment of Repayment on Principal and Interest for Loans to Micro, Small and Medium Enterprises (《關於進一步對中小微企業貸款實施階段性延期還本付息的通知》), allowing banking institutions to extend the duration of their deferment arrangements for loans granted to micro and small enterprises (including business loans granted to individual business owners and owners of micro and small enterprises) whose credit line as a single borrower does not exceed RMB10.0 million.

In prompt response to these initiatives, we have launched special supportive measures for qualified entities, through offering loans at reduced interest rates, fee waivers, and expedited credit approval procedures. We will continue to monitor the development of COVID-19, assess and actively respond to its impact on our customers, business operations, financial condition, and results of operations. For details, please see "Summary – Recent Development" and "Risk Factors – Risks Relating to Our Business – The recent outbreak of the contagious COVID-19 in the PRC and worldwide may have an adverse effect on our business, financial condition and results of operations".

Notwithstanding the outbreak of epidemic, as of the date of this prospectus, we confirm that there has been no material adverse impact to our financial results or business operations, taking into account various factors, including our broad branch network across China, strong technical capability to deliver convenient online financial services and products, sound customer portfolio and asset quality, and the resilience of China's economic growth.

WORKING CAPITAL

Rule 8.21A(1) and Paragraph 36 of Part A of Appendix 1A of the Listing Rules require this document to include a statement by our Directors that, in their opinion, the working capital available to our Bank is sufficient for at least 12 months from the publication of this document or, if not, how it is proposed to provide the additional working capital our Directors consider to be necessary. We are of the view that the traditional concept of "working capital" does not apply to banking businesses such as ours. We are regulated in the PRC by, among others, the PBoC and the CBIRC. These regulatory authorities impose minimum capital adequacy and liquidity requirements on commercial banks operating in the PRC. Rule 8.21A(2) of the Listing Rules provides that such a working capital statement will not be required to be made by an issuer whose business is entirely or substantially that of the provision of financial services, provided that the Hong Kong Stock Exchange is satisfied that the inclusion of such a statement would not provide significant information for investors and the issuer's solvency and capital adequacy are subject to prudent supervision by another regulatory body. In view of the above, pursuant to Rule 8.21A(2) of the Listing Rules we are not required to include a working capital statement from the directors in this document.

FUTURE PLANS

See the section headed "Business – Our Development Strategies" in this prospectus for a detailed description of our future plans.

USE OF PROCEEDS

Assuming an Offer Price of HK$4.75, 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) to be approximately HK$13,329.5 million, if the Over-allotment Option is not exercised; or approximately HK$15,339.8 million, if the Over-allotment Option is exercised in full.

Assuming an Offer Price of HK$4.87, being the mid-point of the proposed Offer Price range of HK$4.75 to HK$4.98, 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) to be approximately HK$13,668.1 million, if the Over-allotment Option is not exercised; or to be approximately HK$15,729.2 million, if the Over-allotment Option is exercised in full.

Assuming an Offer Price of HK$4.98, 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) to be approximately HK$13,978.5 million, if the Over-allotment Option is not exercised; or to be approximately HK$16,086.1 million, if the Over-allotment Option is exercised in full.

We intend to use the net proceeds from the Global Offering (after deduction of underwriting commissions and estimated expenses payable by us in relation to the Global Offering) to strengthen our capital base to support the ongoing growth of our business.

THE CORNERSTONE PLACING

We have entered into cornerstone investment agreements with certain investors (the "**Cornerstone Investors**", and each a "**Cornerstone Investor**"), pursuant to which the Cornerstone Investors have agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 500 H Shares) that may be purchased for in an aggregate amount of approximately US$520 million (approximately HK$4,030 million[(1)]) at the Offer Price (the "**Cornerstone Placing**").

The Bank is of the view that the Cornerstone Placing would demonstrate the Cornerstone Investors' confidence on the prospects of the Bank, thereby delivering positive signals to potential investors.

Based on the Offer Price of HK$4.75 (being the low-end of the proposed Offer Price range), the total number of H Shares to be subscribed by the Cornerstone Investors would be 848,417,500, representing approximately (i) 31.01% of the International Offer Shares, assuming that the Over-allotment Option is not exercised; (ii) 26.78% of the International Offer Shares, assuming that the Over-allotment Option is fully exercised; (iii) 29.46% of the Offer Shares, assuming that the Over-allotment Option is not exercised; (iv) 25.62% of the Offer Shares, assuming that the Over-allotment Option is fully exercised; (v) 4.90% of the Shares in issue upon completion of the Global Offering, assuming that the Over-allotment Option is not exercised; or (vi) 4.78% of the Shares in issue upon completion of the Global Offering, assuming the Over-allotment Option is fully exercised.

Based on the Offer Price of HK$4.87 (being the mid-point of the proposed Offer Price range), the total number of H Shares to be subscribed by the Cornerstone Investors would be 827,513,000, representing approximately (i) 30.25% of the International Offer Shares, assuming that the Over-allotment Option is not exercised; (ii) 26.12% of the International Offer Shares, assuming that the Over-allotment Option is fully exercised; (iii) 28.73% of the Offer Shares, assuming that the Over-allotment Option is not exercised; (iv) 24.99% of the Offer Shares, assuming that the Over-allotment Option is fully exercised; (v) 4.78% of the Shares in issue upon completion of the Global Offering, assuming that the Over-allotment Option is not exercised; or (vi) 4.66% of the Shares in issue upon completion of the Global Offering, assuming the Over-allotment Option is fully exercised.

Based on the Offer Price of HK$4.98 (being the high-end of the proposed Offer Price range), the total number of H Shares to be subscribed by the Cornerstone Investors would be 809,234,500, representing approximately (i) 29.58% of the International Offer Shares, assuming that the Over-allotment Option is not exercised; (ii) 25.54% of the International Offer Shares, assuming that the Over-allotment Option is fully exercised; (iii) 28.10% of the Offer Shares, assuming that the Over-allotment Option is not exercised; (iv) 24.43% of the Offer Shares, assuming that the Over-allotment Option is fully exercised; (v) 4.67% of the Shares in issue upon completion of the Global Offering, assuming that the Over-allotment Option is not exercised; or (vi) 4.56% of the Shares in issue upon completion of the Global Offering, assuming the Over-allotment Option is fully exercised.

To the best knowledge of our Bank, (i) each of the Cornerstone Investor is an independent third party and is not a connected person; (ii) none of the Cornerstone Investors is accustomed to take instructions from the Bank, the Directors, president, substantial Shareholders or existing Shareholders or any of its subsidiaries or their respective close associates; (iii) none of the subscription of the H Shares by the Cornerstone Investors is financed by the Bank, the Directors, president, substantial Shareholders, or existing Shareholders or any of its subsidiaries or their respective close associates; and (iv) save as disclosed in this section, there are no other Cornerstone Investors or their respective shareholders are listed on any stock exchanges.

For Cornerstone Investor who subscribe for our H Shares through an asset manager that is a qualified domestic institutional investor ("**QDII**"), such asset manager is an independent third party of our Bank, its connected persons and their respective associates and is not a connected client of the lead broker or of any distributors (as defined in paragraph 5 of the Placing Guidelines).

As confirmed by each of the Cornerstone Investors, (i) their subscription under the Cornerstone Placing would be using internal funds, and (ii) there are no side agreements or arrangements made between the Bank and the Cornerstone Investors.

Pursuant to the respective cornerstone investment agreements, (i) each Cornerstone Investor should be obliged to make full payment of their respective investment amounts at least one business day before the Listing Date; and (ii) our Bank and the Joint Representatives may at their sole discretion, determine that delivery of all or any part of the Offer Shares to be subscribed by the Cornerstone Investors to be made on the Listing Date or a date later than the Listing Date, provided that the delayed delivery date shall not be later than the third business day after the end of the stabilizing period, and the Cornerstone Investors shall nevertheless make full payment of their respective investment amount as specified in (i) above.

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. Save as the Offer Shares to be subscribed by Jinlian (Tianjin) Finance Lease Co., Ltd., the Offer Shares to be subscribed by the Cornerstone Investors 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 pursuant to the respective cornerstone investment agreements). Immediately following completion of the Global Offering, none of the Cornerstone Investors will have any Board representation in the Bank, nor will any of the Cornerstone Investors become a substantial Shareholder. With respect to their cornerstone investment, other than the H Shares agreed to allocate to them, none of the Cornerstone Investors have any preferential rights compared to other public investors in their respective cornerstone agreements. The Offer Shares to be subscribed for by the Cornerstone Investors will not be affected by any reallocation between the Hong Kong Public Offering and the International Offering as described in the section headed "Structure of the Global Offering". 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 July 15, 2020.

Note:

(1) Calculated based on an exchange rate of HK$7.7500 to US$1.00 as described in "Information about this Prospectus and the Global Offering – Exchange Rate Conversion" in this prospectus. The actual investment amount of each Cornerstone Investor may change due to the actual exchange rate to be used as prescribed in the relevant cornerstone investment agreement.

CORNERSTONE INVESTORS

The Bank has entered into cornerstone investment agreements with each of the following Cornerstone Investors in respect of the Cornerstone Placing.

Cornerstone Investor	Investment amount[(1)]	Indicative Offer Price[(2)]	Number of H Shares to be subscribed for[(3)]	Approximate percentage of the International Offer Shares (assuming that Over-allotment Option is not exercised)	Approximate percentage of the International Offer Shares (assuming that Over-allotment Option is exercised in full)	Approximate percentage of the Offer Shares (assuming that Over-allotment Option is not exercised)	Approximate percentage of the Offer Shares (assuming that Over-allotment Option is exercised in full)	Approximate percentage of Shares in issue immediately following completion of the Global Offering (assuming that Over-allotment Option is not exercised)	Approximate percentage of Shares in issue immediately following completion of the Global Offering (assuming that Over-allotment Option is exercised in full)
Yichang HEC Health Pharmaceutical Co., Ltd. (宜昌東陽光健康藥業有限公司) . . .	US$200 million	HK$4.75	326,315,500	11.93%	10.30%	11.33%	9.85%	1.88%	1.84%
		HK$4.87	318,275,000	11.63%	10.05%	11.05%	9.61%	1.84%	1.79%
		HK$4.98	311,244,500	11.38%	9.82%	10.81%	9.40%	1.80%	1.75%
WAH LI (HONG KONG) LIMITED (香港華麗有限公司)	US$50 million	HK$4.75	81,578,500	2.98%	2.58%	2.83%	2.46%	0.47%	0.46%
		HK$4.87	79,568,500	2.91%	2.51%	2.76%	2.40%	0.46%	0.45%
		HK$4.98	77,811,000	2.84%	2.46%	2.70%	2.35%	0.45%	0.44%
Zhejiang Rongsheng Venture Capital Co., Ltd. (浙江榮盛創業投資有限公司)	US$50 million	HK$4.75	81,578,500	2.98%	2.58%	2.83%	2.46%	0.47%	0.46%
		HK$4.87	79,568,500	2.91%	2.51%	2.76%	2.40%	0.46%	0.45%
		HK$4.98	77,811,000	2.84%	2.46%	2.70%	2.35%	0.45%	0.44%
RISESUN LAND DEVELOPMENT (HONGKONG) LIMITED (榮盛房地產發展(香港)有限公司) . .	US$50 million	HK$4.75	81,578,500	2.98%	2.58%	2.83%	2.46%	0.47%	0.46%
		HK$4.87	79,568,500	2.91%	2.51%	2.76%	2.40%	0.46%	0.45%
		HK$4.98	77,811,000	2.84%	2.46%	2.70%	2.35%	0.45%	0.44%
Shenzhen Cuilin Industrial Development Co., Ltd. (深圳市翠林實業發展有限公司) . . .	US$50 million	HK$4.75	81,578,500	2.98%	2.58%	2.83%	2.46%	0.47%	0.46%
		HK$4.87	79,568,500	2.91%	2.51%	2.76%	2.40%	0.46%	0.45%
		HK$4.98	77,811,000	2.84%	2.46%	2.70%	2.35%	0.45%	0.44%
Jinlian (Tianjin) Finance Lease Co., Ltd. (津聯(天津)融資租賃有限公司) . . .	US$30 million	HK$4.75	48,947,000	1.79%	1.55%	1.70%	1.48%	0.28%	0.28%
		HK$4.87	47,741,000	1.74%	1.51%	1.66%	1.44%	0.28%	0.27%
		HK$4.98	46,686,500	1.71%	1.47%	1.62%	1.41%	0.27%	0.26%
Chengde Jianlong Special Steel Co., Ltd. (承德建龍特殊鋼有限公司)	US$30 million	HK$4.75	48,947,000	1.79%	1.55%	1.70%	1.48%	0.28%	0.28%
		HK$4.87	47,741,000	1.74%	1.51%	1.66%	1.44%	0.28%	0.27%
		HK$4.98	46,686,500	1.71%	1.47%	1.62%	1.41%	0.27%	0.26%

Cornerstone Investor	Investment amount[1]	Indicative Offer Price[2]	Number of H Shares to be subscribed for[3]	Approximate percentage of the International Offer Shares (assuming that Over-allotment Option is not exercised)	Approximate percentage of the International Offer Shares (assuming that Over-allotment Option is exercised in full)	Approximate percentage of the Offer Shares (assuming that Over-allotment Option is not exercised)	Approximate percentage of the Offer Shares (assuming that Over-allotment Option is exercised in full)	Approximate percentage of Shares in issue immediately following completion of the Global Offering (assuming that Over-allotment Option is not exercised)	Approximate percentage of Shares in issue immediately following completion of the Global Offering (assuming that Over-allotment Option is exercised in full)
Shenghong Holding Group Co., Ltd. (盛虹控股集團有限公司)	US$30 million	HK$4.75	48,947,000	1.79%	1.55%	1.70%	1.48%	0.28%	0.28%
		HK$4.87	47,741,000	1.74%	1.51%	1.66%	1.44%	0.28%	0.27%
		HK$4.98	46,686,500	1.71%	1.47%	1.62%	1.41%	0.27%	0.26%
Xinao Group Co., Ltd. (新奥集團股份有限公司)	US$30 million	HK$4.75	48,947,000	1.79%	1.55%	1.70%	1.48%	0.28%	0.28%
		HK$4.87	47,741,000	1.74%	1.51%	1.66%	1.44%	0.28%	0.27%
		HK$4.98	46,686,500	1.71%	1.47%	1.62%	1.41%	0.27%	0.26%

Notes:

(1) Excluding brokerage, SFC transaction levy and Stock Exchange trading fee.

(2) Being the low-end, mid-point and high-end of the proposed Offer Price range set out in this prospectus respectively.

(3) Number of H Shares to be subscribed for is based on investment amounts exchanged at an exchange rate of HK$7.7500 to US$1.00 as described in "Information about this Prospectus and the Global Offering – Exchange Rate Conversion" in this prospectus. The actual investment amount of each Cornerstone Investor may change due to the actual exchange rate to be used as prescribed in the relevant cornerstone investment agreement.

The Bank became acquainted with the Cornerstone Investors through the introduction of the Underwriters and/or through business relationship with the Bank (provision of ordinary banking services). The information about the Cornerstone Investors as set forth below has been provided by the Cornerstone Investors.

1. Yichang HEC Health Pharmaceutical Co., Ltd. (宜昌東陽光健康藥業有限公司)

Yichang HEC Health Pharmaceutical Co., Ltd. ("**Yichang HEC**") is a limited liability company incorporated in the PRC. Yichang HEC is wholly-owned by Shenzhen HEC Industrial Development Co., Ltd. (深圳市東陽光實業發展有限公司), and in turn owned by Ruyuan Yao Autonomous County Yuneng Electric Industrial Co., Ltd. (乳源瑤族自治縣寓能電子實業有限公司), Ruyuan Yao Autonomous County Xinjing Technology Development Co., Ltd. (乳源瑤族自治縣新京科技發展有限公司) and Shaoguan Xinyuneng Industrial Investment Company Limited (韶關新寓能實業投資有限公司) as to 42.34%, 30.66% and 27.00%, respectively.

Shaoguan Xinyuneng Industrial Investment Company Limited is owned by Ruyuan Yao Autonomous County Yuneng Electric Industrial Co., Ltd. and Ruyuan Yao Autonomous County Xinjing Technology Development Co., Ltd. as to 58% and 42%, respectively. Mr. Zhang Zhongneng (張中能) owns 99.69% equity interests in Ruyuan Yao Autonomous County Yuneng

Electric Industrial Co., Ltd., and Ms. Guo Meilan (郭梅蘭) owns 99.51% equity interests in Ruyuan Yao Autonomous County Xinjing Technology Development Co., Ltd. Ms. Guo Meilan is the spouse of Mr. Zhang Zhongneng.

Yichang HEC is principally engaged in biopharmaceuticals, electronic materials and healthcare.

Mr. Zhang Zhongneng and Ms. Guo Meilan are also the ultimate controlling shareholders of Guangdong HEC Technology Holding Co., Ltd. (廣東東陽光科技控股股份有限公司) (a company listed on the Shanghai Stock Exchange with stock code 600673) and YiChang HEC ChangJiang Pharmaceutical Co., Ltd. (宜昌東陽光長江藥業股份有限公司) (a company listed on the Main Board of the Stock Exchange with stock code 1558).

2. WAH LI (HONG KONG) LIMITED (香港華麗有限公司)

WAH LI (HONG KONG) LIMITED ("**Wah Li (Hong Kong)**") is a company incorporated in Hong Kong with limited liability and is wholly-owned by Mr. Chiu Yung (趙勇). Wah Li (Hong Kong) is principally engaged in finance and investment business.

Mr. Chiu Yung is also the controlling shareholder of Fu Wah International Enterprises Group Limited (富華國際集團有限公司, "**Fu Wah International Group**"). Fu Wah International Group is principally engaged in real estate development, assets operation and management, cultural and arts, finance and investment, and comprehensive health businesses.

3. Zhejiang Rongsheng Venture Capital Co., Ltd. (浙江榮盛創業投資有限公司)

Zhejiang Rongsheng Venture Capital Co., Ltd. ("**Zhejiang Rongsheng**") is a limited liability company established in the PRC. Zhejiang Rongsheng is wholly-owned by Zhejiang Rongsheng Holding Group Co., Ltd. (浙江榮盛控股集團有限公司), and in turn owned by Li Shuirong (李水榮) and seven other shareholders as to approximately 60.88% and 39.12%, respectively. To the best knowledge of our Bank, each of Zhejiang Rongsheng and its ultimate beneficial owners is an independent third party.

Zhejiang Rongsheng is principally engaged in private equity investments and investments in private placing by listed companies. Zhejiang Rongsheng mainly invests in industries including new chemical materials, high-end manufacturing, information technology, biomedicine and modern services for private equity investments, and blue-chip companies for investments in private placing by listed companies.

4. RISESUN LAND DEVELOPMENT (HONGKONG) LIMITED (榮盛房地產發展(香港)有限公司)

RISESUN LAND DEVELOPMENT (HONGKONG) LIMITED ("**RiseSun (HongKong)**") is a company incorporated in Hong Kong with limited liability and is wholly-owned by RiseSun Real Estate Development Co., Ltd (榮盛房地產發展股份有限公司)

(a company listed on the Shenzhen Stock Exchange with stock code 002146). As confirmed by RiseSun (HongKong), it does not require any approval from the shareholders of RiseSun Real Estate Development Co., Ltd and the relevant stock exchange for the cornerstone investment.

RiseSun Real Estate Development Co., Ltd and its subsidiaries, including RiseSun (HongKong), are principally engaged in property development and sales in the PRC.

5. Shenzhen Cuilin Industrial Development Co., Ltd. (深圳市翠林實業發展有限公司)

Shenzhen Cuilin Industrial Development Co., Ltd. ("**Shenzhen Cuilin**") is a limited liability company established in the PRC. Shenzhen Cuilin is owned by Shenzhen Jiahui Industrial Development Co., Ltd. (深圳市嘉惠實業發展有限公司) and Wang Zhongxin (王忠新) as to 98% and 2%, respectively. Shenzhen Jiahui Industrial Development Co., Ltd. is indirectly wholly-owned by Wang Zhongming (王忠明). Shenzhen Cuilin is principally engaged in finance and investment, construction, farming, and real estate and property businesses.

For the purpose of this cornerstone investment, Shenzhen Cuilin has engaged an asset manager, which is a QDII, to subscribe for and hold such Offer Shares on behalf of Shenzhen Cuilin.

6. Jinlian (Tianjin) Finance Lease Co., Ltd. (津聯(天津)融資租賃有限公司)

Jinlian (Tianjin) Finance Lease Co., Ltd. ("**Jinlian (Tianjin)**") is a limited liability company established in the PRC. Jinlian (Tianjin) is owned by Tianjin Jinlian Investment Holdings Co., Ltd. (天津津聯投資控股有限公司) and Tsinlien Group Company Limited (津聯集團有限公司) as to approximately 75% and 25%, respectively. Tsinlien Group Company Limited is wholly-owned by Tianjin Jinlian Investment Holdings Co., Ltd., and in turn wholly-owned by Tianjin SASAC. Jinlian (Tianjin) is principally engaged in finance lease business.

7. Chengde Jianlong Special Steel Co., Ltd. (承德建龍特殊鋼有限公司)

Chengde Jianlong Special Steel Co., Ltd. ("**Chengde Jianlong**") is a limited liability company established in the PRC. Chengde Jianlong is wholly-owned by Tangshan Jianlong Special Steel Co., Ltd. (唐山建龍特殊鋼有限公司), and in turn wholly-owned by Tianjin Jianlong Iron and Steel Industrial Co., Ltd. (天津建龍鋼鐵實業有限公司).

Tianjin Jianlong Iron and Steel Industrial Co., Ltd. is owned by Beijing Jianlong Heavy Industry Group Co., Ltd. (北京建龍重工集團有限公司), Shanghai Fosun Industrial Technology Development Co., Ltd. (上海復星工業技術發展有限公司) and Shanghai Junneng Industrial Co., Ltd. (上海鈞能實業有限公司) as to 62.08%, 25.70% and 12.22%, respectively. Shanghai Junneng Industrial Co., Ltd. is owned by Zhejiang Jianlong Materials Industry Co., Ltd. (浙江建龍物產有限公司) and Zhejiang Jianlong Holding Group Co., Ltd. (浙江建龍控股集團有限公

司) as to 80.00% and 20.00%, respectively. Zhejiang Jianlong Materials Industry Co., Ltd. is wholly-owned by Zhejiang Jianlong Holding Group Co., Ltd., and in turn wholly-owned by Beijing Jianlong Heavy Industry Group Co., Ltd..

Beijing Jianlong Heavy Industry Group Co., Ltd. is owned by Beijing Jianlong Investment Co., Ltd. (北京建龍投資有限公司) and Beijing Shanshui Yongming Investment Co., Ltd. (北京山水永明投資有限公司) as to 94% and 6%, respectively. Beijing Jianlong Investment Co., Ltd. is owned by Zhang Zhixiang (張志祥), Zhang Weixiang (張偉祥) and Tao Zhonghai (陶忠海) as to 75.1%, 20% and 4.9%, respectively. Beijing Shanshui Yongming Investment Co., Ltd. is owned by Beijing Jianlong Investment Co., Ltd., Yuan Zhanyong (苑占永) and Li Mingdong (李明東) as to 98%, 1% and 1%, respectively.

Shanghai Fosun Industrial Technology Development Co., Ltd. is wholly-owned by Shanghai Fosun Industrial Investment Co., Ltd. (上海復星產業投資有限公司), and in turn wholly-owned by Shanghai Fosun High-Technology Group Co., Ltd. (上海復星高科技(集團)有限公司). Shanghai Fosun High-Technology Group Co., Ltd. is wholly-owned by Fosun International Limited (復星國際有限公司), a company listed on the Hong Kong Stock Exchange with stock code 656. As confirmed by Chengde Jianlong, it does not require any approval from shareholders of Fosun International Limited (復星國際有限公司) and the relevant stock exchange for the cornerstone investment.

Chengde Jianlong is principally engaged in production of special steel, and Beijing Jianlong Heavy Industry Group Co., Ltd. is a large scale heavy industry group principally engaged in production of iron and steel.

8. Shenghong Holding Group Co., Ltd. (盛虹控股集團有限公司)

Shenghong Holding Group Co., Ltd. ("**Shenghong Holding**") is a limited liability company established in the PRC. Shenghong Holding is wholly-owned by Jiangsu Shenghong Investment and Development Co., Ltd. (江蘇盛虹投資發展有限公司), and in turn owned by Miao Hangen (繆漢根) and Zhu Hongmei (朱紅梅) as to 90% and 10%, respectively. Shenghong Holding is principally engaged in petrochemical, textile and energy businesses, and it controls Jiangsu Eastern Shenghong Co., Ltd. (a company listed on the Shenzhen Stock Exchange with stock code 000301).

9. Xinao Group Co., Ltd. (新奧集團股份有限公司)

Xinao Group Co., Ltd. ("**Xinao Group**") is a limited liability company established in the PRC, and is owned by Langfang City Natural Gas Company Limited (廊坊市天然氣有限公司) and 22 other shareholders as to 50.05% and 49.95%, respectively. Langfang City Natural Gas Company Limited is owned by Mr. Wang Yusuo (王玉鎖) and Ms. Zhao Baoju (趙寶菊) as to 90% and 10%, respectively. To the best knowledge of our Bank, each of Xinao Group and its ultimate beneficial owners is an independent third party. Xinao Group is principally engaged in exploration, storage and transportation and distribution of clean energy.

Mr. Wang Yusuo also controls ENN Energy Holdings Limited (新奥能源控股有限公司) (a company listed on the Stock Exchange with stock code 2688), ENN Ecological Holdings Co., Ltd. (新奥生態控股股份有限公司) (a company listed on the Shanghai Stock Exchange with stock code 600803), ENC Digital Technology Co., Ltd. (新智認知數字科技股份有限公司) (a company listed on the Shanghai Stock Exchange with stock code 603869), and Tibet Tourism Co., Ltd. (西藏旅遊股份有限公司) (a company listed on the Shanghai Stock Exchange with stock code 600749).

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 Underwriting Agreement being entered into and having become effective and unconditional (in accordance with their respective original terms or as subsequently waived or varied by agreement of the parties thereto) by no later than the time and date as specified in these underwriting agreements, and neither of the aforesaid underwriting agreements having been terminated;

(ii) the Offer Price having been agreed upon between the Bank and the Joint Representatives (on behalf of themselves and the underwriters of the Global Offering);

(iii) the Listing Committee of the Hong Kong Stock Exchange having granted the Listing of, and permission to deal in, the H Shares (including the H Shares to be subscribed by the Cornerstone Investors) and such approval, permission or waiver not having been revoked prior to the commencement of dealings in the H Shares on the Hong Kong Stock Exchange;

(iv) no laws, statutes, legislation, ordinances, rules, regulations, guidelines, opinions, notices, circulars, directives, requests, orders, judgments, decrees or rulings of any governmental authority (including the Hong Kong Stock Exchange and the SFC) of all relevant jurisdictions having been enacted or promulgated by any governmental authority which prohibit the consummation of the transactions contemplated in the Global Offering or the cornerstone investment agreements and there shall be no orders or injunctions from a court of competent jurisdiction in effect precluding or prohibiting consummation of such transactions; and

(v) the respective representations, warranties, undertakings and confirmations of the Cornerstone Investor under the relevant cornerstone investment agreement being (on the date of the cornerstone investment agreement) and will be (on the Listing Date and the date of closing of the subscription of the H Shares by the Cornerstone

Investor, including the delayed delivery date) accurate and true in all respects and not misleading and that there is no material breach of the cornerstone investment agreement on the part of the Cornerstone Investor.

Restrictions on the Cornerstone Investors' Investment

Each of the Cornerstone Investors has agreed that, it will not, whether directly or indirectly, at any time during the period of six (6) months starting from and inclusive of the Listing Date, dispose of (as defined in the relevant cornerstone investment agreement) any of the relevant Offer Shares or any interest in any company or entity holding any of the relevant Offer Shares, other than in certain limited circumstances such as transfers to any wholly-owned subsidiary of such Cornerstone Investor provided that, amongst other requirements, such wholly-owned subsidiary undertakes to, and the Cornerstone Investor undertakes to procure that such subsidiary will, abide by such restrictions imposed on the Cornerstone Investor.

HONG KONG UNDERWRITERS

Hong Kong Underwriters

CCB International Capital Limited
Haitong International Securities Company Limited
ABCI Securities Company Limited
CLSA Limited
China International Capital Corporation Hong Kong Securities Limited
ICBC International Securities Limited
Deutsche Bank AG, Hong Kong Branch
BOCOM International Securities Limited
SPDB International Capital Limited
CMB International Capital Limited
Guotai Junan Securities (Hong Kong) Limited
China Merchants Securities (HK) Co., Limited
BOCI Asia Limited
GF Securities (Hong Kong) Brokerage Limited

UNDERWRITING

This prospectus is published solely in connection with the Hong Kong Public Offering. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters on a conditional basis on the terms and conditions set out in this prospectus, the Application Forms relating thereto and the Hong Kong Underwriting Agreement. The International Offering is expected to be fully underwritten by the International Underwriters. If, for any reason, the Offer Price is not agreed upon between the Bank and the Joint Representatives (for themselves and on behalf of the Hong Kong Underwriters), the Global Offering will not proceed and will lapse.

The Global Offering comprises the Hong Kong Public Offering of initially 144,000,000 Hong Kong Offer Shares and the International Offering of initially 2,736,000,000 International Offer Shares, subject, in each case, to reallocation on the basis as described in the section headed "Structure of the Global Offering" in this prospectus as well as to the Over-allotment Option in the case of the International Offering.

UNDERWRITING ARRANGEMENTS AND EXPENSES

The Hong Kong Public Offering

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, we are offering initially 144,000,000 Hong Kong Offer Shares (subject to reallocation) for subscription by the public in Hong Kong in accordance with the terms and conditions of this prospectus and the Application Forms relating thereto.

Subject to (i) the Listing Committee granting listing of, and permission to deal in, the H Shares to be offered as mentioned in this prospectus pursuant to the Global Offering (including any additional H Shares that may be issued pursuant to the exercise of the Over-allotment Option) and (ii) certain other conditions set out in the Hong Kong Underwriting Agreement (including, amongst others, the Joint Representatives (on behalf of the Hong Kong Underwriters) and the Bank agreeing upon the Offer Price), 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 the terms and conditions of this prospectus and the Application Forms relating thereto and the Hong Kong Underwriting Agreement.

The Hong Kong Underwriting Agreement is conditional on and subject to, amongst others, the execution and delivery of the International Underwriting Agreement and the obligations of the International Underwriters thereunder having become unconditional and not having been terminated in accordance with its terms.

Grounds for Termination

The obligations of the Hong Kong Underwriters to subscribe or procure subscriptions for the Hong Kong Offer Shares under the Hong Kong Underwriting Agreement are subject to termination with immediate effect by notice from the Joint Representatives (for themselves and on behalf of the Hong Kong Underwriters) and the Joint Sponsors if, at any time prior to 8:00 a.m. on the Listing Date:

(1) there develops, occurs, exists or comes into force:

(i) 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, fiscal, regulatory, currency, credit or market conditions, equity securities or other financial markets (including, without limitation, conditions in stock and bond markets, money and foreign exchange markets, the inter-bank markets and credit markets) or currency exchange rate or controls in or affecting Hong Kong, the PRC, the United States, Japan, the United Kingdom or the European Union (or any member thereof) (together, the "**Relevant Jurisdictions**"); or

(ii) 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 any of the Relevant Jurisdictions; or

(iii) any event or series of events in the nature of force majeure (including, without limitation, acts of government, strikes, labour disputes, lock-outs, fire, explosion, flooding, earthquake, civil commotion, riots, public disorder, acts of war, acts of God, epidemic, pandemic, outbreak or escalation of infectious disease, (including without limitation SARS, MERS, COVID-19, H5N1, H1N1, swine or avian influenza or such related/mutated forms), accident or interruption or delay in transportation) in or affecting any of the Relevant Jurisdictions, or without limiting the foregoing, any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared), act of terrorism (whether or not responsibility has been claimed), or other state of emergency or calamity or crisis in or affecting any of the Relevant Jurisdictions; or

(iv) (a) 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 Shanghai Stock Exchange, the Shenzhen Stock Exchange, the Tokyo Stock Exchange, the New York Stock Exchange, the NASDAQ Global

Market or the London Stock Exchange; (b) any moratorium, suspension or limitation (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 the Bank listed or quoted on a stock exchange or an over-the-counter market; or (c) any general moratorium on commercial banking activities in or affecting any of the Relevant Jurisdictions or any disruption in commercial banking or foreign exchange trading or securities settlement or clearing services in or affecting any of the Relevant Jurisdictions; or

(v) a change or a prospective change in taxation or exchange control, currency exchange rates or foreign investment regulations in or affecting any of the Relevant Jurisdictions; or

(vi) the imposition of economic sanctions, in whatever form, directly or indirectly, by, or on, any Relevant Jurisdiction on the Bank; or

(vii) (a) any chairman or president vacating his office, (b) any Director or, Supervisor as named in the Prospectus is being charged with an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of a company; or (c) any litigation or claim instigated, or any litigation or claim being threatened against the Bank or any Director or Supervisor; or (d) any contravention by the Bank or any Director or Supervisor of the Listing Rules or applicable Laws; or (e) any Governmental Authority or any political body or organisation in any Relevant Jurisdiction is commencing any investigation or other action against, or announcing an intention to investigate or take other action, against any Director or Supervisor; or

(viii) it becomes necessary for the Bank to issue a supplemental prospectus (or to any other documents used in connection with the Global Offering) pursuant to the Companies Ordinance or the Companies (Winding Up and Miscellaneous Provisions) Ordinance or the Listing Rules or any requirement or request of the Hong Kong Stock Exchange and/or the SFC; or

(ix) any event, act or omission which gives rise or is likely to give rise to any liability of the Bank pursuant to the indemnities in clause 13 of the Hong Kong Underwriting Agreement; or

(x) an order or petition is presented for the winding-up or liquidation of the Bank or the Bank makes any composition or arrangement with its creditors or enters into a scheme of arrangement or any resolution is passed for the winding-up of the Bank or a provisional liquidator, receiver or manager is appointed over all or part of the assets or undertaking of the Bank or anything analogous thereto occurs in respect of the Bank; or

and which, in any of (1) (i) to (x) above, individually or in aggregate, in the sole and absolute opinion of the Joint Representatives (for themselves and on behalf of the Hong Kong Underwriters) after prior consultation with the Bank:

(A) has or will or is reasonably expected to have a material adverse effect on the assets, liabilities, principal business, prospects, shareholders' equity, profits, losses, results of operations, financial position, or performance of the Bank as a whole; or

(B) has or will or is reasonably expected to have a material adverse effect on the success of the Global Offering and/or make it impracticable or inadvisable for any material part of the Hong Kong Underwriting Agreement, the Hong Kong Public Offering or the Global Offering to be performed or implemented as envisaged; or

(C) make, will or is reasonably expected to make it impracticable, 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 the Prospectus, the Application Forms, the Formal Notice, the Preliminary Offering Circular or the Final Offering Circular; or

(D) has or will or is reasonably expected to have the effect of making any part of the Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or preventing the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof; or

(2) any of the following shall have come to the notice of the Joint Sponsors, the Joint Representatives, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers or the Hong Kong Underwriters after the date of the Hong Kong Underwriting Agreement:

(i) that any statement contained in any of the Global Offering Documents and/or any notices, announcements, advertisements, communications or other documents 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, when it was issued, or has become untrue, incorrect, or misleading unless such untrue, incorrect or misleading statement is immaterial in the context of the Global Offering or has been properly rectified by the Bank in a timely manner; or any estimate, forecast, expression of opinion, intention or expectation contained therein was, when it was issued, or has become unfair or misleading in any respect or based on untrue, dishonest or unreasonable assumptions or given in bad faith, when taken as a whole; or

(ii) any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of the Prospectus, not having been disclosed in the Prospectus, constitute a material omission therefrom; or

(iii) either (A) there has been a material breach of, any of the obligations, undertakings or provisions of either the Hong Kong Underwriting Agreement or the International Underwriting Agreement by the Bank or (B) any of the representations and warranties, 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 in any respect or misleading; or

(iv) any material adverse change or any prospective material adverse change or development involving a prospective material adverse change, in the assets, liabilities, principal business, prospects, shareholders' equity, profits, losses, results of operations, financial position or performance of the Bank as a whole; or

(v) the Bank withdraws the Prospectus (and/or any other documents used in connection with the subscription or sale of any of the Offer Shares pursuant to the Global Offering) or the Global Offering; or

(vi) any non-compliance of the Prospectus (or any other documents used in connection with the contemplated subscription and sale of any of the Offer Shares) or any aspect of the Global Offering with the Listing Rules or any other applicable Law in any material aspect; or

(vii) Admission is refused or not granted, other than subject to customary conditions, on or before the date of the listing, or if granted, the Admission is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or

(viii) any prohibition on the Bank for whatever reason from offering, allotting, issuing or selling any of the Offer Shares pursuant to the terms of the Global Offering; or

(ix) any of the Experts (other than any of the Joint Sponsors) has withdrawn its consent to being named in the Prospectus or to the issue of the Prospectus.

Undertakings from the Bank to the Hong Kong Stock Exchange pursuant to the Listing Rules

Pursuant to Rule 10.08 of the Listing Rules, we have undertaken to the Hong Kong Stock Exchange that we will not issue any further Shares or securities convertible into equity securities (whether or not of a class already listed) or enter into any agreement to such issue within six months from the date on which our securities first commence dealings on the Hong Kong Stock Exchange (whether or not such issue of Shares or securities will be completed within six months from the commencement of dealings), except pursuant to the Global Offering, the Over-allotment Option, conversion of unlisted foreign shares into H shares or any of the circumstances provided under Rule 10.08 of the Listing Rules.

Undertakings from the Bank pursuant to the Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, we have undertaken to each of the Joint Sponsors, the Joint Representatives, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters that, except (a) pursuant to the Global Offering (including the Over-allotment Option); (b) any H Shares to be converted from unlisted foreign shares of the Bank; or (c) with the prior written consent of the Joint Sponsors and the Joint Representatives (for themselves and on behalf of the Hong Kong Underwriters), and unless in compliance with the requirements of the Listing Rules, the Bank shall not, during a period of six months from the Listing Date (the "**First Six-Month Period**"):

(i) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, mortgage, charge, pledge, assign, 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 over, or agree to transfer or dispose of or create any Encumbrance over, either directly or indirectly, conditionally or unconditionally, any legal or beneficial interests in the H Shares or any other equity securities of the Bank, as applicable, or any interest in any of the foregoing (including, without limitation, any securities which are convertible into or exchangeable or exercisable for, or represent the right to receive, or any warrants or other rights to purchase, any H Shares) or deposit any equity 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 any H Shares or any other equity securities of the Bank, as applicable, or any interest in any of the foregoing (including, without limitation, any securities which are convertible into or exchangeable or exercisable for, or represent the right to receive, or any warrants or other rights to purchase, any H Shares); or

(iii) enter into any transaction with the same economic effect as any transaction specified in paragraph (i) or (ii); or

(iv) offer or agree or announce any intention to do any of the foregoing,

in each case, whether any of the foregoing transactions is to be settled by delivery of H Shares or such other equity securities of the Bank, in cash or otherwise (whether or not the issue of the H Shares or such other securities will be completed within the First Six-Month Period), provided that the foregoing restrictions shall not apply to the issue of H Shares by the Bank pursuant to the Global Offering (including pursuant to the exercise of the Over-allotment Option) and any H Shares to be converted from unlisted foreign shares of the Bank.

In the event that, during the period of six months commencing on the date on which the First Six-Month Period expires (the "**Second Six-Month Period**"), the Bank enters into any of the transactions specified in clause (i), (ii) or (iii) above or offers to or agrees to or announces any intention to effect any such transaction, the Bank shall take all reasonable steps to ensure that such transaction, agreement or, as the case may be, such announcement will not create a disorderly or false market in the securities of the Bank.

Indemnity

We have agreed to indemnify the Joint Sponsors, the Joint Representatives, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters for certain losses which they may suffer, including losses arising from the performance of their obligations under the Hong Kong Underwriting Agreement and any breach by the Bank of the Hong Kong Underwriting Agreement.

Hong Kong Underwriters' Interests in the Bank

Except for its obligations under the Hong Kong Underwriting Agreement and save as disclosed in this prospectus, none of the Hong Kong Underwriters has any shareholding interest in the Bank or any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for securities in the Bank.

Following the completion of the Global Offering, the Hong Kong Underwriters and their affiliated companies may hold a certain portion of the H Shares as a result of fulfilling their obligations under the Hong Kong Underwriting Agreement.

The International Offering

International Underwriting Agreement

In connection with the International Offering, it is expected that we will enter into the International Underwriting Agreement with, among others, the International Underwriters. Under the International Underwriting Agreement, subject to the conditions set out therein, it is expected that the International Underwriters would, severally and not jointly, agree to procure purchasers for, or to purchase, Offer Shares being offered pursuant to the International Offering (excluding, for the avoidance of doubt, the Offer Shares which are subject to the Over-allotment Option). It is expected that the International Underwriting Agreement may be terminated on similar grounds as the Hong Kong Underwriting Agreement. Potential investors are reminded that in the event that the International Underwriting Agreement is not entered into, the Global Offering will not proceed.

Over-allotment Option

We expect to grant to the International Underwriters, exercisable by the Joint Representatives (for themselves and on behalf of the International Underwriters), the Over-allotment Option, which will be exercisable from the Listing Date until 30 days after the last day for the lodging of applications under the Hong Kong Public Offering, to require the Bank to allot and issue up to an aggregate of 432,000,000 H Shares, representing no more than 15% of the initial Offer Shares, at the same price per Offer Share under the International Offering, to, cover over-allocations in the International Offering, if any.

Commissions and Expenses

The Hong Kong Underwriters will receive an underwriting commission of 1.0% of the aggregate Offer Price payable for the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering, out of which they will pay any sub-underwriting commissions. For unsubscribed Hong Kong Offer Shares reallocated to the International Offering, the Bank will pay an underwriting commission at the rate applicable to the International Offering and such commission will be paid to the relevant International Underwriters. In addition, we agree, at our sole and absolute discretion, to pay an incentive fee of up to 1.0% of the aggregate Offer Price payable for the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering to the Hong Kong Underwriters.

Assuming an Offer Price of HK$4.87, being the mid-point of the indicative Offer Price range, the listing expenses to be borne by us are estimated to be approximately RMB327.1 million (equivalent to approximately HK$357.5 million), which mainly includes professional fees, underwriting commissions and the maximum amount of the discretionary incentive fee and other fees, and represents approximately 2.5% of the estimated gross proceeds of the Global Offering accruing to us, assuming the Over-allotment Option is not exercised.

Joint Sponsors' Fee

An amount of HK$1 million is payable by the Bank as sponsor fees to each of the Joint Sponsors, totaling an amount of HK$4 million.

Other Services Provided by the Underwriters

The Joint Representatives, the Joint Global Coordinators and the Underwriters may in their ordinary course of business provide financing to investors subscribing for the Offer Shares offered by this prospectus. Such Joint Representatives, Joint Global Coordinators and Underwriters may enter into hedges and/or dispose of such Offer Shares in relation to the financing which may have a negative impact on the trading price of the H Shares.

INDEPENDENCE OF THE JOINT SPONSORS

The Joint Sponsors satisfy the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules.

ACTIVITIES BY SYNDICATE MEMBERS

The underwriters of the Hong Kong Public Offering and the International Offering (together, the "**Syndicate Members**") and their affiliates may each individually undertake a variety of activities (as further described below) which do not form part of the underwriting or stabilizing process.

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, fund 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 as their underlying assets, assets including the H Shares. Those activities may require hedging activity by those entities involving, directly or indirectly, the buying and selling of the H Shares. All such activity could occur in Hong Kong and elsewhere 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 underlying securities, whether on the Hong Kong Stock Exchange or on any other stock exchange, the rules of the 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 such activities may occur both during and after the end of the stabilizing period described in the section headed "Structure of the Global Offering" in this prospectus. Such 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 the price of the H Shares, and the extent to which this occurs from day to day cannot be estimated.

It should be noted that when engaging in any of these activities, the Syndicate Members will be subject to certain restrictions, including the following:

(a) the Syndicate Members (other than the Stabilizing Manager 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 stabilizing 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

(b) the Syndicate Members must comply with all applicable laws and regulations, including the market misconduct provisions of the SFO, including the provisions prohibiting insider dealing, false trading, price rigging and stock market manipulation.

Certain of the Syndicate Members or their respective affiliates have provided from time to time, and expect to provide in the future, investment banking, derivative and other services to us, our affiliates or our shareholders including cornerstone investors for which such Syndicate Members or their respective affiliates have received or will receive customary fees and commissions.

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 (subject to adjustment and the Over-allotment Option):

(i) the Hong Kong Public Offering of initially 144,000,000 H Shares in Hong Kong as described below in the section headed "The Hong Kong Public Offering" below; and

(ii) the International Offering of an aggregate of initially 2,736,000,000 H Shares 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 Listing Date until 30 days after the last day for the lodging of applications in the Hong Kong Public Offering, the Joint Representatives, as representatives of the International Underwriters, have an option to require the Bank to issue and allot up to an aggregate of 432,000,000 additional Offer Shares, representing 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.

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

The Offer Shares will represent approximately 16.62% of the enlarged issued share capital of the Bank 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 18.65% 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 section headed "Structure of the Global Offering – The International Offering – 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 "Structure of the Global Offering – The Hong Kong Public Offering – Reallocation and Clawback" below.

THE HONG KONG PUBLIC OFFERING

Number of Offer Shares initially offered

The Bank is initially offering 144,000,000 H Shares for subscription by the public in Hong Kong at the Offer Price, representing 5% of the total number of Offer Shares initially available under the Global Offering. The Hong Kong Offer Shares will represent approximately 0.83% of the Bank's registered share capital immediately after completion of the Global Offering, assuming that the Over-allotment Option is not exercised.

The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors. 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.

Completion of the Hong Kong Public Offering is subject to the conditions as set out in the section headed "Structure of the Global Offering – Conditions of the Global Offering" below.

Allocation

Allocation of the Hong Kong Offer Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications to be 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 the Hong Kong Offer Shares available under the Hong Kong Public Offering (after taking account of any reallocation referred to below) is to be divided into two pools for allocation purposes: pool A and pool B. The Hong Kong Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for the Hong Kong Offer Shares with an aggregate price of HK$5 million (excluding the brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee payable) or less. The Hong Kong Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for the Hong Kong Offer Shares with an aggregate price of more than HK$5 million (excluding the brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee payable) 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 the Hong Kong Offer Shares in one (but not both) of the pools are undersubscribed, the surplus Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in this other pool and be allocated accordingly.

For the purpose of this paragraph only, the "price" for Offer Shares means the price payable on application therefor (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 72,000,000 Hong Kong Offer Shares are liable to be rejected.

Reallocation and Clawback

The allocation of the Offer Shares between the Hong Kong Public Offering and the International Offering is subject to reallocation under the Listing Rules. Paragraph 4.2 of Practice Note 18 of the Listing Rules requires a clawback mechanism to be put in place which would have the effect of increasing the number of Offer Shares under the Hong Kong Public Offering to a certain percentage of the total number of Offer Shares offered under the Global

Offering if certain prescribed total demand levels are reached. We have applied for, and the Hong Kong Stock Exchange has granted to us, a waiver from strict compliance with paragraph 4.2 of Practice Note 18 of the Listing Rules to the effect as further described below:

- 144,000,000 Offer Shares available in the Hong Kong Public Offering, representing approximately 5% of the Offer Shares initially available under the Global Offering;

- if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 15 times or more but less than 50 times the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering so that the total number of Offer Shares available under the Hong Kong Public Offering will be 216,000,000 Offer Shares, representing 7.5% of the Offer Shares initially available under the Global Offering;

- if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 50 times or more but less than 100 times the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased so that the total number of Offer Shares available under the Hong Kong Public Offering will be 288,000,000 Offer Shares, representing 10% of the Offer Shares initially available under the Global Offering; and

- if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 100 times or more the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased so that the total number of Offer Shares available under the Hong Kong Public Offering will be 576,000,000 Offer Shares, representing 20% of the Offer Shares initially available under the Global Offering.

In each case, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated between Pool A and Pool B in equal proportion and the number of Offer Shares allocated to the International Offering will be correspondingly reduced in such manner as the Joint Representatives deems appropriate.

The Offer Shares to be offered in the Hong Kong Public Offering and the International Offering may, in certain circumstances, be reallocated as between these offerings at the discretion of the Joint Representatives. If the Hong Kong Offer Shares are not fully subscribed, the Joint Representatives (for themselves and on behalf of the other Underwriters) will have the discretion (but shall not be under any obligation) to reallocate all or any unsubscribed Hong Kong Offer Shares to the International Offering in such amount as the Joint Representatives (for themselves and on behalf of the other Underwriters) deem appropriate. In addition, the Joint Representatives may reallocate Offer Shares from the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering in accordance with Guidance Letter HKEX-GL91-18. In particular, in the event that (i) the International Offer Shares are undersubscribed and the Hong Kong Offer Shares are fully subscribed or oversubscribed irrespective of the number of times; or (ii) the International Offer

Shares are fully subscribed or oversubscribed and the Hong Kong Offer Shares are fully subscribed or oversubscribed as to less than 15 times of the number of Hong Kong Offer Shares initially available under the Hong Kong Public Offering, provided that the Offer Price would be set at HK$4.75 (low-end of the indicative Offer Price range), up to 144,000,000 Offer Shares may be reallocated to the Hong Kong Public Offering from the International Offering, so that the total number of the Offer Shares available under the Hong Kong Public Offering will be increased to 288,000,000 Offer Shares, representing 10% of the number of the Offer Shares initially available under the Global Offering (before any exercise of the Over-allotment Option).

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/her/it that he/she/it and any person(s) for whose benefit he/she/it 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 he/she/it has been or will be placed or allocated Offer Shares under the International Offering.

The listing of the H Shares on the Hong Kong Stock Exchange is sponsored by the Joint Sponsors. Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum price of HK$4.98 per Hong Kong Offer Share in addition to any brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee payable on each Hong Kong Offer Share. If the Offer Price, as finally determined in the manner described in the section headed "Structure of the Global Offering – Pricing of the Global Offering" below, is less than the maximum price of HK$4.98 per Hong Kong Offer Share, appropriate refund payments (including the brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. Further details are set out below in the section headed "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 initial offering of 2,736,000,000 International Offer Shares representing 95% of the Offer Shares under the Global Offering and approximately 15.79% of the Bank's enlarged share capital immediately after the completion of the Global Offering, assuming that the Over-allotment Option is not exercised.

Allocation

The International Offering will include selective marketing of the International Offer Shares to institutional and professional investors and other investors anticipated to have a sizeable demand for such International 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 the International Offer Shares pursuant to the International Offering will be effected in accordance with the "book-building" process described in the section headed "Structure of the Global Offering – 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 the 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 the Bank and our Shareholders as a whole.

The Joint Representatives (for themselves and on behalf of the Underwriters) may require any investor who has been offered the International 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 Representatives so as to allow them to identify the relevant application under the Hong Kong Public Offering and to ensure that he/she/it is excluded from any application of the Hong Kong Offer Shares under the Hong Kong Public Offering.

Reallocation

The total number of the Offer Shares to be issued or sold pursuant to the International Offering may change as a result of the clawback arrangement described in the subsection headed "– The Hong Kong Public Offering – Reallocation and Clawback" or the Over-allotment Option in whole or in part and/or any reallocation of unsubscribed Offer Shares originally included in the Hong Kong Public Offering.

Over-allotment Option

In connection with the Global Offering, we are expected to grant an Over-allotment Option to the International Underwriters exercisable by the Joint Representatives on behalf of the International Underwriters.

Pursuant to the Over-allotment Option, the Joint Representatives have the right, exercisable at any time from the Listing Date until 30 days after the last day for the lodging of applications in the Hong Kong Public Offering, to require the Bank to issue and allot up to an aggregate of 432,000,000 additional Offer Shares, representing 15% of the initial number of Offer Shares to be offered in the Global Offering, at Offer Price to, among other things, over-allocation in the International Offering. If the Over-allotment Option is exercised in full, the additional Offer Shares will represent approximately 2.43% of the Bank'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, an announcement will be made. The Joint Representatives may also cover any over-allocations by purchasing the H Shares in the secondary market or by a combination of purchases in the secondary market and a partial exercise of the Over-allotment Option. Any such secondary market purchase will be made in compliance with all applicable laws, rules and regulations.

STABILIZATION

Stabilization is a usual practice used by underwriters in many markets to facilitate the distribution of securities. To stabilize, 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 stabilization is effected is not permitted to exceed the offer price.

In connection with the Global Offering, the Stabilizing Manager or any person acting for them, on behalf of the Underwriters, may over-allocate or effect short sales or any other stabilizing transactions with a view to stabilizing or maintaining the market price of the H Shares at a level higher than that which might otherwise prevail in the open market. Short sales involve the sale by the Stabilizing 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 Stabilizing 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 Stabilizing 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. Stabilizing transactions consist of certain bids or purchases to be 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 Stabilizing Manager or any person acting for it to conduct any such stabilizing activity, which if commenced, will be done at the absolute discretion of the Stabilizing Manager and may be discontinued at any time. Any such stabilizing 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, 432,000,000 H Shares, which is 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.

In Hong Kong, stabilizing activities must be carried out in accordance with the Securities and Futures (Price Stabilizing) Rules (Chapter 571W of the Laws of Hong Kong), as amended. Stabilizing actions permitted pursuant to the Securities and Futures (Price Stabilizing) Rules include:

(a) over-allocation for the purpose of preventing or minimising any reduction in the market price of the H shares;

(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.

Stabilizing actions by the Stabilizing 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 stabilization.

As a result of effecting transactions to stabilize or maintain the market price of the H Shares, the Stabilizing 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 Stabilizing Manager, or any person acting for it, will maintain the long position is at the discretion of the Stabilizing Manager and is uncertain. In the event that the Stabilizing 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.

Stabilizing action by the Stabilizing Manager, or any person acting for it, is not permitted to support the price of the H Shares for longer than the stabilizing 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 stabilizing period is expected to end on Saturday, August 8, 2020. As a result, demand for the H Shares, and their market price, may fall after the end of the stabilizing period. These activities by the Stabilizing Manager may stabilize, 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 stabilizing action taken by the Stabilizing 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 stabilizing period. Bids for or market purchases of the H Shares by the Stabilizing 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 applicants. A public announcement in compliance with the Securities and Futures (Price Stabilizing) Rules will be made within seven days of the expiration of the stabilizing period.

PRICING OF THE GLOBAL OFFERING

The International Underwriters will be soliciting from prospective investors' indications of interest in acquiring the International Offer Shares in the International Offering. Prospective professional and institutional investors will be required to specify the number of the International Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price. This process, known as "book-building," is expected to continue up to, and to cease on or around, the last day for lodging applications under the Hong Kong Public Offering.

Pricing for the Offer Shares for the purpose of the various offerings under the Global Offering will be fixed on the Price Determination Date, which is expected to be on or around Thursday, July 9, 2020, and in any event on or before Sunday, July 12, 2020, by agreement between the Joint Representatives (on behalf of the Underwriters) and the Bank and the number of Offer Shares to be allocated under various offerings will be determined shortly thereafter.

The Offer Price will not be more than HK$4.98 per Offer Share and is expected to be not less than HK$4.75 per Offer Share unless to be 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 Representatives, 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 the Bank, reduce the number of Offer Shares offered in the Global Offering and/or the indicative Offer Price stated below 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, the 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 the Bank (**www.cbhb.com.cn**) notices of the reduction. In such case, potential investors who had applied for the H Shares will need to confirm their applications in accordance with the procedures set out in the announcement and all unconfirmed applications will not be valid. 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 Representatives, on behalf of the Underwriters, and the 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. In the absence of any such notice so published, the Offer Price, if agreed upon with the Bank and the Joint Representatives, 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 Representatives 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 the initial Hong Kong Offer Shares shall not be less than 10% of the total number of Offer Shares in the Global Offering. The International 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 Representatives.

The net proceeds of the Global Offering accruing to the Bank (after deduction of underwriting commissions and other expenses in relation to the Global Offering, assuming the Over-allotment Option is not exercised) are estimated to be approximately HK$13,329.5 million, assuming an Offer Price per Offer Share of HK$4.75, or approximately HK$13,978.5 million, assuming an Offer Price per Offer Share of HK$4.98 (or if the Over-allotment Option is exercised in full, approximately HK$15,339.8 million, assuming an Offer Price per Offer Share of HK$4.75, or approximately HK$16,086.1 million, assuming an Offer Price per Offer Share of HK$4.98).

The Offer Price under the Global Offering is expected to be announced on Wednesday, July 15, 2020. The indications of interest in the Global Offering, the results of applications and the basis of allotment of the Hong Kong Offer Shares available under the Hong Kong Public Offering, are expected to be announced on Wednesday, July 15, 2020 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 the Bank (**www.cbhb.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.

The 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 headed “Underwriting.”

ADMISSION OF THE H SHARES INTO 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 the 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.

DEALING ARRANGEMENTS

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Thursday, July 16, 2020, it is expected that dealings in the H Shares on the Hong Kong Stock Exchange will commence at 9:00 a.m. on Thursday, July 16, 2020. The H Shares will be traded in board lots of 500 H Shares each and the stock code of the H Shares will be 9668.

CONDITIONS OF THE GLOBAL OFFERING

Acceptance of all applications for Hong Kong 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 the Bank and the Joint Representatives (on behalf of the Underwriters) on or before Sunday, July 12, 2020, 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 the 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 headed "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 Wednesday, July 15, 2020 but will only become valid certificates of title at 8:00 a.m. on Thursday, July 16, 2020 provided that (i) the Global Offering has become unconditional in all respects and (ii) the right of termination as described in the section headed "Underwriting – Underwriting Arrangements and Expenses – The Hong Kong Public Offering – Grounds for Termination" has not been exercised. Investors who trade the Offer Shares 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.

1. HOW TO APPLY

If you apply for the Hong Kong Offer Shares, then you may not apply for or indicate an interest for the International Offer Shares.

To apply for the Hong Kong 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 Representatives, 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 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 authorized officer, who must state his/her representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Joint Representatives 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 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 Listing Rules) of any of the above;
- a connected person (as defined in the Listing Rules) of the Bank or will 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 Tuesday, June 30, 2020 till 12:00 noon on Thursday, July 9, 2020 from:

any of the following offices of the Hong Kong Underwriters:

CCB International Capital Limited
12/F, CCB Tower
3 Connaught Road Central
Central, Hong Kong

Haitong International Securities Company Limited
22/F, Li Po Chun Chambers
189 Des Voeux Road Central
Hong Kong

ABCI Securities Company Limited
10/F, Agricultural Bank of China Tower
50 Connaught Road Central
Hong Kong

CLSA Limited
18/F, One Pacific Place
88 Queensway
Hong Kong

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

ICBC International Securities Limited
37/F, ICBC Tower
3 Garden Road
Hong Kong

Deutsche Bank AG, Hong Kong Branch
52/F, 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

SPDB International Capital Limited
33/F, SPD Bank Tower
One Hennessy
1 Hennessy Road
Hong Kong

CMB International Capital Limited
45/F, Champion Tower
3 Garden Road
Central
Hong Kong

Guotai Junan Securities (Hong Kong) Limited
27/F, Low Block
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

China Merchants Securities (HK) Co., Limited
48/F, One Exchange Square
Central
Hong Kong

BOCI Asia Limited
26/F, Bank of China Tower
1 Garden Road
Central
Hong Kong

GF Securities (Hong Kong) Brokerage Limited
29-30/F, Li Po Chun Chambers
189 Des Voeux Road
Central
Hong Kong

any of the designated branches of the following receiving banks:

Standard Chartered Bank (Hong Kong) Limited

District	Branch Name	Address
Hong Kong Island	188 Des Voeux Road Branch	Shop No. 7 on G/F, whole of 1/F – 3/F Golden Centre, 188 Des Voeux Road Central, Hong Kong
	Quarry Bay Branch	G/F, Westlands Gardens, 1027 King's Road, Quarry Bay
Kowloon	Telford Gardens Branch	Shop P9-12, Telford Centre, Telford Gardens, Tai Yip Street, Kowloon Bay
	Mei Foo Branch	Shop Nos. 106 – 109, 1st Floor, Mei Foo Plaza, Mei Foo Sun Chuen
New Territories	Tai Po Branch	G/F Shop No. 2, 23-25 Kwong Fuk Road, Tai Po Market, Tai Po

Bank of China (Hong Kong) Limited

District	Branch Name	Address
Hong Kong Island	Lee Chung Street Branch	29-31 Lee Chung Street, Chai Wan, Hong Kong
Kowloon	Hoi Yuen Road Branch	55 Hoi Yuen Road, Kwun Tong, Kowloon
	Tsim Sha Tsui Branch	24-28 Carnarvon Road, Tsim Sha Tsui, Kowloon
New Territories	Kau Yuk Road Branch	18-24 Kau Yuk Road, Yuen Long, New Territories

CMB Wing Lung Bank Limited

District	Branch Name	Address
Hong Kong Island	Head Office	45 Des Voeux Road Central
	Central District Branch	189 Des Voeux Road Central
Kowloon	Mongkok Branch	B/F CMB Wing Lung Bank Centre, 636 Nathan Road

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Tuesday, June 30, 2020 till 12:00 noon on Thursday, July 9, 2020 from the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, 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 "**HORSFORD NOMINEES LIMITED – CHINA BOHAI BANK PUBLIC OFFER**" for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving banks listed above, at the following times:

- Tuesday, June 30, 2020 – 9:00 a.m. to 5:00 p.m.
- Thursday, July 2, 2020 – 9:00 a.m. to 5:00 p.m.
- Friday, July 3, 2020 – 9:00 a.m. to 5:00 p.m.
- Saturday, July 4, 2020 – 9:00 a.m. to 1:00 p.m.
- Monday, July 6, 2020 – 9:00 a.m. to 5:00 p.m.
- Tuesday, July 7, 2020 – 9:00 a.m. to 5:00 p.m.
- Wednesday, July 8, 2020 – 9:00 a.m. to 5:00 p.m.
- Thursday, July 9, 2020 – 9:00 a.m. to 12:00 noon

The application for the Hong Kong Offer Shares will commence on Tuesday, June 30, 2020 through Thursday, July 9, 2020, being slightly longer than normal market practice of four Business Days. The application lists will be open from 11:45 a.m. to 12:00 noon on Thursday, July 9, 2020, the last application day or such later time as described in the section headed "How to Apply for Hong Kong Offer Shares – 10. Effect of Bad Weather on the Opening of the Application Lists" in this section.

4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through the **White Form eIPO** service, among other things, you:

(i) undertake to execute all relevant documents and instruct and authorize the Bank and/or the Joint Representatives (or their 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, the Companies (Winding Up and Miscellaneous Provisions) 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 Sponsors, the Joint Representatives, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisors 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 International 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 Sponsors, the Joint Representatives, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and/or their respective advisors 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 Sponsors, the Joint Representatives, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Underwriters nor any of their respective officers or advisors will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;

(x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;

(xi) agree that your application will be governed by the laws of Hong Kong;

(xii) represent, warrant and undertake that (i) you understand that the Hong Kong Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Hong Kong Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;

(xiii) warrant that the information you have provided is true and accurate;

(xiv) agree to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to you under the application;

(xv) authorize 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 are eligible 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 Representatives will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;

(xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **White Form eIPO** Service Provider by you or by any one as your agent or by any other person; and

(xix) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; and (ii) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as their agent.

Additional Instructions for YELLOW Application Form

You may refer to the **YELLOW** Application Form for details.

5. APPLYING THROUGH WHITE FORM eIPO SERVICE

General

Individuals who meet the criteria in "Who can apply" section, 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 authorize the **White Form eIPO** Service Provider 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.

Time for Submitting Applications under the WHITE Form eIPO

You may submit your application to the **White Form eIPO** Service Provider at **www.eipo.com.hk** (24 hours daily, except on the last application day) from 9:00 a.m. on Tuesday, June 30, 2020 until 11:30 a.m. on Thursday, July 9, 2020 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Thursday, July 9, 2020 or such later time under the section headed "How to Apply for Hong Kong Offer Shares – 10. Effects of Bad Weather on the Opening of the Application Lists."

No Multiple Applications

If you apply by means of **WHITE Form eIPO**, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit through the **White Form eIPO** 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 42E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

Commitment to sustainability

The obvious advantage of **White Form eIPO** service is to save the use of paper 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 for each "CHINA BOHAI BANK CO., LTD." **White Form eIPO** application submitted via **www.eipo.com.hk** to support sustainability.

6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS

General

CCASS Participants may give **electronic application instructions** to apply for the Hong Kong Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these **electronic application instructions** through the CCASS Phone System by calling +852 2979 7888 or through the CCASS Internet System (**https://ip.ccass.com**) (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited
Customer Service Center
1/F, One & Two Exchange Square,
8 Connaught Place, 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 authorized HKSCC and/or HKSCC Nominees to transfer the details of your application to the Bank, the Joint Representatives and the 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 or indicated an interest for, and will not apply for or take up, or indicate an interest for, any International Offer Shares under the International Offering nor participated in the International Offering;

- (if the **electronic application instructions** are given for your benefit) 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 authorized to give those instructions as their agent;

- confirm that you understand that the Bank, the Directors and the Joint Representatives 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;

- authorize 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 H Share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;

- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;

- confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing he application to be made, save as set out in any supplement to this prospectus;

- agree that none of the Bank, the Joint Sponsors, the Joint Representatives, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisors 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 Sponsors, the Joint Representatives, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and/or its respective advisors 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, the Special Regulations on Listing Overseas, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association; and

- agree with the Bank, for itself and for the benefit of each of the Shareholder 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 of the Shareholder 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 or any rights or obligations conferred or imposed by the PRC Company Law or other relevant laws and administrative regulations concerning the affairs of the Bank to arbitration in accordance with the Articles of Association;

  (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;

- agree with the Bank (for the Bank itself and for the benefit of each shareholder of the Bank) that the H Shares are freely transferable by their holders;

- authorize 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; and

- agree that your application, any acceptance of it and the resulting contract will be governed by the Laws of Hong Kong.

Effect of Giving Electronic Application Instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to the Bank or any other person in respect of the things mentioned below:

- instructed and authorized 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 authorized HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Hong Kong 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 Hong Kong Stock Exchange trading fee) by crediting your designated bank account; and

- instructed and authorized 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 number of 500 Hong Kong Offer Shares. Instructions for more than 500 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

Time for Inputting Electronic Application Instructions(1)

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

- Tuesday, June 30, 2020 – 9:00 a.m. to 8:30 p.m.

- Thursday, July 2, 2020 – 8:00 a.m. to 8:30 p.m.

- Friday, July 3, 2020 – 8:00 a.m. to 8:30 p.m.
- Monday, July 6, 2020 – 8:00 a.m. to 8:30 p.m.
- Tuesday, July 7, 2020 – 8:00 a.m. to 8:30 p.m.
- Wednesday, July 8, 2020 – 8:00 a.m. to 8:30 p.m.
- Thursday, July 9, 2020 – 8:00 a.m. to 12:00 noon

1 Note:

These times in this sub-section are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants and/or CCASS Investor Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Tuesday, June 30, 2020 until 12:00 noon on Thursday, July 9, 2020 (24 hours daily, except on Thursday, July 9, 2020, the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Thursday, July 9, 2020, the last application day or such later time as described in the section headed "How to apply for Hong Kong Offer Shares – 10. Effect of Bad Weather on the Opening of the Application Lists" in this section.

No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

Section 40 of the 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 banks, the Joint Sponsors, the Joint Representatives, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and any of their respective advisors 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 Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. The Bank, the Directors, the Joint Sponsors, the Joint Representatives, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, 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 Thursday, July 9, 2020.

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 Hong Kong Stock Exchange.

"**Statutory control**" means you:

- control the composition of the board of directors of the company;

- control more than half of the voting power of the company; or

- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

9. HOW MUCH ARE THE HONG KONG OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for the H Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee in full upon application for the Hong Kong Offer 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 500 Hong Kong Offer Shares. Each application or **electronic application instruction** in respect of more than 500 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 Hong Kong Stock Exchange trading fee are paid to the Hong Kong Stock Exchange (in the case of the SFC transaction levy, collected by the Hong Kong 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;

- a "black" rainstorm warning, in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, July 9, 2020. 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; or

- Extreme Conditions.

If the application lists do not open and close on Thursday, July 9, 2020 or if there is a tropical cyclone warning signal number 8 or above or a "black" rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in the section headed "Expected Timetable", an announcement will be made in such event.

11. PUBLICATION OF RESULTS

The 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 Wednesday, July 15, 2020 in South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese), and on the Bank's website at **www.cbhb.com.cn** and the website of the Hong Kong Stock Exchange at **www.hkexnews.hk**.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and date and in the manner specified below:

- in the announcement to be posted on the Bank's website at **www.cbhb.com.cn** and the Hong Kong Stock Exchange's website at **www.hkexnews.hk** by no later than 8:00 a.m. on Wednesday, July 15, 2020;

- from the designated results of allocations website at **www.iporesults.com.hk** (alternatively: English **https://www.eipo.com.hk/en/Allotment**; Chinese **https://www.eipo.com.hk/zh-hk/Allotment**) with a "search by ID" function on a 24-hour basis from 8:00 a.m. on Wednesday, July 15, 2020 to 12:00 midnight on Tuesday, July 21, 2020;

- by telephone enquiry line by calling 2862 8555 between 9:00 a.m. and 6:00 p.m. from Wednesday, July 15, 2020 to Friday, July 17, 2020 and Monday, July 20, 2020;

- in the special allocation results booklets which will be available for inspection during opening hours from Wednesday, July 15, 2020 to Friday, July 17, 2020 at all the receiving banks' designated 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 the section headed "Structure of the Global Offering."

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED OFFER SHARES

You should note the following situations in which the Hong Kong Offer Shares will not be allotted to you:

(i) If your application is revoked:

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or to **White Form eIPO** Service Provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with the 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.

(ii) If the Bank or its agents exercise their discretion to reject your application:

The Bank, the Joint Representatives, the **White Form eIPO** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

(iii) If the allotment of Hong Kong Offer Shares is void:

The allotment of Hong Kong Offer Shares will be void if the Listing Committee of the Hong Kong Stock Exchange does not grant permission to list the H 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 Representatives believe that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering.

13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum offer price of HK$4.98 per Offer Share (excluding brokerage, SFC transaction levy and the Hong Kong 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 – The Hong Kong Public Offering – Conditions of the Global 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 Hong Kong 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 Wednesday, July 15, 2020.

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 H 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 Hong Kong 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 Wednesday, July 15, 2020. 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 Thursday, July 16, 2020 provided that the Global Offering has become unconditional and the right of termination described in the section headed "Underwriting" in this prospectus has not been exercised. Investors who trade the H Shares prior to the receipt of H Share certificates or the H Share certificates becoming valid do so at their own risk.

15. 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 the 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 Wednesday, July 15, 2020 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 authorize any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorized representative must bear a letter of authorization from your corporation stamped with your corporation's chop. Both individuals and authorized 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 Wednesday, July 15, 2020, 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 Wednesday, July 15, 2020, 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 Wednesday, July 15, 2020, 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 Offer Shares credited to your designated CCASS participant's stock account (other than CCASS Investor Participant), you can check the number of Hong Kong Offer 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 the section headed "How to apply for Hong Kong Offer Shares – 11. 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 Wednesday, July 15, 2020 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 Hong Kong Offer Shares or more and your application is wholly or partially successful, you may collect your H Share certificate(s) from the 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 Wednesday, July 15, 2020, 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.

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 Wednesday, July 15, 2020 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 H Share Certificates into CCASS and Refund of Application Monies

- If 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 the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Wednesday, July 15, 2020, 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 Wednesday, July 15, 2020. You should check the announcement published by the Bank and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, July 15, 2020 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 Wednesday, July 15, 2020. Immediately following the credit of the Hong Kong Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.

- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Hong Kong 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 Wednesday, July 15, 2020.

16. ADMISSION OF THE H SHARES INTO CCASS

If the Hong Kong Stock Exchange grants the listing of, and permission to deal in, the H 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 H Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional advisor for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the H Shares to be admitted into CCASS.

The following is the text of a report set out on pages I-1 to I-136, received from the Bank's reporting accountants, KPMG, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.

KPMG

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF CHINA BOHAI BANK CO., LTD. AND CCB INTERNATIONAL CAPITAL LIMITED, HAITONG INTERNATIONAL CAPITAL LIMITED, ABCI CAPITAL LIMITED AND CLSA CAPITAL MARKETS LIMITED

Introduction

We report on the historical financial information of China Bohai Bank Co., Ltd. (the "Bank") set out on pages I-3 to I-136, which comprises the statements of financial position of the Bank as at 31 December 2017, 2018 and 2019 and the statements of profit or loss and other comprehensive income, the statements of changes in equity and the cash flow statements, for each of the years ended 31 December 2017, 2018 and 2019 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages I-3 to I-136 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Bank dated 30 June 2020 (the "Prospectus") in connection with the initial listing of shares of the Bank on the Main Board of The Stock Exchange of Hong Kong Limited.

Directors' responsibility for Historical Financial Information

The directors of the Bank are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Notes 2(1)-(4) to the Historical Financial Information, and for such internal control as the directors of the Bank determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Notes 2(1)-(4) to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical 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, the Historical Financial Information gives, for the purpose of the accountants' report, a true and fair view of the Bank's financial position as at 31 December 2017, 2018 and 2019 of the Bank's financial performance and cash flows for the Relevant Periods in accordance with the basis of preparation and presentation set out in Notes 2(1)-(4) to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-3 have been made.

Dividends

We refer to Note 36 to the Historical Financial Information which contains information about the dividends paid by the Bank in respect of the Relevant Periods.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

30 June 2020

HISTORICAL FINANCIAL INFORMATION

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The financial statements of the Bank for the Relevant Periods, on which the Historical Financial Information is based, were audited by KPMG Huazhen LLP in accordance with Hong Kong Standards on Auditing issued by the HKICPA ("Underlying Financial Statements").

A FINANCIAL INFORMATION OF THE BANK

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	Years ended 31 December 2017	2018	2019
Interest income		40,865,165	44,721,524	51,487,291
Interest expense		(23,844,768)	(29,493,592)	(28,576,886)
Net interest income	*3*	17,020,397	15,227,932	22,910,405
Fee and commission income		8,900,943	7,128,699	5,434,275
Fee and commission expense		(214,912)	(771,363)	(1,208,526)
Net fee and commission income	*4*	8,686,031	6,357,336	4,225,749
Net trading (losses)/gains	*5*	(552,985)	(492,593)	196,392
Net (losses)/gains arising from investment securities	*6*	(13,693)	1,985,114	961,857
Other operating income	*7*	110,397	132,275	83,991
Operating income		25,250,147	23,210,064	28,378,394
Operating expenses	*8*	(9,071,398)	(8,675,762)	(8,856,860)
Impairment losses on assets	*11*	(7,755,012)	(6,507,885)	(9,566,913)
Share of profits/(losses) of associate		1,691	1,045	(52,771)
Profit before tax		8,425,428	8,027,462	9,901,850
Income tax	*12*	(1,671,608)	(947,307)	(1,709,094)
Net profit for the year		6,753,820	7,080,155	8,192,756
Other comprehensive income:				
Items that may be reclassified subsequently to profit or loss:				
Financial assets measured at fair value through other comprehensive income:				
– net movement in the fair value reserve, net of tax	*35(c)*	–	752,834	73,247
– net movement in the impairment reserve, net of tax	*35(d)*	–	(4,823)	612,834
Available-for-sale financial assets:				
– net movement in the fair value reserve, net of tax	*35(c)*	(346,885)	–	–
Other comprehensive income, net of tax		(346,885)	748,011	686,081
Total comprehensive income		6,406,935	7,828,166	8,878,837
Basic and diluted earnings per share (in RMB)	*13*	0.49	0.49	0.57

STATEMENTS OF FINANCIAL POSITION

(Expressed in thousands of Renminbi, unless otherwise stated)

		At 31 December		
	Note	**2017**	**2018**	**2019**
Assets				
Cash and deposits with the central bank	*14*	105,000,258	123,250,042	93,013,699
Deposits with banks and other financial institutions	*15*	8,722,789	25,923,142	14,051,627
Placements with banks and other financial institutions	*16*	10,167,977	2,059,135	4,410,809
Derivative financial assets	*17*	198,100	393,405	158,709
Financial assets held under resale agreements	*18*	–	10,571,016	1,850,258
Loans and advances to customers	*19*	449,813,708	548,022,432	687,279,098
Financial investments:	*20*			
Financial investments measured at fair value through profit or loss		12,860,914	23,193,080	36,238,313
Financial investments measured at fair value through other comprehensive income		–	45,569,455	64,967,327
Financial investments measured at amortised cost		–	244,195,336	199,101,251
Available-for-sale financial assets		36,495,682	–	–
Held-to-maturity investments		87,364,519	–	–
Investments classified as receivables		275,927,480	–	–
Interest in associate	*21*	51,726	52,771	–
Property and equipment	*22*	4,039,880	3,917,258	3,804,211
Deferred tax assets	*23*	4,829,352	5,065,922	6,365,091
Other assets	*24*	7,094,664	2,238,338	5,689,632
Total assets		1,002,567,049	1,034,451,332	1,116,930,025
Liabilities and equity				
Liabilities				
Borrowing from the central bank	*26*	24,000,000	28,595,785	46,905,557
Deposits from banks and other financial institutions	*27*	151,789,208	69,587,853	78,547,430
Placements from banks and other financial institutions	*28*	37,837,151	19,534,990	21,500,177
Derivative financial liabilities	*17*	2,109,765	140,601	171,758
Financial assets sold under repurchase agreements	*29*	2,213,804	22,363,754	23,069,093
Deposits from customers	*30*	582,103,318	606,701,396	647,764,551
Income tax payable		1,970,954	397,677	1,887,990
Debt securities issued	*31*	138,415,194	218,678,993	196,603,843
Other liabilities	*32*	13,662,353	12,591,162	17,841,029
Total liabilities		954,101,747	978,592,211	1,034,291,428
Equity				
Share capital	*33*	14,450,000	14,450,000	14,450,000
Other equity instruments	*34*	–	–	19,961,604
Surplus reserve	*35(a)*	3,468,043	4,176,059	5,009,612
General reserve	*35(b)*	12,562,941	12,641,306	14,081,733
Fair value reserve	*35(c)*	(469,122)	251,224	324,471
Impairment reserve	*35(d)*	–	32,188	645,022
Retained earnings	*36*	18,453,440	24,308,344	28,166,155
Total equity		48,465,302	55,859,121	82,638,597
Total liabilities and equity		1,002,567,049	1,034,451,332	1,116,930,025

STATEMENTS OF CHANGES IN EQUITY

(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	Share capital	Surplus reserve	General reserve	Fair value reserve	Retained earnings	Total
Balance at 1 January 2017		13,855,000	2,792,661	10,486,754	(122,237)	14,451,189	41,463,367
Changes in equity for the year:							
Net profit for the year		–	–	–	–	6,753,820	6,753,820
Other comprehensive income		–	–	–	(346,885)	–	(346,885)
Total comprehensive income		–	–	–	(346,885)	6,753,820	6,406,935
Capital contribution by equity shareholders		595,000	–	–	–	–	595,000
Appropriation of profit							
– Appropriation to surplus reserve	*35(a)*	–	675,382	–	–	(675,382)	–
– Appropriation to general reserve	*35(b)*	–	–	2,076,187	–	(2,076,187)	–
Balance at 31 December 2017		14,450,000	3,468,043	12,562,941	(469,122)	18,453,440	48,465,302

	Note	Share capital	Surplus reserve	General reserve	Fair value reserve	Impairment reserve	Retained earnings	Total
Balance at 31 December 2017		14,450,000	3,468,043	12,562,941	(469,122)	–	18,453,440	48,465,302
Changes in accounting policies	*2(1)(a)*	–	–	–	(32,488)	37,011	(371,550)	(367,027)
Balance at 1 January 2018		14,450,000	3,468,043	12,562,941	(501,610)	37,011	18,081,890	48,098,275
Changes in equity for the year:								
Net profit for the year		–	–	–	–	–	7,080,155	7,080,155
Other comprehensive income		–	–	–	752,834	(4,823)	–	748,011
Total comprehensive income		–	–	–	752,834	(4,823)	7,080,155	7,828,166
Appropriation of profit								
– Appropriation to surplus reserve	*35(a)*	–	708,016	–	–	–	(708,016)	–
– Appropriation to general reserve	*35(b)*	–	–	78,365	–	–	(78,365)	–
– Cash dividends paid to shareholders	*36*	–	–	–	–	–	(67,320)	(67,320)
Balance at 31 December 2018		14,450,000	4,176,059	12,641,306	251,224	32,188	24,308,344	55,859,121

	Note	Share capital	Other equity instruments	Surplus reserve	General reserve	Fair value reserve	Impairment reserve	Retained earnings	Total
Balance at 31 December 2018.		14,450,000	–	4,176,059	12,641,306	251,224	32,188	24,308,344	55,859,121
Changes in equity for the year:									
Net profit for the year		–	–	–	–	–	–	8,192,756	8,192,756
Other comprehensive income		–	–	–	–	73,247	612,834	–	686,081
Total comprehensive income		–	–	–	–	73,247	612,834	8,192,756	8,878,837
Capital contribution by other equity instruments holders	*34*	–	19,961,604	–	–	–	–	–	19,961,604
Appropriation of profit.									
– Appropriation to surplus reserve . .	*35(a)*	–	–	833,553	–	–	–	(833,553)	–
– Appropriation to general reserve . .	*35(b)*	–	–	–	1,440,427	–	–	(1,440,427)	–
– Cash dividends paid to shareholders. . . .	*36*	–	–	–	–	–	–	(2,060,965)	(2,060,965)
Balance at 31 December 2019.		14,450,000	19,961,604	5,009,612	14,081,733	324,471	645,022	28,166,155	82,638,597

CASH FLOW STATEMENTS

(Expressed in thousands of Renminbi, unless otherwise stated)

	Years ended 31 December		
	2017	2018	2019
Cash flows from operating activities			
Profit before tax	8,425,428	8,027,462	9,901,850
Adjustments for:			
Impairment losses on assets	7,755,012	6,507,885	9,566,913
Depreciation and amortisation	550,482	547,180	1,398,794
Net losses/(gains) arising from investment securities	13,693	(1,985,114)	(961,857)
Interest expense on debts securities issued	4,808,429	8,440,069	7,207,783
Net trading losses/(gains)	552,985	492,593	(196,392)
Interest income arising from financial investments	(19,885,043)	(15,045,678)	(12,286,730)
Interest expense on lease liabilities	–	–	174,000
Net (gains)/losses on disposal of property and equipment	(215)	1,100	548
Share of (profits)/losses of associates	(1,691)	(1,045)	52,771
	2,219,080	6,984,452	14,857,680
Changes in operating assets			
Net decrease/(increase) in due from banks and other financial institutions with maturity over 3 months	1,500,000	(18,289,000)	16,971,253
Net (increase)/decrease in deposits with the central bank	(5,601,544)	5,142,782	7,828,687
Net decrease/(increase) in placement with banks and other institutions	300,000	(1,400,000)	(2,750,725)
Net (increase)/decrease in financial assets held for trading	(10,223,900)	(560,487)	319,211
Net decrease in financial assets held under resale agreements	1,640,000	–	–
Net increase in loans and advances to customers	(112,698,936)	(102,978,262)	(148,709,951)
Net (increase)/decrease in other operating assets	(1,011,140)	1,440,658	(2,112,268)
	(126,095,520)	(116,644,309)	(128,453,793)
Changes in operating liabilities			
Net increase in borrowings from the central bank	11,000,000	4,000,000	18,300,000
Net (decrease)/increase in deposits from banks and other financial institutions	(23,419,074)	(82,832,486)	8,981,866
Net increase/(decrease) in placements from banks and other financial institutions	25,593,978	(18,522,433)	1,905,478
Net (decrease)/increase in financial assets sold under repurchase agreements	(5,785,773)	20,127,620	705,156
Net increase in deposits from customers	91,912,497	16,063,372	39,768,209
Net increase in other operating liabilities	1,164,233	6,459,549	4,002,529
	100,465,861	(54,704,378)	73,663,238
Net cash flows from operating activities before tax	(23,410,579)	(164,364,235)	(39,932,875)
Income tax paid	(2,507,006)	(3,252,198)	(1,746,643)
Net cash flows used in operating activities	(25,917,585)	(167,616,433)	(41,679,518)

	Note	Years ended 31 December 2017	2018	2019
Cash flows from investing activities				
Proceeds from disposal sale and redemption of investments		159,985,725	147,477,573	248,534,220
Proceeds received from investment activities		20,107,599	13,973,100	12,319,374
Proceeds from disposal of property and equipment and other assets		648	499	195
Payments on acquisition of investments		(175,782,792)	(41,934,803)	(233,337,060)
Payments on acquisition of property and equipment, intangible assets and other assets		(854,912)	(463,165)	(309,240)
Net cash flows generated from investing activities		3,456,268	119,053,204	27,207,489
Cash flows from financing activities				
Proceeds from capital contribution by equity shareholders		595,000	–	–
Proceeds from capital contribution by other equity instruments holders	*34*	–	–	19,961,604
Proceeds from debt securities issued	*39(c)*	192,284,922	411,810,647	370,681,993
Repayment of debt securities issued	*39(c)*	(154,925,996)	(332,617,051)	(392,380,779)
Interest paid on debt securities issued	*39(c)*	(4,151,513)	(7,875,178)	(7,584,147)
Dividends paid		–	(67,320)	(2,060,965)
Interest paid on lease liabilities		–	–	(174,000)
Repayment of lease liabilities		–	–	(516,717)
Net cash flows generated from/(used in) financing activities		33,802,413	71,251,098	(12,073,011)
Effect of foreign exchange rate changes on cash and cash equivalents		(358,937)	501,665	387,554
Net increase/(decrease) in cash and cash equivalents	*39(a)*	10,982,159	23,189,534	(26,157,486)
Cash and cash equivalents as at 1 January		34,680,657	45,662,816	68,852,350
Cash and cash equivalents as at 31 December	*39(b)*	45,662,816	68,852,350	42,694,864
Interest received		41,567,934	45,660,027	50,008,073
Interest paid (excluding interest expense on debt securities issued)		(18,009,659)	(20,209,961)	(22,737,276)

B NOTES TO THE HISTORICAL FINANCIAL INFORMATION

(Expressed in thousands of Renminbi, unless otherwise stated)

1 BACKGROUND INFORMATION

China Bohai Bank Co., Ltd. (the "Bank") is a national joint-stock commercial bank established in Tianjin on 30 December 2005.

The Bank has been approved by the China Banking Regulatory Commission (the former "CBRC") to hold financial business permit (No. B0017H112000001) and approved by the Tianjin Administration for Market Regulation for the business license (No. 911200007109339563).

The Bank commenced its operation on 16 February 2006. As at 31 December 2019, the Bank has established 33 tier-one branches (including Suzhou, Shenzhen Qianhai, Qingdao and Ningbo Branches under direct management of the Head Office), 30 tier-two branches, 127 sub-branches, and 1 overseas representative office in 61 major cities and a Special Administrative Region including Tianjin, Beijing, Hangzhou, Taiyuan, Chengdu, Jinan, Shanghai, Shenzhen, Nanjing, Dalian, Guangzhou, Changsha, Shijiazhuang, Wuhan, Hohhot, Fuzhou, Hefei, Zhengzhou, Xi'an, Changchun, Chongqing, Shenyang, Xiamen, Haikou, Qingdao, Ningbo, Nanning, Nanchang and Hong Kong. The total number of outlets reached 245, including 191 branches and sub-branches, and 54 small and micro community sub-branches.

The principal activities of the Bank include: absorbing public deposits; offering short-term, medium-term and long-term loans; arranging settlement of domestic and international accounts; handling accept and discount of bill; issuing financial bonds; acting as agent to issue, settle and underwrite government bonds and proprietary trading bonds issued by financial institutions and government; inter-bank borrowing and lending; trading of foreign currencies on behalf of its customers; selling and purchasing foreign exchange, bank card business; letters of credit and financial guarantees; acting as agent on inward and outward payments; acting as an insurance agent, safe-deposit facilities, derivative trading, securities investment custody, insurance fund custody, selling securities investment fund and other business approved by the banking regulatory institutions of the State Council.

2 SIGNIFICANT ACCOUNTING POLICIES

(1) Basis of preparation and presentation – Statement of compliance

The Historical Financial Information has been prepared in accordance with all applicable International Financial Reporting Standards (the "IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards and Interpretations issued by the International Accounting Standards Board (the "IASB"). The Historical Financial Information also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

For the purpose of preparing this Historical Financial Information, the accounting policies set out in note 2 have been applied consistently throughout the Relevant Periods, except for IFRS 9, Financial instruments, and IFRS 15, Revenue from contracts with customers, which have been initially applied on 1 January 2018, and IFRS 16, Leases, which has been initially applied on 1 January 2019. Details of the changes in accounting policies are discussed in note 2(1)(a).

The IASB has issued a number of new and revised IFRSs. The Bank has not adopted any new accounting standards and interpretations issued but not yet effective before the accounting year beginning on or after 1 January 2020. The revised and new accounting standards and interpretations issued but not yet effective before the accounting year beginning on or after 1 January 2020 are set out in note 2(1)(b).

(a) Changes in accounting policies

IFRS 15 "Revenue from contracts with customers"

The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised.

IFRS 15 also introduces extensive qualitative and quantitative disclosure requirements which aim to enable users of the financial information to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. An entity may adopt IFRS 15 on a full retrospective basis. Alternatively, it may choose to adopt it from the date of initial application by adjusting opening balances at that date. Transitional disclosures are different depending on the approach adopted by the entity.

The bank has adopted IFRS 15 since 1 January 2018. The Bank has elected to adopt IFRS 15 and by adjusting the cumulative impact of contracts that are not completed at 1 January 2018, and the comparative information has not been restated. The adoption has no material impact on the financial position and the financial performance of the Bank.

IFRS 9 "Financial instruments"

IFRS 9 introduces new requirements for classification and measurement of financial assets, including the measurement of impairment for financial assets, hedge accounting and disclosure. IFRS 9 is effective for annual periods beginning on or after 1 January 2018 on a retrospective basis and includes an exception from the requirement to restate comparative information. The Bank has applied the exemption from restating comparative information and recognised the transition adjustments against the opening balance of equity at 1 January 2018.

Classification and measurement

IFRS 9 contains three principal classification categories for financial assets: measured at (1) amortised cost, (2) fair value through other comprehensive income ("FVOCI") and (3) fair value through profit or loss ("FVTPL"):

- The classification for debt instruments is determined based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the asset. On initial recognition the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL. If a debt instrument is classified as FVOCI, then interest revenue, impairment, foreign exchange gains/losses and gains/losses on disposal will be recognised in profit or loss.

- For equity investments, the classification is FVTPL regardless of the entity's business model. The only exception is if the equity investment is not held-for-trading and the entity irrevocably elects to designate that investment as FVOCI. If an equity investment is designated as FVOCI, then only dividend income on that investment will be recognised in profit or loss. Gains and losses on that investment will be recognised in other comprehensive income without recycling.

The classification and measurement requirements for financial liabilities under IFRS 9 are largely unchanged from International Accounting Standard ("IAS") 39, Financial Instruments: Recognition and Measurement, except that IFRS 9 requires the fair value change of a financial liability designated at FVTPL that is attributable to changes of that financial liability's credit risk to be recognised in other comprehensive income (without reclassification to profit or loss).

Impairment

The new impairment model in IFRS 9 replaces the "incurred loss" model in IAS 39 with an "expected credit loss" ("ECL") model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure either a 12-month expected credit loss or lifetime expected credit loss, depending on the asset and the facts and circumstances, which will result in an early recognition of credit losses.

Hedge accounting

IFRS 9 does not fundamentally change the requirements relating to measuring and recognizing ineffectiveness under IAS 39. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting.

Disclosure

IFRS 9 requires extensive new disclosures, in particular about hedge accounting, credit risk and expected credit loss.

Transition

The Bank is required to adopt IFRS 9 since 1 January 2018. The Bank has applied the exemption from restating comparative information and recognised the transition adjustments against the opening balance of net assets at 1 January 2018. The Bank did not adopt IFRS 9 for the years ended 31 December 2017.

The following table summarizes the impact of transition to IFRS 9 on fair value reserve, impairment reserve and retained earnings at 1 January 2018.

Fair value reserve	
Transferred to fair value reserve	(43,317)
Related tax effect	10,829
Impact as at 1 January 2018	(32,488)
Impairment reserve	
Recognition of ECL on financial assets	49,348
Related tax effect	(12,337)
Impact as at 1 January 2018	37,011
Retained earnings	
Fair value movement	(74,813)
Recognition of additional ECL on:	
– financial assets	735,449
– credit commitments	(787,988)
Related tax effect	(244,198)
Impact as at 1 January 2018	(371,550)

The following table provides the amount of Bank's financial instruments listed as at 1 January 2018, according to the original classification and measurement categories of IAS 39 and the new classification and measurement categories of IFRS 9 respectively.

	IAS 39		IFRS 9	
Financial instruments category	**Classification under IAS 39**	**Carrying amount at 31 December 2017**	**Classification under IFRS 9**	**Carrying amount at 1 January 2018**
Cash and deposits with the central bank	Financial assets measured at amortised cost (Loans and receivables)	105,000,258	Financial assets measured at amortised cost	105,000,258
Deposits with banks and other financial institutions	Financial assets measured at amortised cost (Loans and receivables)	8,722,789	Financial assets measured at amortised cost	8,718,640
Placements with banks and other financial institutions	Financial assets measured at amortised cost (Loans and receivables)	10,167,977	Financial assets measured at amortised cost	10,158,984
Derivative financial assets	Financial investments measured at FVTPL	198,100	Financial investments measured at FVTPL	198,100
Financial assets held under resale agreements	Financial assets measured at amortised cost (Loans and receivables)	–	Financial assets measured at amortised cost	–
Loans and advances to customers	Financial assets measured at amortised cost (Loans and receivables)	449,813,708	Financial investments measured at FVTPL	1,387,677
			Financial assets at FVOCI	2,737,458
			Financial assets measured at amortised cost	446,550,500
Financial investments	Financial investments measured at FVTPL	12,860,914	Financial investments measured at FVTPL	55,956,315
	Financial assets at FVOCI (Available-for-sale financial assets)	36,495,682	Financial assets at FVOCI	39,845,617
	Financial assets measured at amortised cost (Held-to-maturity investments)	87,364,519	Financial assets measured at amortised cost	316,664,545
	Financial assets measured at amortised cost (Loans and receivables)	275,927,480		
Other assets	Financial assets measured at amortised cost (Loans and receivables)	5,848,778	Financial assets measured at amortised cost	5,848,778

Note: The financial liabilities assumed by the Bank were not reclassified or re-measured on 1 January 2018.

The following table shows the adjustments of financial assets from the carrying amounts under IAS 39 to the carrying amounts under IFRS 9 applied on 1 January 2018.

	Note	Carrying amount under IAS 39	Reclassification	Remeasurement	Carrying amount under IFRS 9
		As at 31 December 2017			As at 1 January 2018
Financial assets measured at amortised cost					
Cash and deposits with the central bank					
Balance presented according to IAS 39 and IFRS 9		105,000,258	–	–	105,000,258
Deposits with banks and other financial institutions					
Balance presented according to IAS 39		8,722,789	–	–	8,722,789
Remeasurement: ECL allowance		–	–	(4,149)	(4,149)
Balance presented according to IFRS 9					8,718,640
Placements with banks and other financial institutions					
Balance presented according to IAS 39		10,167,977	–	–	10,167,977
Remeasurement: ECL allowance		–	–	(8,993)	(8,993)
Balance presented according to IFRS 9					10,158,984
Loans and advances to customers					
Balance presented according to IAS 39		449,813,708	–	–	449,813,708
Less: transferred to financial assets at fair value through other comprehensive income (IFRS 9)	*A*	–	(2,735,927)	–	(2,735,927)
Less: transferred to financial assets at fair value through profit or loss (IFRS 9)	*B*	–	(1,384,204)	–	(1,384,204)
Remeasurement: ECL allowance		–	–	856,923	856,923
Balance presented according to IFRS 9					446,550,500
Financial investments measured at amortised cost					
Balance presented according to IAS 39		–	–	–	–
Add: transferred from held-to-maturity investments (IAS 39)	*D*	–	87,173,119	–	87,173,119
Remeasurement: ECL allowance		–	–	(6,989)	(6,989)
Add: transferred from investments classified as receivables (IAS 39)	*D*	–	229,588,481	–	229,588,481
Remeasurement: ECL allowance		–	–	(90,066)	(90,066)
Balance presented according to IFRS 9					316,664,545
Held-to-maturity investments					
Balance presented according to IAS 39		87,364,519	–	–	87,364,519
Less: transferred to amortised cost (IFRS 9)	*D*	–	(87,173,119)	–	(87,173,119)
Less: transferred to financial assets at fair value through profit or loss (IFRS 9)	*B*	–	(191,400)	–	(191,400)
Balance presented according to IFRS 9					–
Investments classified as receivables					
Balance presented according to IAS 39		275,927,480	–	–	275,927,480
Less: transferred to amortised cost (IFRS 9)		–	(229,588,481)	–	(229,588,481)
Less: transferred to financial assets at fair value through profit or loss (IFRS 9)	*C*	–	(42,729,272)	–	(42,729,272)
Less: transferred to financial assets at fair value through other comprehensive income (IFRS 9)	*A*	–	(3,609,727)	–	(3,609,727)
Balance presented according to IFRS 9					–
Other assets					
Balance presented according to IAS 39 and IFRS 9		5,848,778	–	–	5,848,778
Sub-total		942,845,509	(50,650,530)	746,726	892,941,705

	Note	Carrying amount under IAS 39	Reclassification	Remeasurement	Carrying amount under IFRS 9
		As at 31 December 2017			As at 1 January 2018
Financial assets at fair value through profit or loss					
Derivative financial assets					
Balance presented according to IAS 39 and IFRS 9		198,100	–	–	198,100
Loans and advances to customers					
Balance presented according to IAS 39		–	–	–	–
Add: transferred from amortised cost (IAS 39)	B	–	1,384,204	–	1,384,204
Remeasurement: from amortised cost to fair value		–	–	3,473	3,473
Balance presented according to IFRS 9					1,387,677
Financial investments at fair value through profit or loss					
Balance presented according to IAS 39		12,860,914	–	–	12,860,914
Add: transferred from held-to-maturity investments (IAS 39)	B	–	191,400	–	191,400
Add: transferred from investments classified as receivables (IAS 39)	C	–	42,729,272	–	42,729,272
Remeasurement: from amortised cost to fair value		–	–	(78,286)	(78,286)
Add: transferred from available-for-sale financial assets (IAS 39)	C,F	–	253,015	–	253,015
Balance presented according to IFRS 9					55,956,315
Sub-total		13,059,014	44,557,891	(74,813)	57,542,092
Financial assets at fair value through other comprehensive income					
Loans and advances to customers					
Balance presented according to IAS 39		–	–	–	–
Add: transferred from amortised cost (IAS 39)	A	–	2,735,927	–	2,735,927
Remeasurement: reclassified the allowance for impairment losses under IAS 39		–	–	1,609	1,609
Remeasurement: from amortised cost to fair value		–	–	(78)	(78)
Balance presented according to IFRS 9					2,737,458
Financial assets (debt instruments) at fair value through other comprehensive income					
Balance presented according to IAS 39		–	–	–	–
Add: transferred from available-for-sale financial assets (IAS 39)	D	–	36,042,667	–	36,042,667
Add: transferred from investments classified as receivables (IAS 39)	A	–	3,609,727	–	3,609,727
Remeasurement: reclassified the allowance for impairment losses under IAS 39		–	–	36,462	36,462
Remeasurement: from amortised cost to fair value		–	–	(43,239)	(43,239)
Balance presented according to IFRS 9					39,645,617
Financial investments (equity instruments) at fair value through other comprehensive income					
Balance presented according to IAS 39		–	–	–	–
Add: transferred from available-for-sale financial assets (IAS 39)	E	–	200,000	–	200,000
Balance presented according to IFRS 9					200,000
Available-for-sale financial assets (IAS 39)					
Balance presented according to IAS 39		36,495,682	–	–	36,495,682
Less: transferred to financial assets (debt instruments) at fair value through other comprehensive income	D	–	(36,042,667)	–	(36,042,667)
Less: transferred to financial assets (equity instruments) at fair value through other comprehensive income	E	–	(200,000)	–	(200,000)
Less: transferred to financial assets at fair value through profit or loss (IFRS 9)	C,F	–	(253,015)	–	(253,015)
Balance presented according to IFRS 9					–
Sub-total		36,495,682	6,092,639	(5,246)	42,583,075

A. Certain loans and advances to customers and certain debt instruments investments classified as receivables held by the Bank were held within a business model whose objective on the transition date was to collect contractual cash flows and sell financial assets. In addition, their contractual cash flows were identified as solely payments of principal and interest on the principal amount outstanding. Therefore, these assets were classified as financial assets at FVOCI under IFRS 9.

B. Certain loans and advances to customers and certain debt instruments investments classified as held-to-maturity investments held by the Bank were held within a business model whole objective on the transition date was not achieved by collecting contractual cash flows, or by both collecting contractual cash flows and selling financial assets. Therefore, these assets were classified as financial assets at FVTPL under IFRS 9.

C. Certain debt instruments investments classified as available-for-sale financial assets or receivables, their contractual cash flows were not identified as solely payments of principal and interest on the principal outstanding. Therefore, these assets were classified as financial assets at fair value through profit or loss under IFRS 9.

D. In addition, as the categories previously used under IAS 39 are no longer applicable, the following debt instruments classification under IAS 39 is replaced by the classification under IFRS 9 at the same measurement methods:

(i) Certain debt instruments originally classified as receivables were classified as financial assets at amortised cost under IFRS 9;

(ii) Certain debt instruments originally classified as held-to-maturity investments were classified as financial assets at amortised cost under IFRS 9;and

(iii) Certain debt instruments originally classified as available-for-sale financial assets were classified as financial assets at fair value through other comprehensive income under IFRS 9.

E. The reclassified and re-measured financial assets those non-held-for-trading equity investments designated irrevocably by the Bank as financial assets measured at FVOCI on the transition date.

F. The reclassified and re-measured financial assets include the equity instrument investments amounted to approximately RMB105 million were equity investments, which the Bank did not designated as FVOCI on the transition date.

At initial application date, the ending balance of the allowance of financial assets impairment losses from IAS 39 to IFRS 9 is reconciliated as follows:

	Provision for impairment loss according to IAS 39/Provisions recognised under IAS 37	Reclassification	Remeasurement	Provision for impairment loss IFRS 9
	As at 31 December 2017			As at 1 January 2018
Loans and advances (IAS 39)/ Financial assets measured at amortised cost (IFRS 9)				
Cash and deposits with Central Bank	–	–	–	–
Deposits with banks and other financial institutions	–	–	4,149	4,149
Placements with banks and other financial institutions	–	–	8,993	8,993
Loans and advances to customers	15,076,125	(1,609)	(856,923)	14,217,593
Financial investments	4,654,285	(36,462)	90,066	4,707,889
Loans and receivables (IAS 39)/Financial assets measured at FVOCI (IFRS 9)				
Loans and advances to customers at fair value through other comprehensive income	–	1,609	3,451	5,060
Financial investments	–	36,462	2,671	39,133
Held-to-maturity investments (IAS 39)/Financial assets measured at amortised cost (IFRS 9)				
Financial investments	–	–	6,989	6,989
Held-to-maturity investments IAS 39)/Financial assets measured at fair value through profit or loss (IFRS 9)				
Financial investments	388,600	(388,600)	–	–
Available-for-sale financial assets (IAS 39)/Financial assets measured at FVOCI (IFRS 9)				
Financial investments	–	–	5,155	5,155
Credit commitments	18,166	–	787,988	806,154

IFRS 16, Leases

In January 2016, the IASB issued IFRS 16, "Leases", which replaces the current guidance in IAS 17. The new standard requires the companies to bring leases on-balance sheet for lessees. The new standard also makes changes in accounting over the life of the lease, and introduces a stark dividing line between leases and service contracts.

Under IFRS 16 there is no longer a distinction between finance leases and operating leases so far as lessees are concerned. Instead, subject to practical expedients, a lessee recognises all leases on-balance sheet by recognizing a right-of-use (ROU) asset and lease liability. In addition, the nature of expenses related to operating leases changes because IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and with an interest expense on lease liabilities.

Lessor accounting is substantially unchanged – i.e. lessors continue to classify leases as finance and operating leases. However, there are a number of changes in the details of lessor accounting. For example, lessors apply the new definition of a lease, sale-and-leaseback guidance, sub-lease guidance and disclosure requirements.

The Bank has applied IFRS 16 initially on 1 January 2019, using the modified retrospective approach and therefore the comparative information has not been restated. The adoption has no material impact on financial position and financial performance.

The details of the changes in accounting policies are disclosed below:

(i) Definition of a lease

Previously, the Bank determined at contract inception whether an arrangement is or contains a lease under IFRIC 4. Under IFRS16, the Bank assesses whether a contract is or contains a lease based on the definition of a lease.

On transition to IFRS 16, the Bank elected apply the practical expedient to grandfather the assessment of which transaction are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease. Therefore, the definition of a lease under IFRS 16 was applied only to the contracts entered into or changed on or after 1 January 2019.

(ii) As a lessee under operating leases

As a lessee, the Bank previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the Bank recognises right-of-use assets and lease liabilities for most leases. However, the Bank has elected not to recognises right-of-use assets and lease liabilities for some leases of low-value assets and short-term leases. The Bank recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Significant accounting policies

The Bank recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank's incremental borrowing rate. Generally, the Bank uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payment made. It is re-measured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes its assessment of whether a purchase or extension option is reasonably certain to be exercised or termination option is reasonably certain not to be exercised.

The Bank has applied judgement to determine the lease term for some lease contracts in which it is a lessee that include renewal options. The assessment of whether the Bank is reasonably certain to exercise such option impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised.

Transition

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Bank's incremental borrowing rate as at 1 January 2019, Right-of-use assets are measured as an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Bank used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17.

– Applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term.

– Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.

– Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

(iii) Impacts on financial statements.

Impacts on transition

On 1 January 2019, the Bank recognised approximately RMB4,316 million of right-of-use assets (including prepaid or accrued lease payments approximately RMB94 million which had already been recognised in the statement of financial position) and approximately RMB4,222 million of lease liabilities.

When measuring lease liabilities, the Bank discounted lease payments using its incremental borrowing rate at 1 January 2019.

Operating lease commitment at 31 December 2018 as disclosed	4,626,139
Discounted using the incremental borrowing rate at 1 January 2019	4,100,406
Recognition exemption for	
– short-term leases	(25,625)
– leases of low-value assets	(191)
Extension and termination options reasonably certain to be exercised	147,492
Lease liabilities recognised at 1 January 2019	4,222,082

Impact for the period

As a result of initially applying IFRS16, the Bank recognised approximately RMB 3,921 million of right-of-use assets and approximately RMB3,956 million of lease liabilities as at 31 December 2019.

Also in relation to those leases under IFRS16, the Bank has recognised depreciation and interest costs, instead of operating lease expense. During twelve months ended 31 December 2019, the Bank recognised approximately RMB820 million of depreciation charges and approximately RMB174 million of interest costs from these leases.

(b) Possible impact of amendments, new standards and interpretations issued but not yet effective before the period beginning on or after 1 January 2020.

Up to the date of this report, the IASB has issued a few of amendments and new standards which are not yet effective before the accounting year beginning on or after 1 January 2020 and which have not been adopted for the preparation of the Historical Financial Information. These include the following:

	Effective for accounting period beginning on or after
Revised Conceptual framework *for financial reporting*	1 January 2020
Amendments to *References to Conceptual Framework in IFRS Standards*	1 January 2020
Amendments to IFRS 3, *Definition of a business*	1 January 2020
Amendments to IAS 1 and IAS 8, *Definition of material*	1 January 2020
Amendments to IFRS 9, IAS 39 and IFRS 7, Interest Rate Benchmark Reform.	1 January 2020
Amendment to IFRS 16, *Covid-19-Related Rent Concessions*	1 June 2020
Amendments to IAS 1, Classification of Liabilities as Current or Non-current	1 January 2022
Annual Improvements to IFRS Standards 2018-2020	1 January 2022
Amendments to IFRS 3, *Reference to the Conceptual Framework*	1 January 2022
Amendments to IAS 16, *Property, Plant and Equipment: Proceeds before Intended Use*	1 January 2022
Amendments to IAS 37, *Onerous Contracts – Cost of Fulfilling a Contract*	1 January 2022
IFRS 17, *Insurance contracts*	1 January 2023
Amendments to IFRS 10 and IAS 28, *Sale or contribution of assets between an investor and its associate or joint venture*	To be determined

The Bank has assessed the impact of these amendments which is expected to be in the period of initial application. So far it has concluded that the adoptions of them are unlikely to have significant impacts on the Bank's result of operations and financial position and financial performance.

(2) Basis of preparation and presentation – Functional and presentation currency

The Historical Financial Information is presented in Renminbi ("RMB"), which is the functional currency of the Bank. All financial information presented in RMB has been rounded to the nearest thousand, except when otherwise indicated.

(3) Basis of preparation and presentation – Basis of measurement

The financial information has been prepared on the historical cost basis except of certain financial assets, which are measured at fair value, as stated in Note 2(9).

(4) Basis of preparation and presentation – Use of estimates and judgements

The preparation of financial information in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future years if the revision affects both current and future years.

Judgments made by management in the application of IFRSs that have a significant effect on the Historical Financial Information and major sources of estimation uncertainty are discussed in Note 2(28).

(5) Subsidiary and non-controlling interests

Subsidiary are entities controlled by the Bank. The Bank controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Bank has power, only substantive rights (held by the Bank and other parties) are considered.

(6) Associates and joint ventures

An associate is an entity in which the Bank has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A joint venture is an arrangement whereby the Bank and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in an associate or a joint venture is accounted for under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Bank's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Bank's share of the investee's net assets and any impairment loss relating to the investment (see Note 2(18)). Any acquisition-date excess over cost, the Bank's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the statement of profit or loss, whereas the Bank's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the combined statement of profit or loss and other comprehensive income.

When the Bank's share of losses exceeds its interest in the associate or the joint venture, the Bank's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Bank has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Bank's interest is the carrying amount of the investment under the equity method together with the Bank's long-term interests that in substance form part of the Bank's net investment in the associate or the joint venture.

Unrealised profits and losses resulting from transactions between the Bank and its associates and joint venture are eliminated to the extent of the Bank's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

If an investment in an associate becomes an investment in a joint venture or vice versa, retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Bank ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset.

(7) Translation of foreign currencies

When the Bank receives capital in foreign currencies from investors, the capital is translated to RMB at the spot exchange rate on the date of receipt. Other foreign currency transactions are, on initial recognition, translated to RMB at the spot exchange rates or the rates that approximate the spot exchange rates at the dates of transactions.

A spot exchange rate is quoted by the People's Bank of China ("PBoC"), the State Administration of Foreign Exchange, or a cross rate determined based on quoted exchange rates. A rate that approximates the spot exchange rate is determined by a systematic and rational method, normally the average exchange rate of the current period.

Monetary assets and liabilities denominated in foreign currencies are translated to RMB at the spot exchange rate at the date of the statement of financial position.

Non-monetary assets and liabilities denominated in foreign currencies that are measured based on historical cost are translated to RMB using the foreign exchange rate at the transaction date. Non-monetary items denominated in foreign currencies that are measured at fair value are translated using the spot exchange rate at the date on which the fair value is determined.

Foreign currency differences arising on translation are generally recognised in profit or loss. However, foreign currency differences arising from available-for-sales equity instruments (before 1 January 2018) or equity investments in respect of which an election has been made to present subsequent changes in fair value in other comprehensive income (from 1 January 2018).(Note 2 (9)) recognised in other comprehensive income.

(8) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, non-restricted balances with central bank, short-term deposits and placements with banks and other financial institutions, financial assets held under resale agreements and highly liquid short-term investments which are readily convertible into known amounts of cash and are subject to an insignificant risk of change in value.

(9) Financial instruments

(a) The following accounting policies related to financial instruments apply to the period before 1 January 2018

(i) Recognition and measurement of financial assets and liabilities

A financial asset or financial liability is recognised in the statements of financial position when the Bank becomes a party to the contractual provisions of a financial instrument.

The Bank classifies financial assets and liabilities into different categories at initial recognition based on the purpose of acquiring assets or assuming liabilities: financial assets and financial liabilities at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets and other financial liabilities.

Financial assets and financial liabilities are measured initially at fair value. For financial assets and financial liabilities at fair value through profit or loss, any directly attributable transaction costs are charged to profit or loss; for other categories of financial assets and financial liabilities, any attributable transaction costs are included in their initial costs.

Financial assets and financial liabilities are categorized as follows:

- Financial assets and financial liabilities fair value through profit or loss (including financial assets or financial liabilities held for trading)

  A financial asset or financial liability is classified as at fair value through profit or loss if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term, a financial instrument managed in a pattern of short-term profit taking, a derivative, or if it is designated at fair value through profit or loss.

  Financial assets and financial liabilities are designated at fair value through profit or loss upon initial recognition when:

  – the financial assets or financial liabilities are managed, evaluated and reported internally on a fair value basis;

  – the designation eliminates or significantly reduces the discrepancies in the recognition or measurement of relevant gains or losses arising from the different basis of measurement of the financial assets or financial liabilities;

  – the financial assets or financial liabilities contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract; or

  – the separation of the embedded derivatives from the financial instrument is prohibited.

  Subsequent to initial recognition, financial assets and financial liabilities at fair value through profit or loss are measured at fair value, without any deduction for transactions costs that may occur on sale, and changes therein are recognised in profit or loss.

- Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity.

If the Bank has sold or reclassified certain held-to-maturity investment that have not yet been due to available-for-sale financial assets during the current financial year, and if the held-to-maturity investment, whose amount is significant in relation to the total amount of held-to-maturity investments before the sale or reclassification, the Bank shall reclassify the remaining portion of held-to-maturity investments as available-for-sale financial assets, except for the following sales or reclassifications that:

– are 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 investment's fair value;

– occur after the Bank has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or

– are 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.

Subsequent to initial recognition, held-to-maturity investments are stated at amortised cost using the effective interest method.

- Loans and receivables

Loans and receivables are non-derivative financial assets held by the Bank with fixed or determinable recoverable amounts that are not quoted in an active market, other than:

(a) those that the Bank intends to sell immediately or in the near-term, which will be classified as held-for-trading;

(b) those that the Bank, upon initial recognition, designates as at fair value through profit or loss or as available-for-sale; or

(c) those where the Bank may not recover substantially all of its initial investment, other than because of credit deterioration, which will be classified as available-for-sale.

Loans and receivables mainly comprise loans and advances to customers, financial assets classified as receivables, deposits and placements with banks and other financial institutions and financial assets held under resale agreements. Subsequent to initial recognition, loans and receivables are stated at amortised cost using the effective interest method.

- Available-for-sale financial assets

Available-for-sale financial assets include non-derivative financial assets that are designated upon initial recognition as available-for-sale and other financial assets which do not fall into any of the above categories.

Subsequent to initial recognition, available-for-sale financial assets are measured at fair value, without any deduction for transaction costs that may occur on sale and changes therein, except for impairment losses and foreign exchange gains and losses from monetary financial assets, are recognised directly in other comprehensive income. Investments in available-for-sale equity instruments that do not have a quoted price in an active market and whose fair value cannot be reliably measured, are measured at cost less impairment losses, if any. When an investment is derecognised, the cumulative gain or loss in other comprehensive income is reclassified to the profit or loss.

- Other financial liabilities

Financial liabilities other than the financial liabilities at fair value through profit or loss are classified as other financial liabilities.

Subsequent to initial recognition, other financial liabilities are measured at amortised cost using the effective interest method.

(ii) Impairment of financial assets

The Bank reviews at the end of Relevant Periods the carrying amount of financial assets except for those designated at fair value through profit or loss, to check if there is objective evidence of impairment. If there is objective evidence of impairment of the financial asset or a group of financial assets, and the loss events have an impact on the estimated future cash flows of the financial asset or a group of financial assets that can be reliably estimated, the Bank recognises that the financial asset or the group of financial assets are impaired and impairment losses are charged to profit or loss.

Objective evidence includes the following loss event:

– significant financial difficulty of the issuer or borrower;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– for economic or contractual reasons relating to the borrower's financial difficulty, the Bank having granted to the borrower a concession that would not otherwise consider;

– it is becoming probable that the borrower will enter bankruptcy or other financial reorganization;

– disappearance of an active market for financial assets because of financial difficulties;

– observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including gradual deterioration in the payment ability of borrowers in the group of financial assets, an increase in the unemployment rate in the country or region where the borrowers locate, a significant decrease in the prices of properties for mortgage in the relevant area, or adverse changes in industry conditions;

– significant changes in the technological, market, economic or legal environment within which the borrowers operate, making borrowers may not be able to recover the investment costs;

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost; or

– other objective evidence indicating that financial assets are impaired.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for collective assessment of impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

• Financial assets measured at amortised cost

Impairment loss incurred of individual loans and receivables or held-to-maturity investments is recognised and measured at the book balance of the asset and its recoverable amount (i.e. the difference between the future cash flows (exclusive of future credit losses that have not been incurred) of the asset discounted at its original effective interest rate) and its present value.

The original effective interest rate is the one that determined when initially recognise the financial asset. Interest rate of certain loans and receivables, held-to-maturity investments of the Bank are floating, and the current effective interest rate as stipulated in the contract will be used as the discount rate when calculating recoverable amount. In the actual operation, the Bank will also determine the impairment of the financial asset based on its market fair value. The estimation on future cash flows has taken account of the value of relevant collateral and net of estimated disposal expenses. The Bank adopts individual and collective method to assess the impairment loss incurred of loans and receivables.

Based on the experience, the management is of the view that there is impairment loss incurred but have not been identified in current financial assets portfolio. For estimation of such impairment loss, the Bank will assess impairment loss after considering various factors, including the risk profile of financial assets, inter-bank loss experiences, actual market situation and available credit default data of the Bank.

If, during the subsequent period, the amount of impairment loss decreased and such decrease was objectively related to events happened after the recognition of impairment loss (for example, the credit rating upgrade of debtor), the Bank will reverse the impairment loss recognised previously by adjusting reserve amount, and the reversed amount will be included in the income statement. However, the carrying amount after reversal shall not exceed the amortised cost of that financial asset on the reversal date should no impairment provision was made.

- Available-for-sale financial assets

When an available-for-sale financial asset is impaired, the cumulative loss originally directly recognised into fair value change reserve account of available-for-sale financial asset under other comprehensive income and arising from decline in fair value is transferred to profit or loss. The cumulative loss is the net value after deducting the recovered principal and amortized amount, the fair value at the time of impairment and the impairment loss originally recognised in profit and loss from initial acquisition cost of the available-for-sale financial asset.

For equity instrument investment of available-for-sale financial asset measured at fair value, its impairment loss, once recognised, will not be reversed through profit and loss; for equity instrument investment whose fair value cannot be reliably measured, the impairment loss incurred will not be reversed in the following period; and for debt instrument classified as available-for-sale financial asset, if its fair value increases after the period and is objectively related to the events after the recognition of the original impairment loss, the Bank shall reverse such instrument in originally recognised impairment loss and charge it to profit and loss.

(iii) Fair value measurement principles

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date.

If there is an active market for a financial asset or financial liability, the quoted price in the active market without adjusting for transaction costs that may be incurred upon future disposal or settlement is used to establish the fair value of the financial asset or financial liability. For a financial asset held or a financial liability to be assumed, the quoted price is the current bid price. For a financial asset to be acquired or a financial liability assumed, it is the current asking price. The quoted prices from an active market are prices that are readily and regularly available from an exchange, broker, industry group or pricing service agency, and represent actual and regularly occurring market transactions on an arm's length basis.

If no active market exists for a financial instrument, a valuation technique is used to establish the fair value. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models. Where discounted cash flow technique is used, future cash flows are estimated based on management's best estimates and the discount rate used is the prevailing market rate applicable for instrument with similar terms and conditions at the end of each of the Relevant Periods. Where other pricing models are used, inputs are based on market data at the end of each of the Relevant Periods.

In estimating the fair value of a financial asset and financial liability, the Bank considers all factors including, but not limited to, risk-free interest rate, credit risk, foreign exchange rate and market volatility, that are likely to affect the fair value of the financial asset and financial liability.

The Bank obtains market data from the same market where the financial instrument was originated or purchased.

(iv) Derecognition of financial assets and financial liabilities

Financial assets (or a part of a financial asset or group of financial assets) are derecognised when the financial assets meet one of the following conditions:

– the contractual rights to the cash flows from the financial asset expire; or

– the Bank transfers substantially all the risks and rewards of ownership of the financial assets or where substantially all the risks and rewards of ownership of a financial asset are neither retained nor transferred, the control over that asset is relinquished.

If the Bank neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, but retains control, the Bank continues to recognise the financial asset and relevant liability to the extent of its continuing involvement in the financial asset.

The financial liability (or part of it) is derecognised only when the underlying present obligation (or part of it) specified in the contracts is discharged, cancelled or expired. An agreement between the Bank and an existing lender to replace the original financial liability with a new financial liability with substantially different terms, or a substantial modification of the terms of an existing financial liability is accounted for as an extinguishment of the original financial liability and recognition of a new financial liability. The difference between the carrying amount of the derecognised financial liability and the consideration paid is recognised in profit or loss.

(v) Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the statements of financial position when the Bank has a legally enforceable right to set off the recognised amounts and the transactions are intended to be settled on a net basis, or by realising the asset and settling the liability simultaneously.

(b) The following accounting policies related to financial instruments apply to the period on or after 1 January 2018

(i) Recognition and initial measurement of financial assets and financial liabilities

A financial asset or financial liability is recognised in the statement of financial position when the Bank becomes a party to the contractual provisions of a financial instrument.

A financial asset or financial liability is measured initially at fair value. For financial assets and financial liabilities at fair value through profit or loss, any related directly attributable transaction costs are charged to profit or loss; for other categories of financial assets and financial liabilities, any related directly attributable transaction costs are included in their initial costs.

(ii) Classification of financial assets

The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. On initial recognition, a financial asset is classified as measured at amortised cost, at fair value through other comprehensive income ("FVOCI"), or at fair value through profit or loss ("FVTPL").

Financial assets are not reclassified subsequent to their initial recognition unless the Bank changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

– it is held within a business model whose objective is to hold assets to collect contractual cash flows; and

– its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

– it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

– its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. On initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirement to be measured at amortised cost or at FVOCI as a financial asset at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The business model refers to how the Bank manages its financial assets in order to generate cash flows. That is, the Bank's business model determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both. The Bank determines the business model for managing the financial assets according to the facts and based on the specific business objective for managing the financial assets determined by the Bank's key management personnel.

The Bank assesses the characteristics of contractual cash flow of financial assets to determine whether the contractual cash flows generated by the relevant financial assets on a particular date are only payments for principal and interest based on the outstanding principal amount. For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin. The Bank also assesses whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

(iii) Subsequent measurement of financial assets

– Financial assets at FVTPL

These financial assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss unless the financial assets are part of a hedging relationship.

– Financial assets at amortised cost

These assets are subsequently measured at amortised cost using the effective interest method. A gain or loss on a financial asset that is measured at amortised cost and is not part of a hedging relationship shall be recognised in profit or loss when the financial asset is derecognised, through the amortisation process or in order to recognise impairment gains or losses.

– Debt instruments at FVOCI

These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, impairment and foreign exchange gains and losses are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.

– Equity investments at FVOCI

These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to retained earnings.

(iv) Classification and subsequent measurement of financial liabilities

Financial liabilities are classified as measured at FVTPL and other financial liabilities.

– Financial liabilities measured at FVTPL

A financial liability is classified as measured at FVTPL if it is classified as held-for-trading (including derivative financial liability) or it is designated as such on initial recognition.

Financial liabilities measured at FVTPL are subsequently measured at fair value and net gains and losses (including any interest expense) are recognised in profit or loss, unless the financial liabilities are part of a hedging relationship.

– Other financial liabilities

Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

(v) Impairment of financial instruments

The Bank recognises loss allowances for expected credit loss (ECL) on:

– financial assets measured at amortised cost;

– debt instruments measured at FVOCI;

– credit commitments other than the financial liabilities at fair value through profit or loss.

Financial assets measured at fair value, including financial assets at FVTPL, equity investments designated at FVOCI and derivative financial assets, are not subject to the ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive).

The Bank's method of measuring expected credit losses of financial instruments reflects the following elements: (i) unbiased weighted average probability determined by the results of evaluating a range of possible outcomes; (ii) time value of money; (iii) reasonable and evidence-based information about past events, current conditions, and future economic forecasts that are available at no additional cost or effort at the end of the reporting period.

The maximum period considered when estimating ECL is the maximum contractual period (including extension options) over which the Bank is exposed to credit risk.

Lifetime ECL is the ECL that result from all possible default events over the expected life of a financial instrument.

12-month ECL is the portion of ECL that result from default events that are possible within the 12 months after the date of the statement of financial position (or a shorter period if the expected life of the instrument is less than 12 months).

The Bank classifies financial instruments into three stages and makes provisions for expected credit losses accordingly, depending on whether credit risk on that financial instrument has increased significantly since initial recognition.

The three risk stages are defined as follows:

Stage 1: A financial instrument of which the credit risk has not significantly increase since initial recognition. The amount equal to 12-month ECL is recognised as loss allowance.

Stage 2: A financial instrument with a significant increase in credit risk since initial recognition but is not considered to be credit-impaired. The amount equal to lifetime ECL is recognised as loss allowance. Refer to Note 42 (a) credit risk for the description of how the Bank determines when a significant increase in credit risk has occurred.

Stage 3: A financial instrument is considered to be credit-impaired as at the end of the reporting period. The amount equal to lifetime ECL is recognised as loss allowance.

ECLs on these financial assets are estimated based on the Bank's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the date of the statement of financial position.

Please refer to Note 42 (a) for the measurement of expected credit losses of the Bank.

Presentation of allowance for ECL

ECLs are re-measured at each date of statement of financial position to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Bank recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for debt instruments that are measured at FVOCI, for which the loss allowance is recognised in other comprehensive income.

Write-off

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. A write-off constitutes a derecognition event. This is generally the case when the Bank determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

(vi) Determination of fair value of financial assets and financial liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date.

If there is an active market for a financial asset or financial liability, the quoted price in the active market without adjusting for transaction costs that may be incurred upon future disposal or settlement is used to establish the fair value of the financial asset or financial liability. The quoted price in the active market should be readily and regularly available from independent sources (e.g. the exchange, broker, industry group or pricing service agency) with prudent utilisation of purchase price, selling price and middle price. The Bank should use market valuation method for fair value assessment as much as is feasible, which represents the prices in actual and regularly market transactions on an arm's length basis.

If there is no active market for a financial instrument, appropriate valuation techniques will be used to establish the fair value. Valuation techniques include referencing the price of recent market transactions between well-informed voluntary parties; reference to the current fair value of other instruments that are substantially the same; discounted cash flow model and referencing the valuation results of the third-party valuation agencies. The Bank selects appropriate models based on the risk characteristics, liquidity, counterparty risk and pricing basis of specific financial instruments or trading strategies to ensure that their fair value are truly and effectively reflected. Where discounted cash flow technique is used, future cash flows are estimated based on management's best estimates and the discount rate used is the prevailing market rate applicable for instrument with similar terms and conditions at the end of each of the Relevant Periods. When referring to the valuation results of third-party valuation agencies, the authority, independence and professionalism of the agencies should be assessed. Where other pricing models are used, inputs are based on market data at the end of each of the Relevant Periods.

In estimating the fair value of a financial asset and financial liability, the Bank considers all factors including, but not limited to, risk-free interest rate, credit risk, foreign exchange rate and market volatility, which are likely to affect the fair value of the financial asset and financial liability.

The Bank uses the valuation techniques commonly used by market participants to price financial instruments and techniques which have been demonstrated to provide reliable estimates of prices obtained in actual market transactions. The Bank makes use of all factors that market participants would consider in setting a price as much as possible, and incorporates these into its chosen valuation technique and tests for validity using prices from any observable current market transactions in the same instruments. Observable data is given priority to unobservable data unless it is unpractical or unavailable.

(vii) Derecognition of financial assets and financial liabilities

Financial asset is derecognised when one of the following conditions is met:

– the Bank's contractual rights to the cash flows from the financial asset expire;

– the financial asset has been transferred and the Bank transfers substantially all of the risks and rewards of ownership of the financial asset; or

– the financial asset has been transferred, although the Bank neither transfers nor retains substantially all of the risks and rewards of ownership of the financial asset, it does not retain control over the transferred asset.

Where a transfer of a financial asset in its entirety meets the criteria for derecognition, the difference between the two amounts below is recognised in profit or loss:

– the carrying amount of the financial asset transferred measured at the date of derecognition;

– the sum of the consideration received from the transfer and, when the transferred financial asset is a debt investment at FVOCI, any cumulative gain or loss that has been recognised directly in other comprehensive income for the part derecognised.

The Bank derecognises a financial liability (or part of it) only when its contractual obligation (or part of it) is extinguished.

(viii) Offsetting

Financial assets and financial liabilities are generally presented separately in the statement of financial position, and are not offset. However, a financial asset and a financial liability are offset and the net amount is presented in the statement of financial position when both of the following conditions are satisfied:

– The Bank currently has a legally enforceable right to set off the recognised amounts.

– The Bank intends either to settle on a net basis, or to realize the financial asset and settle the financial liability simultaneously.

(10) Perpetual Bonds

At initial recognition, the Bank classifies the perpetual bonds issued or their components as financial assets, financial liabilities or equity instruments based on their contractual terms and their economic substance after considering the definition of financial assets, financial liabilities and equity instruments.

Perpetual bonds issued that should be classified as equity instruments are recognised in equity based on the actual amount received. Any distribution of dividends or interests during the instruments' duration is treated as profit appropriation. When the perpetual bonds are redeemed according to the contractual terms, the redemption price is charged to equity.

(11) Derivative financial instruments

A derivative is a financial instrument or financial contract that meets the following criteria:

– its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable;

– it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in those market factors; and

– it is settled at a future date.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Derivatives with a positive fair value are reflected in the balance sheet as derivative financial instrument assets and those with a negative fair value as derivative financial instrument liabilities. The gains or losses from the valuation of the financial instruments as a result of the fluctuation of their fair value are recorded in the statement of profit or loss.

(12) Financial assets held under resale and repurchase agreements

Financial assets purchased under resale agreements are bonds, loans and bills purchased by the Bank at certain prices from the sellers under agreements with the commitment to resell these instruments to the original sellers in the future at predetermined prices. Financial assets sold under repurchase agreements refer to bonds, loans and bills sold by the Bank at certain prices under agreements with the commitment to buy back these instruments in the future at predetermined prices.

The assets purchased under resale agreements are not recognised, and the payments (including accrued interest) are recognised as receivables on the statement of financial position and are carried at amortised cost. Financial assets sold subject to a simultaneous agreement to repurchase these assets are retained in the statements of financial position and measured in accordance with their original measurement principles. The proceeds (including accrued interest) from the sale are reported as liabilities and are carried at amortised cost.

Interest earned on reverse repurchase agreements and interest incurred on repurchase agreements are recognised respectively as interest income and interest expense over the life of each agreement using the effective interest method.

(13) Property and equipment and construction in progress

Property and equipment are assets held by the Bank for operation and administration purposes with useful lives over one year.

Property and equipment are stated in the statements of financial position at cost less accumulated depreciation and impairment loss (see Note 2(18)). Construction in progress is stated in the statements of financial position at cost less impairment loss (see Note 2(18)).

The cost of a purchased property and equipment comprises the purchase price, related taxes, and any expenditure directly attributable to bringing the asset into working condition for its intended use.

All direct and indirect costs that are related to the construction of property and equipment and incurred before the assets are ready for their intended use are capitalised as the cost of construction in progress. Construction in progress is transferred to property and equipment when the item being constructed is ready for its intended use. No depreciation is provided against construction in progress.

Where the individual component parts of an item of property and equipment have different useful lives or provide benefits to the Bank in different patterns thus necessitating use of different depreciation rates or methods, they are recognised as a separate property and equipment.

The subsequent costs including the cost of replacing part of an item of property and equipment are recognised in the carrying amount of the item if the recognition criteria are satisfied, and the carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

Gains or losses arising from the retirement or disposal of an item of property and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Property and equipment are depreciated using the straight-line method over their estimated useful lives, after taking into account their estimated residual values. The estimated useful lives, residual values and depreciation rates of each class of property and equipment are as follows:

Asset category	Estimated useful life	Estimated rate of residual value	Depreciation rate
Premises	20 years	5.00%	4.75%
Leasehold improvements	Shorter of useful life or remaining lease term	–	–
Operating equipment	5 years	–	20.00%
Vehicle	5 years	5.00%	19.00%

Useful lives, residual values and depreciation methods are reviewed at least at each year-end.

(14) Leases

The following accounting policies related to lease apply to the period before 1 January 2019

The Bank determined whether the arrangement was or contained a lease based on the assessment of whether:

– fulfillment of the arrangement was dependent on the use of a specific asset or assets;

– the arrangement had conveyed a right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met:

  – the purchaser had the ability or right to operate the asset while obtaining or controlling more than;

  – the purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or

  – facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

(a) As a lessee

The Bank classified leases that transfer substantially all of the risks and rewards of ownership as finance leases. When this was the case, the financial leasing assets were measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Minimum lease payments were the payments over the lease term that the lessee was required to make, excluding any contingent rent.

Subsequently, the assets were accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases were classified as operating leases and were not recognised in the Bank's statements of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

(b) As a lessor

When the Bank acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Bank makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Bank considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

The following accounting policies related to lease apply to the period on or after 1 January 2019

At inception of a contract, the Bank assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Bank uses the definition of a lease in IFRS 16.

IFRS 16 is applied to contracts entered into, or changed, on or after January 1, 2019.

(a) As a lessee

At commencement or on modification of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices.

The Bank recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank's incremental borrowing rate. Generally, the Bank uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

– its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable;

– variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;

– amounts expected to be payable under a residual value guarantee; and

– the exercise price under a purchase option that the Bank is reasonably certain to exercise, lease payments in an optional renewal period if the Bank is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Bank is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee, or if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Bank presents right-of-use assets that do not meet the definition of investment property in 'other assets' and lease liabilities in 'other liabilities' in the statements of financial position.

Short-term leases and leases of low-value assets

The Bank has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The Bank recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(b) As a lessor

At inception or on modification of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease component on the basis of their relative standalone prices.

When the Bank acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Bank makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Bank considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Bank is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Bank applies the exemption described above, then it classifies the sub-lease as an operating lease.

If an arrangement contains lease and non-lease components, the Bank applies IFRS 15 to allocate the consideration in the contract.

The Bank recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of 'other operating income'.

(15) Land use rights

Land use rights are initially recognized at costs and amortised using the straight-line basis over the legal term of use through profit and loss. Impaired land use rights are amortised net of accumulated impairment losses.

Impairment losses on land use rights are accounted for in accordance with the accounting policies as set out in Note 2(18).

(16) Intangible assets

The intangible assets of the Bank have finite useful lives. The intangible assets are stated at cost less accumulated amortisation and impairment loss (see Note 2(18)). The cost of intangible assets less residual value and impairment loss is amortised on the straight-line method over the estimated useful lives.

The respective amortisation periods for intangible assets are as follows:

Computer software	3-5 years

(17) Repossessed assets

Repossessed assets are physical assets or property rights obtained by the Bank from debtors, warrantors or third parties following the enforcement of its creditor's rights. The repossessed 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 repossessed assets, the assets are written down to the recoverable amount.

(18) Provision for impairment losses on non-financial assets

The carrying amounts of the following assets are reviewed at the end of each of the Relevant Periods based on the internal and external sources of information to determine whether there is any indication of impairment:

– Property and equipment

– Construction in progress

– Land use rights

– Intangible assets

– Long-term equity investments

Non-financial assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment.

If any indication exists that an asset may be impaired, the recoverable amount of the asset is estimated.

A cash-generating unit ("CGU") is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or asset groups. A CGU is composed of assets directly relating to cash-generation. Identification of a CGU is based on whether major cash inflows generated by the asset group are largely independent of the cash inflows from other assets or asset groups. In identifying an asset group, the Bank also considers how management monitors the Bank's operations and how management makes decisions about continuing or disposing of the Bank's assets.

The recoverable amount of an asset or CGU, or a group of CGUs (hereinafter called "asset") is the higher of its fair value less costs to sell and its present value of expected future cash flows. If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset; if it is not possible to estimate the recoverable amount of the individual asset, the Bank determines the recoverable amount of the asset group to which the assets belongs.

An asset's fair value less costs to sell is the amount determined by the price of a sale agreement in an arm's length transaction, less the costs that are directly attributable to the disposal of the asset. The present value of expected future cash flows of an asset is determined by discounting the future cash flows, estimated to be derived from continuing use of the asset and from its ultimate disposal, to their present value using a pre-tax discount rate that reflects expected future cash flows,the useful life and the discount rate specific to the asset.

An impairment loss is recognised in profit or loss if the carrying amount of an asset exceeds its recoverable amount. A provision for an impairment loss of the asset is recognised accordingly.

If, in a subsequent period, the amount of impairment loss of the non-financial asset decreases and the decrease can be linked objectively to an event occurring after impairment was recognised, the previously recognised impairment loss is reversed through the profit or loss. A reversal of impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior periods.

(19) Employee benefits

Employee benefits include short-term employee benefits, post-employment benefits and other long-term employee benefits provided in various forms of consideration in exchange for service rendered by employees or compensations for the termination of employment relationship.

Short-term employee benefits include employee wages or salaries, bonus, allowances and subsidies, staff welfare, premiums or contributions on medical insurance, work injury insurance and maternity insurance, housing funds, union running costs and employee education costs, short-term paid absences. Short-term employee benefits are recognised as liabilities in the accounting period in which the service is rendered by the employees based on the amounts paid or the statutory provisioning basis or ratio, with corresponding amounts charged to the profit or loss.

The Bank's post-employment benefit plans are defined contribution plans. Defined contribution plans are post-employment benefit plans under which the bank pays fixed contributions into a separate fund and will have no obligation to pay further contributions. During the reporting period, the Bank's post-employment benefits mainly include the social pension schemes, annuity plan and other social insurance, all of which are defined contribution plans. The amounts based on the above calculations are recognised as liabilities in the accounting period in which the service has been rendered by the employees, with corresponding amounts charged to the profit or loss.

(20) Income tax

Income tax for the Relevant Periods comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the Relevant Periods, using tax rates enacted or substantively enacted at the end of the Relevant Periods, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilized, are recognised.Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilized.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiary to the extent that, in the case of taxable differences, the Bank controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the Relevant Periods. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each Relevant Periods and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Bank has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Bank intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realize the current tax assets and settle the current tax liabilities on a net basis or realize and settle simultaneously.

(21) Financial guarantees, provisions and contingent liabilities

(i) Financial guarantees

Financial guarantees are contracts that require the issuer (the "guarantor") to make specified payments to reimburse the beneficiary of the guarantee ("holder") for a loss that the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. The fair value of the guarantee (being the guarantee fees received) is initially recognised as deferred income in other liabilities. The deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued.

The following accounting policies apply to the period before 1 January 2018

Provisions are recognised in the statements of financial position as stated in Note 2(21)(ii) if and when it becomes probable that the holder of the guarantee will call upon the Bank under the guarantee, and the amount of that claim on the Bank is expected to exceed the carrying amount of the deferred income.

The following accounting policies apply to the period on or after 1 January 2018

In terms of off-balance sheet credit commitment, the Bank applies expected credit loss model to measure the loss caused by particular debtors incapable of paying due debts, which is present in provisions. See Note 2(9)(b)(v) for the description of expected credit loss model.

(ii) Other provisions and contingent liabilities

A provision is recognised for an obligation related to a contingency if the Bank has a present obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. A provision is initially measured at the best estimate of the expenditure required to settle the related present obligation. Factors pertaining to a contingency such as the risks, uncertainties and time value of money are taken into account as a whole in reaching the best estimate. Where the effect of time value of money is material, provisions are determined by discounting the expected future cash flows.

For a possible obligation resulting from a past transaction or event whose existence will only be confirmed by the occurrence or non-occurrence of uncertain future events or a present obligation resulting from a past transaction or event, where it is not probable that the settlement of the above obligation will cause an outflow of economic benefits, or the amount of the outflow cannot be estimated reliably, the possible or present obligation is disclosed as a contingent liability.

(22) Fiduciary activities

The Bank acts in a fiduciary activity as a manager, a custodian, or an agent for customers. Assets held by the Bank and the related undertakings to return such assets to customers are recorded as off-balance sheet items as the risks and rewards of the assets reside with customers.

The Bank enters into entrusted loan agreements with customers, whereby the customers provide funding ("entrusted funds") to the Bank, and the Bank grants loans to third parties ("entrusted loans") under instructions of the customers. As the Bank does not assume the risks and rewards of the entrusted loans and the corresponding entrusted funds, the entrusted loans and funds are recorded as off-balance sheet items at their principal amount. No provision for impairment loss is made for entrusted loans.

(23) Income recognition

Income is the gross inflow of economic benefit in the periods arising in the course of the Bank's ordinary activities when the inflows result in an increase in shareholder's equity, other than an increase relating to contributions from shareholders.

(a) The following accounting policies apply to the period before 1 January 2018

Income is recognised when it is probable that the economic benefits will flow to the Bank, the income and costs can be measured reliably.

(i) Interest income

Interest income for financial assets is recognised in profit or loss as it is incurred, based on the time for alienation of right to use capital and effective interest rates. Interest income includes the amortization of any discount or premium or differences between the initial carrying amount of an interest-bearing asset and its amount at maturity calculated using the effective interest rate.

(ii) Fee and commission income

Fee and commission income is recognised in profit or loss when the corresponding service is provided.

(iii) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Bank will comply with the conditions attaching to them. Grants that compensate the Bank for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Bank for the cost of an asset are initially recognised as deferred income and subsequently are recognised in profit or loss over the useful life of the asset.

(iv) Other income

Other income is recognised on an accrual basis.

(b) The following accounting policies apply to the period on or after 1 January 2018

Income is recognised when the Bank satisfies the performance obligation in the contract which by transferring the control over relevant goods or services to the customers.

The following is the description of accounting policies regarding income from the Bank's principal activities.

(i) Interest income

Interest income for financial assets is recognised in profit or loss as it is incurred, based on the time for alienation of right to use capital and effective interest rates. Interest income includes the amortisation of any discount or premium or differences between the initial carrying amount of an interest-bearing asset and its amount at maturity calculated using the effective interest rate.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating the interest income over the period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract, transaction costs and all other premiums or discounts that are an integral part of the effective interest rate.

Interest on the impaired assets is recognised using the rate of interest used to discount future cash flows for the purpose of measuring the related impairment loss.

(ii) Fee and commission income

The Bank earns fee and commission income from a diverse range of services it provides to its customers. The fee and commission income recognised by the Bank reflects the amount of consideration to which the Bank expects to be entitled in exchange for transferring promised services to customers, and income is recognised when its performance obligation in contracts is satisfied.

The Bank recognises income over time by measuring the progress towards the complete satisfaction of a performance obligation, if one of the following criteria is met:

– The customer simultaneously receives and consumes the benefits provided by the Bank's performance as the Bank performs;

– The customer controls the service provided by the Bank in the course of performance or;

– The Bank does not provide service with an alternative use to the Bank, and the Bank has an enforceable right to payment for performance completed to date.

In other cases, the Bank recognises revenue at a point in time at which a customer obtains control of the promised services.

(iii) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Bank will comply with the conditions attaching to them. Grants that compensate the Bank for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Bank for the cost of an asset are initially recognised as deferred income and subsequently are recognised in profit or loss over the useful life of the asset.

(iv) Other income

Other income is recognised on an accrual basis.

(24) Expenses recognition

(i) Interest expense

Interest expense from financial liabilities are accrued on a time proportion basis with reference to the amortised cost and the applicable effective interest rate.

(ii) Other expenses

Other expenses are recognised on an accrual basis.

(25) Dividends

Dividends or distributions of profits proposed in the profit appropriation plan which will be authorized and declared after the end of each of the reporting periods are not recognised as a liability at the end of the reporting periods but disclosed separately in the notes to the Financial Information.

(26) Related parties

(a) A person, or a close member of that person's family, is related to the Bank if that person:

(i) has control or joint control over the Bank;

(ii) has significant influence over the Bank; or

(iii) is a member of the key management personnel of the Bank or the Bank's parent.

(b) An entity is related to the Bank if any of the following conditions applies:

(i) The entity and the Bank are members of the same Bank (which means that each parent, subsidiary and fellow subsidiary is related to the others);

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a Bank of which the other entity is a member);

(iii) Both entities 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 Bank or an entity related to the Bank;

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(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);

(viii) The entity, or any member of a Bank of which it is a part, provides key management personnel services to the Bank or to the Bank's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(27) Segment reporting

Operating segments, and the amounts of each segment item reported in the Historical Financial Information, are identified from the financial information provided regularly to the Bank's most senior executive management for the purposes of allocating resources to, and assessing the performance of the Bank's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

(28) Significant accounting estimates and judgements

The preparation of Historical Financial Information requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

(a) Provision for impairment losses on loans and advances to customers, available-for-sale financial assets, held-to-maturity investments and investments classified as receivables (applicable for the period before 1 January 2018)

The Bank reviews portfolios of loans and advances to customers and investments periodically to assess whether any impairment losses exist and the amount of impairment losses if there is any indication of impairment. Objective evidence for impairment includes observable data indicating that there is a measurable decrease in the estimated future cash flows for loans and advances to customers and investments. It also includes observable data indicating adverse changes in the repayment status of the debtors, or change in national or local economic conditions that causes the default in payment.

The impairment loss for loans and advances to customers, held-to maturity investments and investments classified as receivables that is individually assessed for impairment is the net decrease in the estimated discounted future cash flow of the assets. When the financial assets are collectively assessed for impairment, the estimate is based on historical loss experience for assets with credit risk characteristics similar to the financial assets. Historical loss experience is adjusted on the basis of the relevant observable data that reflect current economic conditions and the judgement based on management's historical experience. Management reviews the methodology and assumptions used in estimating future cash flows regularly to reduce any difference between loss estimates and actual loss.

The objective evidence of impairment for an available-for-sale equity investment includes significant or prolonged decline in its fair value. When deciding whether there is significant or prolonged decline in fair value, the Bank will consider the historical fluctuation records of market and debtors' credit condition, financial position and performance of related industry.

(b) Measurement of expected credit loss (applicable for the period on or after 1 January 2018)

The measurement of the expected credit loss allowance for the investment in financial assets and debt instruments measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring expected credit losses is further detailed in Note 42 (a).

A number of significant judgements are required in applying the accounting requirements for measuring expected credit losses, such as:

– Determining criteria for significant increase in credit risk;

– Choosing appropriate models and assumptions for the measurement of expected credit losses;

– Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated expected credit losses.

Detailed information about the judgements and estimates made by the Bank in the above areas is set out in Note 42 (a) credit risk.

(c) Fair value of financial instruments

There are no quoted prices from an active market for a number of financial instruments. The fair values for these financial instruments are established by using valuation techniques. These techniques include using recent arm's length market transactions by referring to the current fair value of similar instruments, discounted cash flow analysis, and option pricing models. Valuation models established by the Bank make maximum use of market input and rely as little as possible on the Bank's specific data. However, it should be noted that some input, such as credit and counterparty risk, and risk correlations require management's estimates. The Bank reviews the above estimations and assumptions periodically and makes adjustment if necessary.

(d) The classification of the held-to-maturity investments (applicable for the period before 1 January 2018)

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity investments, if the Bank has the intention and ability to hold them until maturity. In evaluating whether requirements to classify a financial asset as held-to-maturity are met, management makes significant judgements. Failure in correctly assessing the Bank's intention and ability to hold specific investments until maturity may result in reclassification of the whole portfolio as available-for-sale.

(e) Income taxes

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Bank carefully evaluates the tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation. Deferred tax assets are recognised for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profits will be available against which the unused tax credits can be utilized, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered.

(f) Impairment of non-financial assets

Non-financial assets are reviewed regularly to determine whether the carrying amount exceeds the recoverable amount of the assets. If any such indication exists, an impairment loss is provided.

Since the market price of an asset (the asset group) may not be obtained reliably, the fair value of the asset may not be estimated reliably. In assessing the present value of future cash flows, significant judgments are exercised over the asset's selling price, related operating expenses and discounting rate to calculate the present value. All relevant materials which can be obtained are used for estimation of the recoverable amount, including the estimation of the selling price and related operating expenses based on reasonable and supportable assumption.

(g) Depreciation and amortisation

Investment properties, property and equipment and intangible assets are depreciated and amortised using the straight-line method over their estimated useful lives after taking into account residual values. The estimated useful lives are regularly reviewed to determine the depreciation and amortisation costs charged in each of the years ended 31 December 2017, 2018 and 2019. The estimated useful lives are determined based on historical experiences of similar assets and the estimated technical changes. If there is an indication that there has been a change in the factors used to determine the depreciation or amortisation, the amount of depreciation or amortisation will be revised.

(h) Determination of control over investees

Management applies its judgement to determine whether the control indicators set out Note 2(5) indicate that the Bank controls a non-principal guaranteed wealth management product and an asset management plan.

The Bank acts as manager to a number of non-principal guaranteed wealth management products and asset management plans. Determining whether the Bank controls such a structured entity usually focuses on the assessment of the aggregate economic interests of the Bank in the entity (comprising any carried interests and expected management fees) and the decision-making authority of the entity. For all these structured entities managed by the Bank, the Bank's aggregate economic interest is in each case not significant and the decision makers establish, market and manage them according to restricted parameters as set out in the investment agreements as required by laws and regulations. As a result, the Bank has concluded that it acts as agent as opposed to principal for the investors in all cases, and therefore has not consolidated these structured entities.

3 NET INTEREST INCOME

	Years ended 31 December		
	2017	2018	2019
Interest income arising from			
Deposits with the central bank	1,313,209	1,264,608	1,152,852
Deposits with banks and other financial institutions	125,669	311,875	822,305
Placements with banks and other financial institutions	121,907	262,780	331,144
Loans and advances to customers			
– Corporate loans and advances	14,459,099	18,946,404	23,679,813
– Personal loans	4,368,683	8,402,102	12,529,040
– Discounted bills	76,987	131,030	449,895
Financial assets held under resale agreements	514,568	357,047	235,512
Financial investments	19,885,043	15,045,678	12,286,730
Sub-total	40,865,165	44,721,524	51,487,291
Interest expense arising from			
Borrowing from the central bank	(622,154)	(879,054)	(941,840)
Deposits from banks and other financial institutions	(6,179,262)	(5,045,367)	(2,302,108)
Placements from banks and other financial institutions	(828,542)	(779,845)	(652,526)
Deposits from customers	(10,797,340)	(13,760,551)	(16,789,672)
Financial assets sold under repurchase agreements	(609,041)	(588,706)	(682,957)
Debt securities issued	(4,808,429)	(8,440,069)	(7,207,783)
Sub-total	(23,844,768)	(29,493,592)	(28,576,886)
Net interest income	17,020,397	15,227,932	22,910,405

Total interest income arising from financial assets that are not at fair value through profit or loss for the years ended 31 December 2017, 2018 and 2019 amounted to RMB40,843 million, RMB44,722 million and RMB51,487 million, respectively.

Total interest expense arising from financial liabilities that are not at fair value through profit or loss for the years ended 31 December 2017, 2018 and 2019 amounted to RMB23,845 million, RMB29,494 million and RMB28,577 million, respectively.

Interest income arising from impaired loan for the years ended 31 December 2017, 2018 and 2019 amounted to RMB116 million, RMB174 million and RMB166 million, respectively.

4 NET FEE AND COMMISSION INCOME

(a) Income and expense streams:

	Years ended 31 December		
	2017	**2018**	**2019**
Fee and commission income			
Agency service fees	4,254,943	2,933,795	2,455,269
Consulting service fees	2,574,944	1,673,350	678,372
Custodian service fees	1,284,163	1,331,503	1,090,351
Credit commitments and asset management fees	335,577	330,098	279,897
Settlement and clearing fees	284,338	381,248	486,237
Bank card fees	50,500	86,475	153,875
Others	116,478	392,230	290,274
Sub-total	8,900,943	7,128,699	5,434,275
Fee and commission expense			
Agency service fees	(86,741)	(124,061)	(72,591)
Bank card fees	(54,019)	(143,954)	(115,467)
Settlement and clearing fees	(26,018)	(52,904)	(37,272)
Information service fees	(19,385)	(420,886)	(936,113)
Consulting service fees	(15,249)	(19,306)	(32,916)
Others	(13,500)	(10,252)	(14,167)
Sub-total	(214,912)	(771,363)	(1,208,526)
Net fee and commission income	8,686,031	6,357,336	4,225,749

(b) Disaggregation of income:

	Years ended 31 December					
	2017		**2018**		**2019**	
	At a point in time	Over time	At a point in time	Over time	At a point in time	Over time
Agency service fees	841	4,254,102	12,615	2,921,180	16,369	2,438,900
Consulting service fees	–	2,574,944	–	1,673,350	–	678,372
Custodian service fees	–	1,284,163	–	1,331,503	–	1,090,351
Credit commitments and asset management fees	66,292	269,285	47,487	282,611	63,744	216,153
Settlement and clearing fees	1,292	283,046	1,469	379,779	1,630	484,607
Bank card fees	25,143	25,357	29,997	56,478	42,997	110,878
Others	61,563	54,915	292,304	99,926	219,213	71,061
Total	155,131	8,745,812	383,872	6,744,827	343,953	5,090,322

5 NET TRADING (LOSSES)/GAINS

	Years ended 31 December		
	2017	2018	2019
Net (losses)/gains from derivative instruments	(2,108,235)	2,130,375	(264,087)
Exchange gains/(losses)	1,322,218	(2,071,019)	391,877
Net gains/(losses) from trading of precious metals	161,576	(635,093)	11
Net gains from funds	74,875	–	–
Net (losses)/gains from debt securities	(3,419)	37,053	26,872
Net gains from loans and advances at fair value through profit or loss	–	46,091	41,719
Total	(552,985)	(492,593)	196,392

6 NET (LOSSES)/GAINS ARISING FROM INVESTMENT SECURITIES

	Years ended 31 December		
	2017	2018	2019
Net gains of financial investments at fair value through profit or loss	–	1,918,445	840,534
Net gains of financial investments at fair value through other comprehensive income	–	51,173	39,139
Net losses on disposal of available-for-sale financial assets	(23,493)	–	–
Dividend income	9,800	6,600	9,000
Net gains on disposal of financial investments at amortised cost	–	8,896	73,184
Total	(13,693)	1,985,114	961,857

7 OTHER OPERATING INCOME

	Years ended 31 December		
	2017	2018	2019
Government grants	89,208	107,573	55,698
Rental income	9,845	11,784	14,109
Distributorship income	8,240	8,214	8,924
Long-term unwithdrawn items income	525	461	2,293
Net gains on disposal of property and equipment	501	376	194
Penalty income	265	746	–
Others	1,813	3,121	2,773
Total	110,397	132,275	83,991

8 OPERATING EXPENSES

	Years ended 31 December		
	2017	2018	2019
Staff costs			
– Salaries, bonuses and allowances	3,741,741	3,707,849	3,783,027
– Social insurance and annuity	513,345	565,919	605,324
– Housing allowances	298,248	315,875	367,633
– Staff welfares	159,409	176,519	171,031
– Employee education expenses and labour union expenses	141,407	155,694	122,602
– Others	278,445	321,403	301,246
Sub-total	5,132,595	5,243,259	5,350,863
Rental and property management expenses	899,143	988,891	172,954
Depreciation and amortisation	550,482	547,180	1,398,794
Taxes and surcharges	263,044	293,235	354,167
Auditors' remuneration	2,270	2,450	2,600
Interest expense on lease liabilities	–	–	174,000
Listing expenses	–	–	7,924
Other general and administrative expenses	2,223,864	1,600,747	1,395,558
Total	9,071,398	8,675,762	8,856,860

Expenses relating to short-term leases and leases of low-value assets are RMB12 million for the year ended 31 December 2019.

9 DIRECTORS' AND SUPERVISORS' EMOLUMENTS

The emoluments before individual income tax in respect of the directors and supervisors who held office during the years ended 31 December 2017, 2018 and 2019 are as follows:

		Year ended 31 December 2017						
	Notes	Fees	Salaries	Discretionary bonus	Housing funds And social insurances	Annuities	Others	Total
Executive directors								
Li Fu'an		–	185	546	145	41	13	930
Fu Gang		–	185	546	168	52	13	964
Li Yi		–	166	669	203	78	13	1,129
Wang Jinhong		–	166	937	168	91	13	1,375
Non-executive directors								
Fung Joi Lun Alan		–	–	–	–	–	–	–
Zhang Bingjun		–	–	–	–	–	–	–
Shen Xiaolin		–	–	–	–	–	–	–
Wan Min		–	–	–	–	–	–	–
Ye Baishou		–	–	–	–	–	–	–
Zhang Yunji		–	–	–	–	–	–	–
Wang Chengran		–	–	–	–	–	–	–
Independent non-executive directors								
Zhang Junxi		–	–	–	–	–	–	–
Li Xiwen		–	–	–	–	–	–	–
Mao Zhenhua		–	–	–	–	–	–	–
Chi Guotai		–	–	–	–	–	–	–
Supervisors								
Yuan Fuhua		–	185	804	189	91	11	1,280
Wang Wei		–	1,217	2,119	168	91	15	3,610
Qi Ershi		–	–	–	–	–	–	–
Diao Qinyi		–	–	–	–	–	–	–
Bai Jie		–	–	–	–	–	–	–
Total		–	2,104	5,621	1,041	444	78	9,288

	Notes	Year ended 31 December 2018						
		Fees	Salaries	Discretionary bonus	Housing funds And social insurances	Annuities	Others	Total
Executive directors								
Li Fu'an		–	204	90	139	58	12	503
Fu Gang		–	204	90	178	58	13	543
Li Yi		–	184	81	166	67	12	510
Wang Jinhong		–	184	81	163	78	2	508
Non-executive directors								
Fung Joi Lun Alan . .		710	–	–	–	–	–	710
Zhang Bingjun.		710	–	–	–	–	–	710
Shen Xiaolin.		710	–	–	–	–	–	710
Wan Min		552	–	–	–	–	–	552
Ye Baishou.		710	–	–	–	–	–	710
Hu Aimin	*(a)*	18	–	–	–	–	–	18
Zhang Yunji		710	–	–	–	–	–	710
Wang Chengran	*(j)*	548	–	–	–	–	–	548
Independent non-executive directors								
Zhang Junxi		758	–	–	–	–	–	758
Li Xiwen.	*(k)*	460	–	–	–	–	–	460
Mao Zhenhua		596	–	–	–	–	–	596
Chi Guotai		558	–	–	–	–	–	558
Mou Binrui	*(b)*	19	–	–	–	–	–	19
Supervisors								
Yuan Fuhua	*(l)*	–	147	–	161	72	12	392
Wang Wei		–	1,215	2,799	178	86	17	4,295
Qi Ershi		596	–	–	–	–	–	596
Diao Qinyi		596	–	–	–	–	–	596
Bai Jie		710	–	–	–	–	–	710
Total		8,961	2,138	3,141	985	419	68	15,712

		Year ended 31 December 2019						
	Notes	**Fees**	**Salaries**	**Discretionary bonus**	**Housing funds And social insurances**	**Annuities**	**Others**	**Total**
Executive directors								
Li Fu'an		–	212	1,445	123	24	–	1,804
Fu Gang	*(n)*	–	68	718	61	8	–	855
Li Yi		–	191	1,367	119	21	–	1,698
Wang Jinhong	*(p)*	–	–	–	–	–	–	–
Qu Hongzhi	*(g)*	–	–	–	–	–	–	–
Du Gang	*(g)*	–	127	23	82	27	–	259
Non-executive directors								
Fung Joi Lun Alan		–	–	–	–	–	–	–
Zhang Bingjun		–	–	–	–	–	–	–
Shen Xiaolin	*(p)*	–	–	–	–	–	–	–
Wan Min	*(m)*	–	–	–	–	–	–	–
Ye Baishou		–	–	–	–	–	–	–
Hu Aimin		–	–	–	–	–	–	–
Zhang Yunji		–	–	–	–	–	–	–
Cui Xuesong	*(g)*	–	–	–	–	–	–	–
Yuan Wei	*(c)*	–	–	–	–	–	–	–
Zhang Xifang	*(e)*	–	–	–	–	–	–	–
Independent non-executive directors								
Zhang Junxi	*(p)*	–	–	–	–	–	–	–
Mao Zhenhua		–	–	–	–	–	–	–
Chi Guotai		–	–	–	–	–	–	–
Mou Binrui		–	–	–	–	–	–	–
Tse Yat Hong	*(g)*	–	–	–	–	–	–	–
Wang Ren	*(g)*	–	–	–	–	–	–	–
Zhu Ning	*(g)*	–	–	–	–	–	–	–
Supervisors								
Wang Chunfeng	*(d)*	–	110	25	94	43	–	272
Wang Wei	*(o)*	–	732	3,364	139	78	–	4,313
Feng Jiankuan	*(f)*	–	191	1,380	177	22	–	1,770
Fan Zhigui	*(h)*	–	34	–	45	7	–	86
Qi Ershi		–	–	–	–	–	–	–
Diao Qinyi		–	–	–	–	–	–	–
Hui Yung Chris	*(i)*	–	–	–	–	–	–	–
Bai Jie	*(q)*	–	–	–	–	–	–	–
Total		–	1,665	8,322	840	230	–	11,057

There was no amount paid during the years ended 31 December 2017, 2018 and 2019 to the directors in connection with their retirement from employment or compensation for loss of office with the Bank, or inducement to join the Bank. There was no arrangement under which a director or supervisor waived or agreed to waive any remuneration during the years ended 31 December 2017, 2018 and 2019.

Notes:

(a) In the Annual General Meeting held on 9 February 2018, Hu Aimin was elected as non-executive director of the Bank.

(b) In the Annual General Meeting held on 28 May 2018, Mou Binrui was elected as independent non-executive director of the Bank.

(c) In the Annual General Meeting held on 6 March 2019, Yuan Wei was elected as non-executive director of the Bank.

(d) On 26 July 2019, Wang Chunfeng was elected as employee representative supervisor of the Bank.

(e) In the Annual General Meeting held on 14 November 2019, Zhang Xifang was elected as non-executive director of the Bank, the resolution took into effect on 9 December 2019.

(f) On 19 November 2019, Feng Jiankuan was elected as employee representative supervisors of the Bank.

(g) In the Annual General Meeting held on 16 December 2019, Qu Hongzhi, Du Gang were elected as executive directors of the Bank, Cui Xuesong was elected as non-executive director of the Bank, Tse Yat Hong, Wang Ren, Zhu Ning were elected as independent non-executive directors of the Bank.

(h) On 16 December 2019, Fan Zhigui was elected as employee representative supervisors of the Bank.

(i) On 16 December 2019, Hui Yung Chris was elected as external supervisor of the Bank.

(j) On 9 February 2018, Wang Chengran resigned as non-executive director of the Bank.

(k) On 5 April 2018, the independent non-executive director of the bank, Li Xiwen, died of illness.

(l) On 19 October 2018, Yuan Fuhua was removed from employee representative supervisor of the Bank.

(m) On 6 March 2019, Wan Min resigned as non-executive director of the Bank.

(n) On 24 April 2019, Fu Gang resigned as executive director of the Bank.

(o) On 19 November 2019, Wang Wei resigned as employee representative supervisor of the Bank.

(p) On 16 December 2019, Wang Jinhong resigned as executive director of the Bank, Shen Xiaolin resigned as non-executive director of the Bank, Zhang Junxi resigned as independent non-executive director of the Bank.

(q) On 16 December 2019, Bai Jie resigned as shareholders' representative Supervisor of the Bank.

10 INDIVIDUALS WITH HIGHEST EMOLUMENTS

For the years ended 31 December 2017, 2018 and 2019, the five individuals with highest emoluments did not include any directors and supervisors of the Bank.

The emoluments for the five highest paid individuals for the years ended 31 December 2017, 2018 and 2019 are as follows:

	Years ended 31 December		
	2017	**2018**	**2019**
Salaries and other emoluments	10,313	10,432	6,914
Discretionary bonuses	21,800	19,731	22,044
Housing funds and social insurances	642	880	494
Annuities	365	344	261
Others	64	75	29
Total	33,184	31,462	29,742

The number of these individuals whose emoluments are within the following bands is set out below:

	Years ended 31 December		
	2017	2018	2019
HKD5,500,001-6,000,000	–	–	2
HKD6,000,001-6,500,000	–	1	–
HKD6,500,001-7,000,000	–	2	1
HKD7,000,001-7,500,000	2	1	1
HKD7,500,001-8,000,000	2	–	1
HKD8,500,001-9,000,000	–	1	–
HKD10,000,001-10,500,000	1	–	–

None of these individuals received any inducement to join or upon joining the Bank or compensation for loss of office, or waived any emoluments during the years ended 31 December 2017, 2018 and 2019.

11 IMPAIRMENT LOSSES ON ASSETS

	Years ended 31 December		
	2017	2018	2019
Deposits with banks and other financial institutions	–	36,681	139,697
Placements with banks and other financial institutions	–	(5,104)	4,658
Financial assets held under resale agreements	–	2,282	(1,876)
Loans and advances to customers	5,756,434	7,245,779	8,789,229
Financial investments	1,998,578	(902,846)	807,096
Credit commitments	–	131,093	(171,891)
Total	7,755,012	6,507,885	9,566,913

12 INCOME TAX EXPENSE

(a) Income tax:

		Years ended 31 December		
	Note	2017	2018	2019
Current tax		3,352,282	1,678,921	3,236,957
Deferred tax	*23(b)*	(1,680,674)	(731,614)	(1,527,863)
Total		1,671,608	947,307	1,709,094

(b) Reconciliations between income tax and accounting profit are as follows:

		Years ended 31 December		
	Note	2017	2018	2019
Profit before tax		8,425,428	8,027,462	9,901,850
Statutory tax rate		25%	25%	25%
Income tax calculated at statutory tax rate		2,106,357	2,006,866	2,475,463
Non-deductible expenses		151,546	70,959	94,409
Non-taxable income	*(i)*	(592,112)	(760,350)	(868,858)
Others		5,817	(370,168)	8,080
Income tax		1,671,608	947,307	1,709,094

(i) The non-taxable income mainly represents the interest income arising from the PRC government bonds, municipal debts, and dividend income of funds.

13 BASIC AND DILUTED EARNINGS PER SHARE

	Note	Years ended 31 December		
		2017	2018	2019
Net profit attributable to ordinary equity holders of the Bank		6,753,820	7,080,155	8,192,756
Weighted average number of ordinary shares (in thousands)	*(a)*	13,916,945	14,450,000	14,450,000
Basic and diluted earnings per share attributable to ordinary equity holders of the Bank (in RMB)		0.49	0.49	0.57

There is no difference between basic and diluted earnings per share as there were no potentially dilutive shares outstanding during the years ended 31 December 2017, 2018 and 2019.

(a) Weighted average number of ordinary shares (in thousands)

	Years ended 31 December		
	2017	2018	2019
Number of ordinary shares at the beginning of the year	13,855,000	14,450,000	14,450,000
Weighted average number of ordinary shares issued during the year	61,945	–	–
Weighted average number of ordinary shares	13,916,945	14,450,000	14,450,000

14 CASH AND DEPOSITS WITH THE CENTRAL BANK

	Note	At 31 December		
		2017	2018	2019
Cash on hand		672,344	533,475	429,952
Deposits with the central bank				
– Statutory deposit reserves	*(a)*	77,375,139	71,910,735	64,105,857
– Surplus deposit reserves	*(b)*	26,849,706	50,341,663	28,043,847
– Fiscal deposits		103,069	424,691	400,882
Sub-total		104,327,914	122,677,089	92,550,586
Interests accrued		–	39,478	33,161
Total		105,000,258	123,250,042	93,013,699

(a) The Bank places statutory deposit reserves with the PBoC in accordance with relevant regulations. As at 31 December 2017, 2018 and 2019, the statutory deposit reserve ratios applicable to the Bank were as follows:

	At 31 December		
	2017	2018	2019
Reserve ratio for RMB deposits	14.5%	12.0%	10.5%
Reserve ratio for foreign currency deposits	5.0%	5.0%	5.0%

The statutory deposit reserves are not available for the Bank's daily business.

(b) The surplus deposit reserves are maintained with the PBoC for the purpose of clearing.

15 DEPOSITS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

Analysed by type and location of counterparty

	At 31 December		
	2017	2018	2019
Deposits in mainland China			
– Banks	3,351,432	22,593,697	10,931,354
Sub-total	3,351,432	22,593,697	10,931,354
Deposits outside mainland China			
– Banks	5,371,357	3,263,301	3,257,458
Sub-total	5,371,357	3,263,301	3,257,458
Interests accrued	–	107,055	43,440
Less: Provision for impairment losses	–	(40,911)	(180,625)
Total	8,722,789	25,923,142	14,051,627

16 PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

Analysed by type and location of counterparty

	At 31 December		
	2017	2018	2019
Placements in mainland China			
– Banks	8,841,880	1,994,102	4,400,725
– Other financial institutions	1,000,647	–	–
Sub-total	9,842,527	1,994,102	4,400,725
Placements outside mainland China			
– Banks	325,450	–	–
Sub-total	325,450	–	–
Interests accrued	–	69,241	18,952
Less: Provision for impairment losses	–	(4,208)	(8,868)
Total	10,167,977	2,059,135	4,410,809

17 DERIVATIVE FINANCIAL INSTRUMENTS

A derivative is a financial instrument, the value of which changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other similar variables. The Bank uses derivative financial instruments mainly including forwards, swaps and option contracts.

The notional amount of a derivative represents the amount of an underlying asset upon which the value of the derivative is based. It indicates the volume of business transacted by the Bank but does not reflect the risk.

The notional amount and fair value of unexpired derivative financial instruments held by the Bank are set out in the following tables:

	31 December 2017		
		Fair value	
	Notional amount	Assets	Liabilities
Interest rate swaps	41,756,987	20,723	(35,139)
Exchange rate swaps	35,988,707	28,941	(1,503,832)
Precious metal derivatives	19,099,811	138,242	(562,996)
Exchange rate forwards	1,198,055	10,194	(7,798)
Total	98,043,560	198,100	(2,109,765)

	31 December 2018		
		Fair value	
	Notional amount	Assets	Liabilities
Interest rate swaps	131,872,911	63,173	(71,359)
Exchange rate swaps	7,042,660	261,465	(5,987)
Exchange rate forwards	3,356,855	68,767	(63,255)
Total	142,272,426	393,405	(140,601)

	31 December 2019		
		Fair value	
	Notional amount	Assets	Liabilities
Interest rate swaps	149,834,098	79,267	(68,938)
Exchange rate swaps	15,694,803	47,843	(75,839)
Option contracts	1,837,080	20,637	(18,047)
Exchange rate forwards	660,085	10,962	(8,934)
Total	168,026,066	158,709	(171,758)

18 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

(a) Analysed by type and location of counterparty

	At 31 December		
	2017	2018	2019
In mainland China			
– Banks	–	2,797,570	1,850,000
– Other financial institutions	–	7,767,542	–
Sub-total	–	10,565,112	1,850,000
Interests accrued	–	8,186	664
Less: Provision for impairment losses	–	(2,282)	(406)
Total	–	10,571,016	1,850,258

(b) Analysed by type of collateral held

	At 31 December		
	2017	2018	2019
Debt securities			
– Government	–	737,400	–
– Commercial Banks and other financial institutions	–	9,827,712	1,850,000
Sub-total	–	10,565,112	1,850,000
Interests accrued	–	8,186	664
Less: Provision for impairment losses	–	(2,282)	(406)
Total	–	10,571,016	1,850,258

19 LOANS AND ADVANCES TO CUSTOMERS

(a) Analysed by nature

	At 31 December 2017
Corporate loans and advances	343,350,958
Personal loans	
– Residential and commercial housing loans	105,846,239
– Personal consumption loans	8,754,487
– Personal business loans	3,096,970
– Credit cards	1,103,643
Sub-total	118,801,339
Discounted bills	2,737,536
Gross loans and advances to customers	464,889,833
Less: Provision for impairment losses	
– Individually assessed	(3,869,256)
– Collectively assessed	(11,206,869)
Total provision for impairment losses	(15,076,125)
Net loans and advances to customers	449,813,708

	At 31 December 2018	At 31 December 2019
Loans and advances to customers measured at amortised cost:		
Corporate loans and advances	383,418,255	464,465,437
Personal loans		
– Residential and commercial housing loans	113,806,988	127,816,279
– Personal consumption loans	48,496,454	95,605,758
– Personal business loans	3,751,685	6,711,807
– Credit cards	1,784,594	3,286,066
Sub-total	167,839,721	233,419,910
Interests accrued	2,018,557	2,822,439
Less: Provision for loans and advances to customers measured at amortised cost	(19,449,834)	(23,600,871)
Sub-total	533,826,699	677,106,915
Loans and advances to customers measured at fair value through other comprehensive income:		
Discounted bills	13,211,434	9,413,518
Loans and advances to customers measured at fair value through profit or loss:		
Corporate loans and advances	984,299	758,665
Net loans and advances to customers	548,022,432	687,279,098

(b) Loans and advances to customers (excluded interests accrued) analysed by industry sector

	At 31 December 2017		
	Amount	Percentage	Loans and advances secured by collaterals
Lease and business services	92,565,603	19.91%	15,654,244
Real estate	77,793,206	16.73%	42,741,999
Manufacturing	47,019,470	10.11%	7,873,044
Water conservancy, environment and public facilities management	42,210,465	9.08%	5,348,101
Wholesale and retail	27,404,641	5.89%	13,677,734
Construction	18,335,151	3.94%	6,621,785
Transportations and communications, storage and post	7,975,859	1.72%	2,629,880
Mining	7,797,647	1.68%	100,019
Finance	6,000,826	1.29%	714,738
Production and supply of electricity, heat, gas and water	5,120,778	1.10%	452,272
Public utilities, social security and social organizations	2,740,500	0.59%	–
Education	2,657,030	0.57%	72,030
Information transfer, software and IT services	1,742,914	0.37%	96,085
Others	3,986,868	0.88%	1,528,807
Sub-total of corporate loans and advances	343,350,958	73.86%	97,510,738
Personal loans	118,801,339	25.55%	111,999,979
Discounted bills	2,737,536	0.59%	2,737,536
Gross loans and advances to customers	464,889,833	100.00%	212,248,253

	At 31 December 2018		
	Amount	Percentage	Loans and advances secured by collaterals
Lease and business services	114,971,882	20.33%	20,621,521
Real estate	90,288,704	15.97%	55,290,911
Manufacturing	48,896,489	8.65%	15,412,412
Water conservancy, environment and public facilities management	48,193,295	8.52%	5,276,655
Wholesale and retail	24,627,350	4.36%	10,279,706
Construction	16,760,049	2.96%	6,513,280
Transportations and communications, storage and post	10,885,750	1.93%	4,772,584
Production and supply of electricity, heat, gas and water	6,349,278	1.12%	478,705
Public utilities, social security and social organizations	5,848,000	1.03%	710,000
Mining	4,444,473	0.79%	38,753
Finance	3,472,900	0.61%	102,900
Education	2,636,450	0.47%	450,950
Information transfer, software and IT services	1,015,865	0.18%	263,189
Others	6,012,069	1.06%	2,075,227
Sub-total of corporate loans and advances	384,402,554	67.98%	122,286,793
Personal loans	167,839,721	29.68%	119,842,237
Discounted bills	13,211,434	2.34%	13,211,434
Gross loans and advances to customers	565,453,709	100.00%	255,340,464

	At 31 December 2019		
	Amount	Percentage	Loans and advances secured by collaterals
Lease and business services	137,274,963	19.39%	22,875,794
Real estate	109,253,881	15.43%	75,891,752
Manufacturing	60,302,305	8.52%	26,801,152
Water conservancy, environment and public facilities management	50,870,045	7.18%	6,972,536
Wholesale and retail	37,309,397	5.27%	19,409,665
Construction	19,738,814	2.79%	10,661,925
Transportations and communications, storage and post	14,567,757	2.06%	5,942,711
Mining	7,737,664	1.09%	38,744
Production and supply of electricity, heat, gas and water	6,880,007	0.97%	378,207
Finance	5,628,543	0.79%	637,750
Public utilities, social security and social organizations	5,287,000	0.75%	690,000
Education	2,246,370	0.32%	439,302
Information transfer, software and IT services	1,235,844	0.17%	128,808
Others	6,891,512	0.97%	2,062,474
Sub-total of corporate loans and advances	465,224,102	65.70%	172,930,820
Personal loans	233,419,910	32.97%	134,785,925
Discounted bills	9,413,518	1.33%	9,413,518
Gross loans and advances to customers	708,057,530	100.00%	317,130,263

As at 31 December 2017, 2018 and 2019 and during the respective periods, detailed information of the impaired/credit-impaired loans and advances to customers (exclusive interests accrued) as well as the corresponding provision for impairment losses in respect of each industry sector which constitutes 10% or more of gross loans and advances to customers are as follows:

	At 31 December 2017				
	Impaired loans and advances	Individually assessed provision for impairment losses	Collectively assessed provision for impairment losses	Impairment (charged) during the year	Written-off during the year
Manufacturing	4,131,101	(2,242,180)	(2,213,728)	(1,581,644)	184,755
Real estate	539,484	(190,550)	(3,542,765)	(791,693)	–
Lease and business services	–	–	(1,014,536)	(150,367)	–

	At 31 December 2018					
	Credit-impaired loans and advances	Expected credit losses over the next 12 months	Expected credit loss that assessed for loans and advances that are not credit-impaired	Expected credit loss that assessed for loans and advances that are credit-impaired	Impairment losses (charged)/ reversed during the year	Written-off during the year
Lease and business services	597,291	(1,488,844)	(6,464)	(413,147)	(893,919)	–
Real estate	539,414	(2,817,181)	(523,331)	(116,870)	275,933	–

	At 31 December 2019					
	Credit-impaired loans and advances	Expected credit losses over the next 12 months	Expected credit loss that assessed for loans and advances that are not credit-impaired	Expected credit loss that assessed for loans and advances that are credit-impaired	Impairment losses charged during the year	Written-off during the year
Lease and business services	647,630	(1,601,013)	(58,120)	(441,222)	(192,739)	–
Real estate	150,701	(3,004,753)	(558,987)	(53,191)	(239,765)	–

(c) Analysed by geographical sector (exclusive interests accrued)

	At 31 December 2017		
	Amount	Percentage	Loans and advances secured by collaterals
Northern and Northeast China	218,220,952	46.94%	98,582,467
Eastern China	117,539,419	25.28%	54,213,604
Central and Southern China	102,445,952	22.04%	50,924,216
Western China	26,683,510	5.74%	8,527,966
Gross loans and advances to customers	464,889,833	100.00%	212,248,253

	At 31 December 2018		
	Amount	Percentage	Loans and advances secured by collaterals
Northern and Northeast China	260,192,726	46.01%	122,082,497
Eastern China	123,565,419	21.85%	56,789,611
Central and Southern China	129,867,956	22.97%	68,051,000
Western China	51,827,608	9.17%	8,417,356
Gross loans and advances to customers	565,453,709	100.00%	255,340,464

	At 31 December 2019		
	Amount	Percentage	Loans and advances secured by collaterals
Northern and Northeast China	326,296,386	46.08%	131,447,343
Eastern China	159,014,593	22.46%	73,894,821
Central and Southern China	167,258,342	23.62%	96,079,705
Western China	55,488,209	7.84%	15,708,394
Gross loans and advances to customers	708,057,530	100.00%	317,130,263

The geographical areas are categorized as follows:

Northern and Northeastern China includes Head Office, Beijing Branch, Tianjin Branch, Binhai Branch, Tianjin Pilot Free Trade Zone Branch, Dalian Branch, Hohhot Branch, Taiyuan Branch, Shijiazhuang Branch, Changchun Branch and Shenyang Branch.

Eastern China includes Nanjing Branch, Hangzhou Branch, Jinan Branch, Shanghai Branch, Shanghai Pilot Free Trade Zone Branch, Hefei Branch, Suzhou Branch, Qingdao Branch, Ningbo Branch and Nanchang Branch.

Central and Southern China includes Guangzhou Branch, Shenzhen Branch, Shenzhen Qianhai Branch, Hong Kong Representative Office, Changsha Branch, Wuhan Branch, Fuzhou Branch, Zhengzhou Branch, Xiamen Pilot Free Trade Zone Branch, Haikou Branch and Nanning Branch.

Western China includes Chengdu Branch, Xi'an Branch and Chongqing Branch.

(d) Analysed by type of collateral (exclusive interests accrued)

	At 31 December 2017	At 31 December 2018	At 31 December 2019
Unsecured loans	77,143,661	93,326,799	142,638,360
Guaranteed loans	175,497,919	216,786,446	248,288,907
Collateralised loans	167,900,883	193,532,395	236,573,764
Pledged loans	41,609,834	48,596,635	71,142,981
Bank acceptance discounted bills	2,574,103	13,034,692	7,111,743
Commercial acceptance discounted bills	163,433	176,742	2,301,775
Gross loans and advances to customers	464,889,833	565,453,709	708,057,530

(e) Overdue loans (exclusive interests accrued) analysed by overdue period

	At 31 December 2017				
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	Total
Unsecured loans	27,079	10,448	5,082	43,904	86,513
Guaranteed loans	1,561,292	2,983,597	3,022,543	35,042	7,602,474
Collateralised loans	533,831	189,190	2,666,118	503,590	3,892,729
Pledged loans	7,528	18,994	86,555	17,777	130,854
Total	2,129,730	3,202,229	5,780,298	600,313	11,712,570
As a percentage of gross loans and advances to customers	0.46%	0.69%	1.24%	0.13%	2.52%

	At 31 December 2018				
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	Total
Unsecured loans	164,022	672,606	83,224	47,032	966,884
Guaranteed loans	2,469,505	1,579,368	3,985,918	561,923	8,596,714
Collateralised loans	772,242	573,351	2,067,106	624,722	4,037,421
Pledged loans	–	4,263	20,615	52,372	77,250
Discounted bills	–	42,623	–	–	42,623
Total	3,405,769	2,872,211	6,156,863	1,286,049	13,720,892
As a percentage of gross loans and advances to customers	0.60%	0.51%	1.09%	0.23%	2.43%

	At 31 December 2019				
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	Total
Unsecured loans	573,505	414,157	764,449	48,862	1,800,973
Guaranteed loans	4,466,777	1,921,151	3,096,220	1,740,023	11,224,171
Collateralised loans	1,853,140	480,096	766,281	1,744,538	4,844,055
Pledged loans	3,759,890	–	18,993	29,538	3,808,421
Total	10,653,312	2,815,404	4,645,943	3,562,961	21,677,620
As a percentage of gross loans and advances to customers	1.50%	0.40%	0.66%	0.50%	3.06%

Overdue loans represent loans, of which the whole or part of the principal or interest were overdue for one day or more.

(f) Loans and advances (exclusive interests accrued) and provision for impairment losses

	At 31 December 2017				
		Impaired loans and advances *(Note (i))*			
	Loans and advances for which provision are collectively assessed	For which provision are collectively assessed	For which provision are individually assessed	Total	Gross impaired loans and advances as a percentage of gross loans and advances
Gross loans and advances to customers	456,779,715	533,722	7,576,396	464,889,833	1.74%
Less: Provision for impairment losses	(10,806,242)	(400,627)	(3,869,256)	(15,076,125)	
Net loans and advances to customers	445,973,473	133,095	3,707,140	449,813,708	

	At 31 December 2018			
	Loans and advances that are assessed for expected credit losses over the next 12 months	**Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss**	**Credit-impaired loans and advances that are assessed for lifetime expected credit loss** ***(Note (ii))***	**Total**
Total loans and advances to customers measured at amortised cost	524,579,072	16,304,758	10,374,146	551,257,976
Less: Provision for impairment losses	(7,920,917)	(5,531,574)	(5,997,343)	(19,449,834)
Carrying amount of loans and advances to customers measured at amortised cost	516,658,155	10,773,184	4,376,803	531,808,142
Carrying amount of loans and advances to customers measured at fair value through other comprehensive income	13,168,811	–	42,623	13,211,434

	At 31 December 2019			
	Loans and advances that are assessed for expected credit losses over the next 12 months	**Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss**	**Credit-impaired loans and advances that are assessed for lifetime expected credit loss** ***(Note(ii))***	**Total**
Total loans and advances to customers measured at amortised cost	664,530,049	20,763,849	12,591,449	697,885,347
Less: Provision for impairment losses	(9,281,200)	(6,213,635)	(8,106,036)	(23,600,871)
Carrying amount of loans and advances to customers measured at amortised cost	655,248,849	14,550,214	4,485,413	674,284,476
Carrying amount of loans and advances to customers measured at fair value through other comprehensive income	9,413,518	–	–	9,413,518

Notes:

(i) Impaired loans and advances include those for which objective evidence of impairment has been identified and assessed using the following methods:

– Individually; or

– Collectively, representing portfolios of homogeneous loans and advances.

(ii) The loans and advances are "credit-impaired" when one or more events that have a detrimental impact on the estimated future cash flows of the loans and advances have occurred. Evidence that loans and advances are credit-impaired includes the following observable data: significant financial difficulty of the borrower or issuer; a breach of contract, such as a default or delinquency in interest or principal payments; for economic or contractual reasons relating to the borrower's financial difficulty, the Bank having granted to the borrower a concession that otherwise would not consider; it is probable that the borrower will enter bankruptcy or other financial reorganization; the disappearance of an active market for that financial asset because of financial difficulties; or debts overdue more than 90 days.

(g) Movements of provision for impairment losses

	Year ended 31 December 2017				
	Corporate loans		Personal loans		
	Individual assessment	Collective assessment	Individual assessment	Collective assessment	Total
As at 1 January	2,217,158	7,012,396	17,111	1,591,841	10,838,506
Charge for the year	3,061,616	1,893,873	18,080	782,865	5,756,434
Transfer out	(1,301,153)	(32,481)	–	–	(1,333,634)
Recoveries	41,000	–	–	–	41,000
Write-offs	(180,583)	(15,755)	–	–	(196,338)
Exchange differences and other	(3,973)	(25,870)	–	–	(29,843)
As at 31 December	3,834,065	8,832,163	35,191	2,374,706	15,076,125

(i) For the year ended 31 December 2018 and 2019, movements of provision for impairment losses of loans and advances to customers measured at amortised cost:

	Year ended 31 December 2018			
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss	Total
As at 1 January	7,442,899	2,806,639	3,968,055	14,217,593
Transferred:				
– to lifetime expected credit losses: not credit-impaired loans	(38,880)	40,841	(1,961)	–
– to lifetime expected credit losses: credit-impaired loans	(42,620)	(341,299)	383,919	–
Charge for the year	548,907	3,025,393	3,651,306	7,225,606
Transfer out	–	–	(674,999)	(674,999)
Recoveries	–	–	11,360	11,360
Write-offs	–	–	(1,341,950)	(1,341,950)
Exchange differences and other	10,611	–	1,613	12,224
As at 31 December	7,920,917	5,531,574	5,997,343	19,449,834

	Year ended 31 December 2019			
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss	Total
As at 1 January	7,920,917	5,531,574	5,997,343	19,449,834
Transferred:				
– to expected credit losses over the next 12 months	65,446	(65,446)	–	–
– to lifetime expected credit losses: not credit-impaired loans	(196,612)	251,232	(54,620)	–
– to lifetime expected credit losses: credit-impaired loans	(14,999)	(435,949)	450,948	–
Charge for the year	1,505,226	3,935,281	3,336,740	8,777,247
Transfer out	–	(3,003,057)	(674,403)	(3,677,460)
Recoveries	–	–	89,534	89,534
Write-offs	–	–	(1,040,889)	(1,040,889)
Exchange differences and other	1,222	–	1,383	2,605
As at 31 December	9,281,200	6,213,635	8,106,036	23,600,871

(ii) For the year ended 31 December 2018 and 2019, movements of provision for impairment of loans and advances to customers measured at fair value through other comprehensive income:

	Year ended 31 December 2018			
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss	Total
As at 1 January	5,060	–	–	5,060
Transferred:				
– to lifetime expected credit losses:				
credit-impaired loans	(927)	–	927	–
Charge for the year	3,723	–	16,450	20,173
As at 31 December	7,856	–	17,377	25,233

	Year ended 31 December 2019			
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss	Total
As at 1 January	7,856	–	17,377	25,233
Charge/(Reversal) for the year	29,359	–	(17,377)	11,982
As at 31 December	37,215	–	–	37,215

Provision for impairment losses on loans and advances to customers measured at fair value through other comprehensive income is recognised in other comprehensive income without decreasing the carrying amount of loans and advances to customers presented in the statements of financial position, and impairment loss or gain is recognised in the profit or loss.

(h) Disposal of loans and advances to customers

During the years ended 31 December 2017, 2018 and 2019, the Bank transferred loans and advances with gross amount of RMB1,878 million, RMB405 million and RMB668 million respectively to independent third parties, and the transfer price was RMB565 million, RMB103 million and RMB133 million respectively.

20 FINANCIAL INVESTMENTS

	Note	At 31 December 2017	2018	2019
Financial investments measured at fair value through profit or loss	*(a)*	12,860,914	23,193,080	36,238,313
Financial investments measured at fair value through other comprehensive income	*(b)*	–	45,569,455	64,967,327
Financial investments measured at amortised cost	*(c)*	–	244,195,336	199,101,251
Available-for-sale financial assets	*(d)*	36,495,682	–	–
Held-to-maturity investments	*(e)*	87,364,519	–	–
Investments classified as receivables	*(f)*	275,927,480	–	–
Total		412,648,595	312,957,871	300,306,891

(a) Financial investments measured at fair value through profit or loss

	At 31 December 2017	2018	2019
Debt securities issued by the following institutions in mainland China			
– Government	59,312	71,061	100,969
– Policy banks	198,356	906,044	555,612
– Corporate	228,371	148,390	148,390
Sub-total	486,039	1,125,495	804,971
Unlisted	486,039	1,125,495	804,971
Investment funds			
– Unlisted	12,374,875	14,280,368	25,480,840
Equity investments			
– Listed outside Hong Kong	–	110,056	145,274
– Unlisted	–	322,369	1,696,017
Wealth management products			
– Unlisted	–	3,038,951	–
Trust plans and asset management plans			
– Unlisted	–	4,315,841	8,111,211
Total	12,860,914	23,193,080	36,238,313

Note: As at 31 December 2017,2018 and 2019, there were no investments subject to material restrictions in the realization.

(b) Financial investments measured at fair value through other comprehensive income

	At 31 December 2018	At 31 December 2019
Debt securities issued by the following institutions in mainland China		
– Government	16,982,940	25,149,120
– Policy banks	24,746,817	29,266,780
– Banks and other financial institutions	–	300,770
– Corporate	190,259	158,246
Sub-total	41,920,016	54,874,916
Interests accrued	711,287	886,305
– Unlisted	42,631,303	55,761,221
Trust plans and asset management plans	2,552,229	8,979,719
Interests accrued	185,923	26,387
– Unlisted	2,738,152	9,006,106
Equity investments		
– Unlisted	200,000	200,000
Total	45,569,455	64,967,327

Notes:

(i) As at 31 December 2018 and 2019, certain debt securities were pledged for borrowings from the central bank (Note (25(a)).

(ii) The Bank irrevocably designate parts of equity investments that are not held for trading as FVOCI. The fair value of equity investments at FVOCI is RMB200 million. Dividends income from such equity investments during the year end 31 December 2018 and 2019 was RMB6.6 million and 9.0 million, which was included in the current profit or loss. The Bank did not dispose such equity investments during the reporting period, and there was no cumulative gain or loss transferred from other comprehensive income to retained earnings.

(iii) For the years ended 31 December 2018 and 2019, movements of provision for impairment losses of financial investments measured at fair value through other comprehensive income is as follows:

	Year ended 31 December 2018			
	Expected credit losses over the next 12 months	Lifetime expected credit losses not credit-impaired	Lifetime expected credit losses credit-impaired	Total
Balance at 1 January	44,288	–	–	44,288
Reversal for the year	(26,604)	–	–	(26,604)
Balance at 31 December	17,684	–	–	17,684

	Year ended 31 December 2019			
	Expected credit losses over the next 12 months	Lifetime expected credit losses not credit-impaired	Lifetime expected credit losses credit-impaired	Total
Balance at 1 January	17,684	–	–	17,684
Transfers				
– to lifetime expected credit losses credit-impaired	(240)	–	240	–
Charge for the year	791,998	–	13,131	805,129
Balance at 31 December	809,442	–	13,371	822,813

Provision for impairment on financial investments measured at fair value through other comprehensive income is recognised in other comprehensive income without decreasing the carrying amount of financial investments presented in the statements of financial position, and impairment loss or gain is recognised in the profit or loss.

(c) Financial investments measured at amortised cost

	Note	At 31 December 2018	At 31 December 2019
Debt securities issued by the following institutions in mainland China	*(i)*		
– Government		79,257,641	73,493,360
– Policy banks		22,413,347	29,549,180
– Banks and other financial institutions		150,000	1,200,000
– Corporate		1,752,824	7,543,502
Interests accrued		1,831,471	1,882,964
Sub-total		105,405,283	113,669,006
Interbank deposits		3,420,344	–
Sub-total		3,420,344	–
Trust plans and asset management plans		138,398,848	87,813,402
Interests accrued		809,598	823,151
Sub-total		139,208,446	88,636,553
Less: Provision for impairment losses	*(ii)*	(3,838,737)	(3,204,308)
Total		244,195,336	199,101,251

Notes:

(i) As at 31 December 2018 and 2019, certain debt securities were pledged for borrowings from the central bank (Note 25(a)).

(ii) For the years ended 31 December 2018 and 2019, movements of provision for impairment losses of financial investments measured at amortised cost is as follows:

	Year ended 31 December 2018			
	Expected credit losses over the next 12 months	Lifetime expected credit losses not credit-impaired	Lifetime expected credit losses credit-impaired	Total
Balance at 1 January	3,352,878	–	1,362,000	4,714,878
(Reversal)/Charge for the year	(1,286,767)	22,583	387,942	(876,242)
Exchange differences and other	101	–	–	101
Balance at 31 December	2,066,212	22,583	1,749,942	3,838,737

	Year ended 31 December 2019			
	Expected credit losses over the next 12 months	Lifetime expected credit losses not credit-impaired	Lifetime expected credit losses credit-impaired	Total
Balance at 1 January	2,066,212	22,583	1,749,942	3,838,737
Transfers:				
– to lifetime expected credit losses not credit-impaired	(89,660)	89,660	–	–
– to lifetime expected credit losses credit-impaired	(43,544)	(22,583)	66,127	–
(Reversal)/Charge for the year	(619,314)	317,285	303,996	1,967
Transfer out	–	–	(636,502)	(636,502)
Exchange differences and other	106	–	–	106
Balance at 31 December	1,313,800	406,945	1,483,563	3,204,308

(d) Available-for-sale financial assets

	At 31 December 2017
Measured at fair value:	
Debt securities issued by the following institutions in mainland China	
– Government	6,764,019
– Policy banks	29,080,301
– Banks and other financial institutions	98,451
– Corporate	248,286
Sub-total	36,191,057
– Unlisted	36,191,057
Measured at cost:	
Equity investments	
– Unlisted	304,625
Total	36,495,682

Note: As at 31 December 2017, certain debt securities were pledged for borrowings from the central bank (Note 25(a)).

(e) Held-to-maturity investments

Analysed by type of investment and geographical location

	Note	**At 31 December 2017**
Debt securities issued by the following institutions in mainland China:		
– Government		76,340,024
– Policy banks		10,487,825
– Banks and other financial institutions		150,000
– Corporate		775,270
Sub-total	*(i)*	87,753,119
Unlisted		87,753,119
Less: Provision for impairment losses	*(iii)*	(388,600)
Net carrying amount		87,364,519

Notes:

(i) As at 31 December 2017, certain held-to-maturity investments were pledged as security for borrowings from the central bank (Note 25(a)).

(ii) During the year ended 31 December 2017, the Bank did not dispose of material held-to-maturity debt investments prior to their maturity dates.

(iii) For the year ended 31 December 2017, movements of provision for impairment losses of held-to maturity investments is as follows:

	Year ended 31 December 2017
Balance at 1 January	174,000
Charge for the year	214,600
Balance at 31 December	388,600

(iv) As at 31 December 2017, the fair value of held-to maturity investments was RMB85,899 million.

(f) Investments classified as receivables

	Note	**At 31 December 2017**
Trust plans and asset management plans		
– Unlisted		241,029,226
Wealth management products		
– Unlisted		39,552,539
Total		280,581,765
Less: Provision for impairment losses	*(i)*	(4,654,285)
Net carrying amount		275,927,480

(i) For the year ended 31 December 2017, movements of allowance for provision losses of investments classified as receivables is as follows:

	Year ended 31 December 2017
Balance at 1 January	2,870,307
Charge for the year	1,783,978
Balance at 31 December	4,654,285

21 INTEREST IN ASSOCIATE

	Note	At 31 December 2017	2018	2019
Interest in associate	*(a)*	51,726	52,771	–

Note:

(a) The following list contains the Bank's associate, which is immaterial to the Bank and is unlisted corporate entity whose quoted market price is not available:

Name	Percentages of equity/voting rights 31 December 2017	2018	2019	Place of Incorporation/ registration	Business sector
Hawtai Motor Finance Co., Ltd ("Hawtai Motor Finance")	10%	10%	10%	Tianjin, China	Motor Finance

The following tables illustrate the information of the Bank's associate that is not material:

	At 31 December 2017	2018	2019
Carrying amount of immaterial associate in the statements of financial position of the Bank	51,726	52,771	–
Amounts of the Bank's share of results of this associate			
– Profits/(losses) from continuing operations	1,691	1,045	(52,771)
– Total comprehensive income/(losses)	1,691	1,045	(52,771)

(b) As at 31 December 2019, The Bank has not recognised losses totalling RMB13 million in relation to its interest in associate, because the Bank has no obligation in respect of this losses.

22 PROPERTY AND EQUIPMENT

	Premises	Leasehold improvements	Operating equipment	Motor vehicles	Construction in progress	Total
Cost						
As at 1 January 2017	3,233,497	801,312	965,878	67,338	488,187	5,556,212
Additions	192,924	191,452	130,129	10,974	131,920	657,399
Transfers	–	–	9,411	–	(9,411)	–
Disposals	–	(452,851)	(23,890)	(3,526)	–	(480,267)
As at 31 December 2017	3,426,421	539,913	1,081,528	74,786	610,696	5,733,344
As at 1 January 2018	3,426,421	539,913	1,081,528	74,786	610,696	5,733,344
Additions	3,526	177,673	104,569	5,843	106,113	397,724
Transfers	294,208	–	48,879	–	(343,087)	–
Disposals	–	(101,569)	(44,087)	(3,991)	–	(149,647)
As at 31 December 2018	3,724,155	616,017	1,190,889	76,638	373,722	5,981,421
As at 1 January 2019	3,724,155	616,017	1,190,889	76,638	373,722	5,981,421
Additions	151,829	147,297	178,395	7,476	15,693	500,690
Transfers	–	–	26,538	–	(26,538)	–
Disposals	–	(82,347)	(147,699)	(3,643)	–	(233,689)
As at 31 December 2019	3,875,984	680,967	1,248,123	80,471	362,877	6,248,422
Accumulated depreciation						
As at 1 January 2017	(473,046)	(578,999)	(572,818)	(42,652)	–	(1,667,515)
Charge for the year	(158,642)	(186,004)	(147,349)	(8,514)	–	(500,509)
Disposals	–	451,537	19,665	3,358	–	474,560
As at 31 December 2017	(631,688)	(313,466)	(700,502)	(47,808)	–	(1,693,464)
As at 1 January 2018	(631,688)	(313,466)	(700,502)	(47,808)	–	(1,693,464)
Charge for the year	(168,047)	(156,668)	(154,615)	(8,823)	–	(488,153)
Disposals	–	77,997	37,084	2,373	–	117,454
As at 31 December 2018	(799,735)	(392,137)	(818,033)	(54,258)	–	(2,064,163)
As at 1 January 2019	(799,735)	(392,137)	(818,033)	(54,258)	–	(2,064,163)
Charge for the Year	(184,469)	(151,911)	(164,367)	(7,999)	–	(508,746)
Disposals	–	17,904	109,134	1,660	–	128,698
As at 31 December 2019	(984,204)	(526,144)	(873,266)	(60,597)	–	(2,444,211)
Net book value						
As at 31 December 2017	2,794,733	226,447	381,026	26,978	610,696	4,039,880
As at 31 December 2018	2,924,420	223,880	372,856	22,380	373,722	3,917,258
As at 31 December 2019	2,891,780	154,823	374,857	19,874	362,877	3,804,211

The net book values of premises as at 31 December 2017, 2018 and 2019 are analysed by the remaining terms of the leases as follows:

	At 31 December		
	2017	2018	2019
Held in mainland China			
– Medium-term leases (10-50 years)	2,794,733	2,924,420	2,891,780

23 DEFERRED TAX ASSETS

(a) Analysed by nature

	31 December 2017		31 December 2018		31 December 2019	
	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	14,883,019	3,720,755	17,494,336	4,373,584	22,676,053	5,669,013
– Accrued salary cost	2,290,938	572,735	3,052,620	763,155	3,615,307	903,827
– Fair value changes	2,735,261	683,815	153,783	38,446	171,758	42,940
– Provisions	60,410	15,103	982,081	245,520	810,624	202,656
– Others	46,110	11,527	76,999	19,250	107,727	26,932
	20,015,738	5,003,935	21,759,819	5,439,955	27,381,469	6,845,368
Deferred income tax liability						
– Fair value changes	(271,327)	(67,832)	(1,344,440)	(336,110)	(1,723,057)	(430,764)
– Others	(427,003)	(106,751)	(151,691)	(37,923)	(198,050)	(49,513)
	(698,330)	(174,583)	(1,496,131)	(374,033)	(1,921,107)	(480,277)
Net balances	19,317,408	4,829,352	20,263,688	5,065,922	25,460,362	6,365,091

(b) Movements of deferred tax

	Allowance for impairment losses	Fair value changes	Others	Net balance of deferred tax assets
	Note(i)	*Note(ii)*		
As at 1 January 2017	2,581,694	(2,157)	453,512	3,033,049
Recognised in profit or loss	1,139,061	502,511	39,102	1,680,674
Recognised in other comprehensive income	–	115,629	–	115,629
As at 31 December 2017	3,720,755	615,983	492,614	4,829,352
Changes in accounting policies	(196,199)	(246,505)	196,997	(245,707)
As at 1 January 2018	3,524,556	369,478	689,611	4,583,645
Recognised in profit or loss	849,028	(416,197)	300,391	733,222
Recognised in other comprehensive income	–	(250,945)	–	(250,945)
As at 31 December 2018	4,373,584	(297,664)	990,002	5,065,922
Recognised in profit or loss	1,295,429	(65,743)	93,900	1,323,586
Recognised in other comprehensive income	–	(24,417)	–	(24,417)
As at 31 December 2019	5,669,013	(387,824)	1,083,902	6,365,091

Notes:

(i) The Bank made provision for impairment losses on loans and advances to customers and other assets. The provision for impairment losses was determined based on the expected recoverable amount of the relevant assets at 31 December 2017, 2018 and 2019. However, the amounts deductible for income tax purposes are calculated at 1% of the gross carrying amount of qualifying assets at 31 December 2017, 2018 and 2019, together with write-offs which fulfil specific criteria as set out in the PRC tax rules and are approved by the tax authorities.

(ii) Net gains or losses on fair value changes of financial instruments are subject to tax when realized.

24 OTHER ASSETS

	Note	At 31 December 2017	2018	2019
Interest receivable	*(a)*	5,277,966	60,219	197,778
Land use rights	*(b)*	473,612	458,887	444,162
Fees and commission receivable		394,285	162,377	242,718
Prepayments		368,707	435,644	217,199
Guarantee deposits		99,276	102,649	116,838
Intangible assets	*(c)*	90,561	123,054	135,478
Amount pending for settlement		8,532	471,319	117,425
Long-term deferred expenses		1,617	236	5,085
Right-of-use assets	*(d)*	–	–	3,920,944
Others		380,108	423,953	292,005
Sub-total		7,094,664	2,238,338	5,689,632
Less: Allowances for impairment losses		–	–	–
Total		7,094,664	2,238,338	5,689,632

(a) Interest receivable

	At 31 December 2017	2018	2019
Interests receivables arising from:			
Financial investments	3,160,880	3,339	64,567
Loans and advances to customers	2,025,390	56,880	133,211
Others	91,696	–	–
Total	5,277,966	60,219	197,778

As at 31 December 2018 and 2019, interest receivable only includes interest that has been due for the relevant financial instruments but not yet received. Interest on financial instruments based on the effective interest method has been reflected in the balance of corresponding financial instruments.

(b) Land use rights

	At 31 December 2017	2018	2019
Located in mainland China:			
10-50 years	473,612	458,887	444,162

(c) Intangible assets

	Years ended 31 December		
	2017	**2018**	**2019**
Cost			
As at 1 January	268,000	311,879	387,293
Additions for the year	43,879	75,414	62,953
As at 31 December	311,879	387,293	450,246
Accumulated amortisation			
As at 1 January	(187,452)	(221,318)	(264,239)
Charge for the year	(33,866)	(42,921)	(50,529)
As at 31 December	(221,318)	(264,239)	(314,768)
Book value			
As at 1 January	80,548	90,561	123,054
As at 31 December	90,561	123,054	135,478

(d) Right-of-use assets

	Year ended 31 December 2019
Balance at 1 January	4,315,913
Additions	424,930
Depreciation charge for the year	(819,899)
Balance at 31 December	3,920,944

25 PLEDGED ASSETS

(a) Assets pledged as collateral

	At 31 December		
	2017	**2018**	**2019**
For borrowings from the central bank:			
– Financial investments measured at amortised cost	24,387,000	24,250,000	41,789,652
– Financial investments measured at fair value through other comprehensive income	–	4,448,000	5,830,000
– Discounted bills	130,000	1,270,454	1,118,220
Total	24,517,000	29,968,454	48,737,872

Financial assets pledged by the Bank as collateral for liabilities is mainly debt securities for borrowings from the central bank.

(b) Pledged assets received

The Bank conducts resale agreements under the usual and customary terms of placements, and holds collaterals for these transactions. The Bank's balance of the financial assets held under resale agreements refers to Note 18. The fair value of such collateral accepted by the Bank was nil, RMB10,565 million and RMB1,850 million as at 31 December 2017, 2018 and 2019. These transactions were conducted under standard terms in the normal course of business.

26 BORROWINGS FROM THE CENTRAL BANK

	At 31 December		
	2017	2018	2019
Medium-term Lending Facility	24,000,000	28,000,000	46,300,000
Interest accrued	–	595,785	605,557
Total	24,000,000	28,595,785	46,905,557

27 DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

Analysed by type of and location of counterparty

	At 31 December		
	2017	2018	2019
Deposits in mainland China			
– Banks	104,155,259	44,326,634	55,244,035
– Other financial institutions	47,633,949	24,630,088	22,694,553
Sub-total	151,789,208	68,956,722	77,938,588
Interests accrued	–	631,131	608,842
Total	151,789,208	69,587,853	78,547,430

28 PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

Analysed by type and location of counterparty

	At 31 December		
	2017	2018	2019
Placements in mainland China			
– Banks	28,800,311	10,585,451	5,377,485
– Other financial institutions	500,000	500,000	–
Sub-total	29,300,311	11,085,451	5,377,485
Placements outside mainland China			
– Banks	8,536,840	8,229,267	15,842,711
Sub-total	8,536,840	8,229,267	15,842,711
Interests accrued	–	220,272	279,981
Total	37,837,151	19,534,990	21,500,177

29 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

(a) Analysed by type and location of counterparty

	At 31 December		
	2017	2018	2019
In mainland China			
– Banks	2,213,804	21,491,424	23,046,580
– Other financial institutions	–	850,000	–
Sub-total	2,213,804	22,341,424	23,046,580
Interests accrued	–	22,330	22,513
Total	2,213,804	22,363,754	23,069,093

(b) Analysed by type of collateral held

	At 31 December		
	2017	2018	2019
Debt securities	2,084,700	16,362,680	20,789,270
Bank acceptance	129,104	5,978,744	2,257,310
Sub-total	2,213,804	22,341,424	23,046,580
Interests accrued	–	22,330	22,513
Total	2,213,804	22,363,754	23,069,093

30 DEPOSITS FROM CUSTOMERS

	At 31 December		
	2017	2018	2019
Demand deposits			
– Corporate customers	247,640,346	168,401,248	170,847,236
– Individual customers	11,909,316	17,583,058	18,912,350
Sub-total	259,549,662	185,984,306	189,759,586
Time deposits			
– Corporate customers	222,168,940	232,134,043	244,102,265
– Individual customers	14,268,015	17,195,749	33,234,311
Sub-total	236,436,955	249,329,792	277,336,576
Pledged deposits			
– Acceptances	41,526,134	114,437,374	109,236,107
– Letters of credit and guarantees	8,909,148	27,609,348	35,327,807
– Letters of guarantees	3,662,064	4,409,410	4,429,925
– Others	31,541,780	16,054,421	21,532,578
Sub-total	85,639,126	162,510,553	170,526,417
Fiscal deposits	91,801	245,450	258,723
Inward and outward remittances	385,774	96,589	53,597
Interests accrued	–	8,534,706	9,829,652
Total	582,103,318	606,701,396	647,764,551

31 DEBT SECURITIES ISSUED

	Note	At 31 December 2017	2018	2019
Interbank deposits issued	*(a)*	105,398,506	157,967,519	149,008,758
Financial bonds issued	*(b)*	19,988,441	46,913,371	36,954,100
Tier-two capital debts issued	*(c)*	12,082,159	12,083,728	8,990,470
Subordinate bonds issued	*(d)*	946,088	946,376	946,747
Sub-total		138,415,194	217,910,994	195,900,075
Interests accrued		–	767,999	703,768
Total		138,415,194	218,678,993	196,603,843

Notes:

(a) Interbank deposit issued

(i) For the year ended 31 December 2017, the Bank issued a number of certificates of interbank deposit with total nominal amount of RMB186,070 million and duration between 1 to 12 months. The effective interest rates ranged from 3.60% to 5.25% per annum.

(ii) For the year ended 31 December 2018, the Bank issued a number of certificates of interbank deposit with total nominal amount of RMB383,450 million and duration between 1 to 12 months. The effective interest rates ranged from 2.00% to 5.08% per annum.

(iii) For the year ended 31 December 2019, the Bank issued a number of certificates of interbank deposit with total nominal amount of RMB375,410 million and duration between 1 to 12 months. The effective interest rates ranged from 2.40% to 3.42% per annum.

(iv) As at 31 December 2017, 2018 and 2019, the fair value of interbank deposits issued was RMB103,658 million, RMB156,311 million and RMB147,575 million, respectively.

(b) Financial bonds issued

(i) As at 5 November 2018, the Bank issued three-year financial bonds with face value of RMB10,000 million. The coupon interest rate per annum is 4.07%.

(ii) As at 26 October 2018, the Bank issued three-year financial bonds with face value of RMB20,000 million. The coupon interest rate per annum is 4.09%.

(iii) As at 21 March 2018, the Bank issued two-year financial bonds with face value of RMB5,000 million. The coupon interest rate per annum is 5.15%.

(iv) As at 11 December 2017, the Bank issued two-year financial bonds with face value of RMB10,000 million. The coupon interest rate per annum is 5.40%.

(v) As at 28 July 2015, the Bank issued two phases of financial bonds with a face value of RMB8,000 million and RMB2,000 million respectively and the maturity of 3 years and 5 years respectively. The coupon interest rates per annum is 4.10% and 4.25%, respectively.

(vi) As at 31 December 2017, 2018 and 2019, the fair value of financial bonds issued was RMB19,890 million, RMB47,413 million and RMB37,314 million, respectively.

(c) Tier-two capital debts issued

(i) As at 19 June 2015, the Bank issued ten-year fixed interest rate tier-two capital debts with face value of RMB9,000 million. The coupon interest rate per annum is 5.15%.

(ii) As at 23 October 2014, the Bank issued ten-year fixed interest rate tier-two capital debts with face value of RMB3,100 million. The coupon interest rate per annum is 6.10%.

(iii) As at 31 December 2017, 2018 and 2019, the fair value of tier-two capital debts issued was RMB12,014 million, RMB12,260 million and RMB9,054 million, respectively.

(d) Subordinated bonds issued

(i) As at 20 July 2012, the Bank issued fifteen-year fixed interest rate subordinated bonds with face value of RMB950 million. The coupon interest rate per annum is 5.68%.

(ii) As at 31 December 2017, 2018 and 2019, the fair value of subordinated bonds issued was RMB947 million, RMB993 million and RMB991 million, respectively.

According to the issuance terms, for 10-year tier-two capital debts, the Bank has the option to redeem all the bonds at face value on the last day of the fifth year. For 15-year subordinated bonds, the Bank has the option to redeem all the bonds at face value on the last day of the tenth year.

As at 31 December 2017, 2018 and 2019, there were no defaults of principal and interest or other breaches with respect to these bonds. None of the above bonds were secured.

32 OTHER LIABILITIES

		At 31 December		
	Note	**2017**	**2018**	**2019**
Interests payable	*(a)*	9,650,504	–	–
Accrued staff cost	*(b)*	2,628,691	3,140,800	3,828,407
Other taxes payable		567,716	597,113	746,449
Amount to be settled and cleared		250,390	71,896	568,867
Deferred revenue		136,054	–	–
Payment and collection clearance accounts		74,575	7,195,165	7,167,805
Provisions	*(c)*	60,410	982,081	810,624
Contract liabilities	*(d)*	–	123,754	106,481
Lease liabilities		–	–	3,956,296
Others		294,013	480,353	656,100
Total		13,662,353	12,591,162	17,841,029

(a) Interests payable

	At 31 December		
	2017	**2018**	**2019**
Interests payable arising from:			
Deposits from customers	6,721,091	–	–
Deposits and placements from banks and other financial institutions	1,907,181	–	–
Debts securities issued	505,312	–	–
Others	516,920	–	–
Total	9,650,504	–	–

As at 31 December 2018 and 2019, interest on financial instruments based on the effective interest method has been reflected in the balance of corresponding financial instruments.

(b) Accrued staff cost

	At 31 December		
	2017	**2018**	**2019**
Salary, bonuses and allowances payable	2,488,418	2,925,769	3,543,415
Pension and annuity payable	10,451	11,028	13,346
Other social insurance payable	6,449	4,923	6,081
Housing fund payable	5,244	5,503	4,945
Others	118,129	193,577	260,620
Total	2,628,691	3,140,800	3,828,407

(c) Provisions

		At 31 December		
	Note	**2017**	**2018**	**2019**
Provision for credit commitment losses	*(i)*	18,166	939,837	768,380
Expected litigation losses		42,244	42,244	42,244
Total		60,410	982,081	810,624

(i) For year ended 31 December 2018 and 2019, movements of provisions for credit commitment losses is as follows:

	Year ended 31 December 2018			
	Expected credit losses over the next 12 months	**Lifetime expected credit losses not credit-impaired**	**Lifetime expected credit losses credit-impaired**	**Total**
Balance at 1 January 2018	795,486	10,661	7	806,154
Transfers				
– to lifetime expected credit losses not credit-impaired	(48)	48	–	–
Charge for the year	87,462	32,306	11,325	131,093
Exchange differences and other	2,590	–	–	2,590
Balance at 31 December 2018	885,490	43,015	11,332	939,837

	Year ended 31 December 2019			
	Expected credit losses over the next 12 months	Lifetime expected credit losses not credit-impaired	Lifetime expected credit losses credit-impaired	Total
Balance at 1 January 2019	885,490	43,015	11,332	939,837
Transfers				
– to lifetime expected credit losses credit-impaired	–	(90)	90	–
Reversal for the year	(155,875)	(5,990)	(10,026)	(171,891)
Exchange differences and other	434	–	–	434
Balance at 31 December 2019	730,049	36,935	1,396	768,380

(d) Contract liabilities

As at 31 December 2018 and 2019, the aggregated amount of the transaction price allocated to the remaining performance obligations under the Bank's existing contracts are approximately RMB124 million and RMB106 million, respectively. This amount represents income expected to be recognised in the future from agency, custody, guarantee and acceptance services. The Bank will recognise the expected income in future as the services are provided.

33 SHARE CAPITAL

Authorised and issued share capital

Share capital of the Bank as at 31 December 2017, 2018 and 2019 represented share capital of the Bank, which is fully paid.

	At 31 December		
	2017	2018	2019
Number of shares authorised, issued and fully paid at par value of RMB1 each	14,450,000	14,450,000	14,450,000

Movement of the share capital of the Bank

	Number of share	Amount
As at January 1, 2017	13,855,000	13,855,000
Capital contribution by equity shareholders	595,000	595,000
As at December 31, 2017, 2018 and 2019	14,450,000	14,450,000

34 OTHER EQUITY INSTRUMENTS

Undated capital bonds

(a) Outstanding undated capital bonds at 31 December 2019

Financial Instrument outstanding	Issue date	Accounting classification	Distribution rate	Issue price	Amount	In RMB	Maturity	Conversion condition	Conversion
					(million shares)				
Undated Capital Bonds . . .	11 September 2019	Equity	4.75%	100 RMB /Share	200	20,000,000	None	No	No
Total						20,000,000			
Less: Issue fees						(38,396)			
Book value . .						19,961,604			

(b) Main Clauses

(i) Principal Amount

RMB20 billion.

(ii) Maturity Date

The Bonds will continue to be outstanding so long as the Issuer's business continues to operate.

(iii) Distribution Rate

The distribution rate of the Bonds will be adjusted at defined intervals, with a distribution rate adjustment period every 5 years since the payment settlement date. In any distribution rate adjusted period, the Distribution Payments on the Bonds will be paid at a prescribed fixed distribution rate. The distribution rate at the time of issuance is determined by way of book building running and centralised allocation.

The distribution rate is determined by a benchmark rate plus a fixed spread. The benchmark rate is the arithmetic average of the yields to maturity of 5 trading days prior to the Announcement Date of the Subscription Agreement, as indicated by the yield to maturity curve of applicable 5-year China government Notes (rounded up to 0.01%) published on www.ChinaBond.com.cn (or other websites approved by the China Central Depository & Clearing Co., Ltd.). The fixed spread is the difference between the distribution rate and the benchmark rate as determined at the time of issuance. The fixed spread will not be adjusted once determined.

The Bonds will not have any distribution rate step up nor any other incentive to redeem.

(iv) Conditional Redemption Rights of the Issuer

The Bonds Issuance sets conditional redemption rights for the Issuer. From the fifth anniversary since the Issuance of the Bonds, the Issuer may redeem the Bonds in whole or in part on each distribution payment date (including the fifth distribution payment date since the Issuance). If, after the Issuance, the Bonds no longer qualify as Additional Tier 1 Capital as a result of an unforeseeable change or amendment to relevant provisions of supervisory regulations, the Issuer may redeem all but not some only of the Bonds.

(v) Subordination

The claims in respect of the Bonds, in the event of the liquidation of the Issuer, will be subordinated to claims of depositors, general creditors, and subordinated indebtedness; shall rank in priority to all classes of shares held by the Issuer's shareholders and rank pari passu with the claims in respect of any other Additional Tier 1 Capital instruments of the Issuer that rank pari passu with the Bonds. If subsequent amendments to the PRC Enterprise Bankruptcy Law or relevant regulations are applicable, such relevant laws and regulations shall prevail.

(vi) Distribution Payment

The distribution of the Bonds will be payable annually. The distribution payment date of the Bonds shall be 16 September of each year. If any distribution payment date falls on a day which is an official holiday or non-business day in the PRC, it shall be postponed to the subsequent business day. Such postponed distributions shall not bear interest. The Issuer shall have the right to cancel, in whole or in part, distributions on the Bonds and any such cancellation shall not constitute an event of default. When exercising such right, the Issuer will take into full consideration the interest of the Bonds' holders. The Issuer may, at its sole discretion, use the proceeds from the cancelled distributions to meet other obligations as they fall due. Cancellation of any distributions on the Bonds, no matter in whole or in part, will not impose any other restriction on the Issuer, except in relation to dividend distributions to ordinary shares. Any cancellation of any distribution on the Notes, no matter in whole or in part, will require the deliberation and approval of the general shareholders meeting. And the Issuer shall give notice to the investors on such cancellation in a timely manner.

(vii) Put Option

The holder of the Bonds do not have any put option to sell back the Bonds to the Issuer.

(viii) Write – down/write – off Clauses

Upon the occurrence of an Additional Tier 1 Capital Trigger Event, namely, the Issuer's Core Tier 1 Capital Adequacy Ratio having fallen to 5.125% (or below), the Issuer has the right, subject to the approval of the China Banking and Insurance Regulatory Commission ("CBIRC") but without the need for the consent of the Bond holders, to write down all or part of the aggregate amount of the Bonds then issued and outstanding, in order to restore the Core Tier 1 Capital Adequacy Ratio to above 5.125%. In the case of a partial write-down, all of the Bonds then issued and outstanding shall be written down on a prorate basis, according to the outstanding par value, with all other Additional Tier 1 Capital instruments with equivalent write-down clauses of the Issuer. The Bonds may be subject to write-down more than once, in order to restore the Core Tier 1 Capital Adequacy Ratio of the Issuer to above 5.125%.

Upon the occurrence of a Tier 2 Capital Trigger Event, the Issuer has the right to write off in whole, without the need for the consent of Bond holders, the aggregate principal amount of the Bonds then issued and outstanding according to the outstanding par value. A Tier 2 Capital Trigger Event refers to the earlier of the following events: (a) CBIRC having decided that the Issuer would become non-viable without a write-off; (b) any relevant authority having decided that a public sector injection of capital or equivalent support is necessary, without which the Issuer would become non-viable. Upon write-off of the Bonds, such Bonds are to be permanently cancelled and will not be restored under any circumstances.

35 RESERVES

(a) Surplus reserve

The surplus reserve at 31 December 2017, 2018 and 2019 represented statutory surplus reserve and discretionary surplus reserve.

Pursuant to the Company Law of the PRC and the Article of Association of the Bank, the Bank is required to appropriate 10% of its net profit as on an annual basis determined under the People's Republic of China Generally Accepted Accounting Principles (PRC GAAP) after making good prior year's accumulated loss, to statutory surplus reserve until the balance reaches 50% of its registered capital.

The Bank appropriated an amount of approximately RMB675 million, RMB708 million and RMB834 million to the surplus reserve for 2017, 2018 and 2019, respectively.

The Bank may also appropriate discretionary surplus reserve in accordance with the resolution of the shareholders.

(b) General reserve

Pursuant to the "Measures on Impairment Allowances for Financial Enterprises (Cai Jin [2012] No. 20)" issued by the Ministry of Finance, the Bank is required to set aside a general reserve through profit appropriation which should not be lower than 1.5% of the ending balance of its gross risk-bearing assets on an annual basis. The balance of the general reserve of the Bank amounted to approximately RMB12,563 million, RMB12,641 million and RMB14,082 million as at 31 December 2017, 2018 and 2019, respectively.

(c) Fair value reserve

	Years ended 31 December		
	2017	2018	2019
As at 1 January	(122,237)	(501,610)	251,224
Changes in fair value recognised in other comprehensive income	(564,621)	534,004	149,344
Transfer to profit or loss upon disposal	102,107	469,775	(51,680)
Less: deferred tax	115,629	(250,945)	(24,417)
As at 31 December	(469,122)	251,224	324,471

(d) Impairment reserve

	Year ended 31 December	Year ended 31 December
	2018	2019
As at 1 January	37,011	32,188
Impairment losses recognised in other comprehensive income	(6,431)	817,111
Less: deferred tax	1,608	(204,277)
As at 31 December	32,188	645,022

36 RETAINED EARNINGS

Appropriation of profits

In accordance with the resolution at the Bank's Annual General Meeting on 26 March 2018, the shareholders approved the following profit appropriations for the year ended 31 December 2017:

– Appropriation of statutory surplus reserve base on 10% of the net profit;

– Appropriation of general reserve to 1.5% of the ending balance of the gross risk-bearing assets amounted to approximately RMB2,076 million; and

– Declaration of special dividends to in an aggregation amount of approximately RMB67 million to non-trust shareholders who have completed the contribution obligation under the second capital injection in 2011.

In accordance with the resolution at the Bank's Annual General Meeting on 28 March 2019, the shareholders approved the following profit appropriations for the year ended 31 December 2018:

– Appropriation of statutory surplus reserve base on 10% of the net profit;

– Appropriation of general reserve to 1.5% of the ending balance of the gross risk-bearing assets amounted to approximately RMB78 million.

In accordance with the resolution at the Bank's 44th meeting of the fourth Board of Directors on 27 September 2019, the Board of Directors approved the declaration of the remaining special dividends in an aggregation amount of approximately RMB2,061 million to non-trust shareholders who have completed the contribution obligation under the second capital injection in 2011 with the authorisation by the General Meeting of shareholders.

In accordance with the resolution at the Bank's Annual General Meeting on 27 March 2020, the shareholders approved the following profit appropriations for the year ended 31 December 2019:

•– Appropriation of statutory surplus reserve base on 10% of the net profit;

– Appropriation of general reserve to 1.5% of the ending balance of the gross risk-bearing assets amounted to approximately RMB1,440 million.

37 INVOLVEMENT WITH UNCONSOLIDATED STRUCTURED ENTITIES

(a) Structured entities sponsored by third party institutions in which the Bank holds an interest:

The Bank holds interests in certain structured entities sponsored by third party institutions through investments in the units issued by these structured entities. Such structured entities include the investment management products under trust schemes, wealth management products under trust schemes issued by financial institutions and investment funds. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of third party investors. These vehicles are financed through the issue of units to investors.

The following table sets out an analysis of the carrying amounts of interests held by the Bank in unconsolidated structured entities, as well as an analysis of the line items in the statement of financial position in which relevant assets are recognised as at 31 December 2017, 2018 and 2019:

	At 31 December 2017		At 31 December 2018		At 31 December 2019	
	Carrying amount	Maximum exposure	Carrying amount	Maximum exposure	Carrying amount	Maximum exposure
Financial investments at fair value through profit or loss	12,374,875	12,374,875	21,635,160	21,635,160	33,592,051	33,592,051
Financial investments at fair value through other comprehensive income	–	–	2,738,152	2,738,152	9,006,106	9,006,106
Financial investments at amortised cost	–	–	135,421,421	135,424,760	85,510,600	85,571,429
Investments classified as receivables	275,927,480	276,767,403	–	–	–	–
Total	288,302,355	289,142,278	159,794,733	159,798,072	128,108,757	128,169,586

(b) Structured entities sponsored by the Bank which the Bank does not consolidate but holds an interest in:

The types of unconsolidated structured entities sponsored by the Bank include non-principal guaranteed wealth management products. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors. These structured entities are financed through the issue of units to investors. Interest held by the Bank includes investments in units issued by these structured entities and fees charged by providing management services. As at 31 December 2017, 2018 and 2019, the carrying amounts of the investments in the units issued by these structured entities and management fee receivables being recognised are not material in the statement of financial positions.

For the years ended 31 December 2017, 2018 and 2019, the amount of fee and commission income received from the abovementioned structured entities by the Bank amounted to RMB3,341 million, RMB2,243 million and RMB1,850 million, respectively.

As at 31 December 2017, 2018 and 2019, the amount of assets held by the unconsolidated non-principal guaranteed wealth management products, which are sponsored by the Bank, are RMB381,508 million, RMB292,998 million and RMB234,734 million, respectively.

(c) Unconsolidated structure entities sponsored by the Bank during the year which the Bank does not have an interest in as at 31 December 2017, 2018 and 2019;

For the years ended 31 December 2017, 2018 and 2019, the aggregated amount of the non-principal guaranteed wealth management products sponsored and issued by the Bank after 1 January but matured before 31 December amounted to RMB209,140 million, RMB177,328 million and RMB175,086 million, respectively.

38 CAPITAL MANAGEMENT

The Bank implements a comprehensive capital management framework, covering the management of the regulated capital, economic capital and book capital, particularly the capital compliance management, capital planning, allocation and evaluation.

In setting its capital adequacy objective, the Bank considers regulatory requirements, external rating objective and its own risk preference, so as to protect the interest of its customers and creditors, maximize the value of shareholders and meet all regulatory requirements on capital management.

The Bank calculates capital adequacy ratios in accordance with the "Regulation Governing Capital of Commercial Banks (Provisional)" promulgated by the former CBRC and related regulatory requirements. In calculating its capital adequacy ratios, the Bank considers all its domestic and overseas branches and sub-branches and financial institution subsidiaries (excluding insurance companies).

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 collaterals or guarantees. Similar treatment is adopted for off-balance sheet exposure, with adjustments made to reflect the more contingent nature of any potential losses. The credit risk weighted assets of counterparties in over-the-counter derivatives transactions are the sum of default risk weighted assets of counterparties and credit-adjusted risk-weighted assets. Market risk-weighted assets are calculated using the standardized approach. Operational risk-weighted assets are calculated using basic indicator approach.

The former CBRC requires commercial banks to meet the requirements of capital adequacy ratios by the end of 2018 in accordance with "Regulation Governing Capital of Commercial Banks (Provisional)". For non-systemically important banks, the minimum ratios for core tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio are 7.50%, 8.50% and 10.50%, respectively.

The Bank calculates its core tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio in accordance with the former CBRC's "Regulation Governing Capital of Commercial Banks (Provisional)" and relevant requirements. The capital adequacy ratios and related components of the Bank illustrated below are computed based on the Bank's statutory financial statements prepared in accordance with PRC GAAP.

The Bank's capital adequacy ratios at 31 December 2017, 2018 and 2019 calculated in accordance with "Regulation Governing Capital of Commercial Banks (Provisional)" and relevant requirements promulgated by the former CBRC are as follows:

	At 31 December		
	2017	2018	2019
Total core tier-one capital			
– Share capital	14,450,000	14,450,000	14,450,000
– Qualifying portion of capital reserve	20,000	20,000	20,000
– Surplus reserve	3,468,043	4,176,059	5,009,612
– General reserve	12,562,941	12,641,306	14,081,733
– Other comprehensive income	(469,122)	283,412	969,493
– Retained earnings	18,433,440	24,288,344	28,288,936
Core tier-one capital	48,465,302	55,859,121	62,819,774
Core tier-one capital deductions	(90,561)	(123,054)	(232,140)
Net core tier-one capital	48,374,741	55,736,067	62,587,634
Other tier-one capital	–	–	19,961,604
Net tier-one capital	48,374,741	55,736,067	82,549,238
Tier-two capital			
– Instruments issued and share premium	13,028,247	13,030,105	9,937,217
– Surplus provision for loan impairment	6,811,837	7,438,387	8,977,265
Tier-two capital deductions	(150,000)	–	–
Tier-two capital	19,690,084	20,468,492	18,914,482
Net capital base	68,064,825	76,204,559	101,463,720
Total risk weighted assets	595,553,914	647,222,337	776,353,540
Core tier-one capital adequacy ratio	8.12%	8.61%	8.06%
Tier-one capital adequacy ratio	8.12%	8.61%	10.63%
Capital adequacy ratio	11.43%	11.77%	13.07%

39 NOTES TO THE CASH FLOW STATEMENT

(a) Net increase/(decrease) in cash and cash equivalents

	Years ended 31 December		
	2017	2018	2019
Cash and cash equivalents as at 31 December	45,662,816	68,852,350	42,694,864
Less: Cash and cash equivalents as at 1 January	34,680,657	45,662,816	68,852,350
Net increase/(decrease) in cash and cash equivalents	10,982,159	23,189,534	(26,157,486)

(b) Cash and cash equivalents

	At 31 December		
	2017	**2018**	**2019**
Cash on hand	672,344	533,475	429,952
Deposits with central bank other than restricted deposits	26,849,706	50,341,663	28,043,847
Deposits with banks and other financial institutions	8,222,789	7,067,998	12,371,065
Placements with banks and other financial institutions	9,917,977	344,102	–
Financial assets held under resale agreements	–	10,565,112	1,850,000
Total	45,662,816	68,852,350	42,694,864

(c) Reconciliation of liabilities arising from financing activities

The table below details changes in the Bank's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Bank's cash flow statement as cash flows from financing activities.

	Debt securities issued	**Interest payable arising from debt securities issued**	**Total**
	(Note 31)	*(Note 31)*	
As at 1 January 2017	100,324,806	579,858	100,904,664
Changes from financing cash flows			
Net proceeds from new debt securities issued	192,284,922	–	192,284,922
Repayment of debt securities issued	(154,925,996)	–	(154,925,996)
Interest paid on debt securities issued	(2,524,004)	(1,627,509)	(4,151,513)
Total changes from financing cash flows	34,834,922	(1,627,509)	33,207,413
Other changes			
Interest expense *(Note 3)*	3,255,466	1,552,963	4,808,429
Total Other Changes	3,255,466	1,552,963	4,808,429
As at 31 December 2017	138,415,194	505,312	138,920,506

	Debt securities issued	Interest accrued arising from debt securities issued	Dividends payable	Total
	(Note 31)	*(Note 31)*	*(Note 36)*	
As at 1 January 2018	138,415,194	505,312	–	138,920,506
Changes from financing cash flows				
Net proceeds from new debt securities issued	411,810,647	–	–	411,810,647
Repayment of debt securities issued	(332,617,051)	–	–	(332,617,051)
Interest paid on debt securities issued	(6,195,305)	(1,679,873)	–	(7,875,178)
Dividends paid	–	–	(67,320)	(67,320)
Total changes from financing cash flows	72,998,291	(1,679,873)	(67,320)	71,251,098
Other changes				
Interest expense *(Note 3)*	6,497,509	1,942,560	–	8,440,069
Cash dividends paid to shareholders	–	–	67,320	67,320
Total other changes	6,497,509	1,942,560	67,320	8,507,389
As at 31 December 2018	217,910,994	767,999	–	218,678,993

	Debt securities issued	Interest accrued arising from debt securities issued	Dividends payable	Lease Liabilities	Total
	(Note 31)	*(Note 31)*	*(Note 36)*	*(Note 32)*	
As at 1 January 2019	217,910,994	767,999	–	4,222,082	222,901,075
Changes from financing cash flows					
Net proceeds from new debt securities issued	370,681,993	–	–	–	370,681,993
Repayment of debt securities issued	(392,380,779)	–	–	–	(392,380,779)
Interest paid on debt securities issued	(4,721,379)	(2,862,768)	–	–	(7,584,147)
Dividends paid	–	–	(2,060,965)	–	(2,060,965)
Payment of lease liabilities interest	–	–	–	(174,000)	(174,000)
Repayment of lease liabilities	–	–	–	(516,717)	(516,717)
Total changes from financing cash flows	(26,420,165)	(2,862,768)	(2,060,965)	(690,717)	(32,034,615)
Other changes					
Interest expense *(Note 3)*	4,409,246	2,798,537	–	–	7,207,783
Cash dividends paid to shareholders	–	–	2,060,965	–	2,060,965
Addition of lease liabilities	–	–	–	424,931	424,931
Total other changes	4,409,246	2,798,537	2,060,965	424,931	9,693,679
As at 31 December 2019	195,900,075	703,768	–	3,956,296	200,560,139

40 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(a) Related parties of the Bank

(i) Major shareholders

Major shareholders include shareholders of the Bank with direct or indirect 5% or above shareholding, or with the right to appoint a director in the Bank.

Shareholding in the Bank:

	At 31 December		
	2017	**2018**	**2019**
TEDA Investment Holding Co., Ltd. (天津泰達投資控股有限公司)	25.00%	25.00%	25.00%
Standard Chartered Bank (Hong Kong) Limited (渣打銀行(香港)有限公司)	19.99%	19.99%	19.99%
China Shipping Investment Co., Ltd. (中海集團投資有限公司)	13.67%	13.67%	13.67%
State Development & Investment Corp., Ltd. (國家開發投資集團有限公司)	11.67%	11.67%	11.67%
China Baowu Steel Group Corporation Limited (中國寶武鋼鐵集團有限公司)	11.67%	11.67%	11.67%
Oceanwide Industry Co., Ltd. (泛海實業股份有限公司)	9.49%	9.49%	9.49%
Tianjin Shanghui Investment Holding Company Limited (天津商匯投資(控股)有限公司)	8.00%	8.00%	8.00%

(ii) Associate of the Bank

The detailed information of the Bank's associate is set out in Note 21.

(iii) Other related parties

Other related parties can be individuals or enterprises, which include: members of the board of directors, the board of supervisors and senior management, and close family members of such individuals; entities (and their subsidiary) controlled or jointly controlled by members of the board of directors, the board of supervisors and senior management, and close family members of such individuals; and entities controlled or jointly controlled by the major shareholders of the Bank as set out in Note 40(a) or their controlling shareholders.

(b) Transactions with related parties other than key management personnel

(i) Transactions between the Bank and major shareholders:

	Years ended 31 December		
	2017	**2018**	**2019**
Transactions during the year			
Interest income	40,987	61,568	187,296
Fee and commission income	5,620	–	–
Interest expense	1,928	607	13,000
Operating expense	24,023	23,142	2,899

	At 31 December		
	2017	2018	2019
Balances at end of the year			
Deposits with banks and other financial institutions	143,250	–	–
Loans and advances to customers	626,000	2,117,483	3,442,041
Financial investments	298,451	–	–
Interests receivable	11,340	–	–
Deposits from banks and other financial institutions	22,559	–	–
Deposits from customers	138,514	60,090	1,303
Interests payable	31	–	–
Other liabilities	–	–	63,037
Derivative financial instruments-notional amount	10,841,482	30,308,354	–

(ii) Transactions between the Bank and associate:

	Years ended 31 December		
	2017	2018	2019
Transactions during the year			
Interest income	13,016	–	–
Interest expense	41	54	31

	At 31 December		
	2017	2018	2019
Balances at end of the year			
Placements with banks and other financial institutions	250,000	–	–
Interests receivable	446	–	–
Deposits from banks and other financial institutions	9,675	2,329	731
Interests payable	5	–	–

(iii) Transactions between the Bank and other related parties:

	Years ended 31 December		
	2017	2018	2019
Transactions during the year			
Interest income	2,101,301	1,523,814	478,324
Fee and commission income	60,315	73,516	70,916
Net gains of investment securities	–	200	1,211
Other operating income	–	3,153	5,529
Interest expense	100,273	57,404	35,506
Operating expense	–	43,397	13,408

	At 31 December		
	2017	2018	2019
Balances at end of the year			
Deposits with banks and other financial institutions	4,641,611	2,216,107	1,335,781
Placements with banks and other financial institutions	367,710	–	–
Financial assets held under resale agreements	–	–	1,850,664
Loans and advances to customers	5,518,718	8,216,200	5,398,335
Financial investment	36,270,790	14,607,940	2,539,524
Other assets	140,103	–	–
Interests receivable	85,747	–	–
Deposits from banks and other financial institutions	2,195,973	239,038	367,030
Deposits from customers	467,400	3,181,904	1,447,754
Debt securities issued	–	–	750,000
Other liabilities	–	–	290,824
Interests payable	19,853	–	–
Derivative financial instruments-notional amount	2,974,000	–	1,881,000
Bank acceptances	200,000	55,100	269,860
Letters of guarantees	650,900	695,739	1,599
Letters of credit	–	–	91,046

(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 Bank, 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

	Years ended 31 December		
	2017	2018	2019
Transactions during the year			
Interest income	479	408	266
Interest expense	13	4	6

	At 31 December		
	2017	2018	2019
Balances at end of the year/period			
Loans and advances to customers	10,306	8,550	3,695
Interests receivable	28	–	–
Deposits from customers	3,442	1,800	1,108
Interests payable	1	–	–

(ii) Key management personnel compensation

The aggregate compensation of key management personnel is listed as follows:

	Years ended 31 December		
	2017	**2018**	**2019**
Key management personnel compensation	15,488	29,394	23,352

(d) Loans and advances to directors, supervisors and officers

	At 31 December		
	2017	**2018**	**2019**
Aggregate amount of relevant loans outstanding at the end of the year	10,306	8,527	3,687
Maximum aggregate amount of relevant loans outstanding during the year	10,306	8,527	3,687

There was no amount due but unpaid, nor any impairment provision made against the principal or interest on these loans as at 31 December 2017, 2018 and 2019.

41 SEGMENT REPORTING

(a) Business segment

The Bank manages its business by business lines. Consistent with the way in which information is reported internally to the Bank's most senior executive management for the purposes of resource allocation and performance assessment, the Bank defines reporting segments based on the following operating segments:

Corporate banking

This segment represents the provision of a range of financial products and services to corporations, government agencies and financial institutions. These products and services include corporate loans and advances, trade financing, deposit taking activities, agency services, wealth management services, consulting and advisory services, remittance and settlement services and guarantee services.

Retail banking

This segment represents the provision of a range of financial products and services to retail customers. These products and services include personal loans, deposit taking activities, personal wealth management services and remittance services.

Financial markets

This segment covers the Bank's treasury business operations. The financial markets enters into inter-bank money market transactions, repurchases transactions, and investments. It also trades in debt securities. The financial markets segment also covers management of the Bank's overall liquidity position, including the issuance of debts.

Others

These represent assets, liabilities, income and expenses which cannot directly attributable or cannot be allocated to a segment on a reasonable basis.

Measurement of segment assets and liabilities and of segment income, expenses and results is based on the Bank's accounting policies.

Internal charges and transfer prices are determined with reference to market rates and have been reflected in the performance of each segment. Interest income and expense earned from third parties are referred to as "external net interest income/expense". Net interest income and expense arising from internal charges and transfer pricing adjustments are referred to as "internal net interest income/expense".

Segment income, expenses, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Intra-group balances and intra-group transactions are eliminated by segment income, expenses, assets and liabilities as part of the consolidation process. Segment capital expenditure is the total cost incurred during the years ended 31 December 2017, 2018 and 2019 to acquire property and equipment, intangible assets and other long-term assets.

	Year ended 31 December 2017				
	Corporate banking	**Retail banking**	**Financial markets**	**Others**	**Total**
Operating income					
External net interest income	7,242,749	3,951,123	5,826,525	–	17,020,397
Internal net interest income/(expense)	4,568,736	(2,178,421)	(2,390,315)	–	–
Net interest income	11,811,485	1,772,702	3,436,210	–	17,020,397
Net fee and commission income	1,919,857	274,062	6,485,312	6,800	8,686,031
Net trading losses	(9,762)	–	(543,223)	–	(552,985)
Net (losses)/gains arising from investment securities	–	–	(23,493)	9,800	(13,693)
Other operating income	804	8,269	235	101,089	110,397
Operating income	13,722,384	2,055,033	9,355,041	117,689	25,250,147
Operating expenses	(4,752,791)	(2,945,881)	(1,184,654)	(188,072)	(9,071,398)
Impairment losses on assets	(5,170,089)	(800,945)	(1,783,978)	–	(7,755,012)
Share of profits of associate	–	–	–	1,691	1,691
Profit/(loss) before tax	3,799,504	(1,691,793)	6,386,409	(68,692)	8,425,428
Segment assets	495,234,702	123,345,163	376,199,136	2,958,696	997,737,697
Deferred tax assets					4,829,352
Total assets					1,002,567,049
Segment liabilities	585,064,819	27,389,868	339,719,650	1,927,410	954,101,747
Total liabilities					954,101,747
Credit commitment	179,429,629	3,335,207	–	–	182,764,836
Other segment information					
– Depreciation and amortisation	201,235	190,211	22,921	136,115	550,482
– Capital expenditure	257,809	243,687	29,364	174,383	705,243

	Year ended 31 December 2018				
	Corporate banking	Retail banking	Financial markets	Others	Total
Operating income					
External net interest income/(expense)	8,111,656	7,874,245	(757,969)	–	15,227,932
Internal net interest income/(expense)	2,015,578	(4,498,442)	2,482,864	–	–
Net interest income	10,127,234	3,375,803	1,724,895	–	15,227,932
Net fee and commission income/(expense)	1,858,120	25,280	4,501,240	(27,304)	6,357,336
Net trading gains/(losses)	37,560	–	(530,153)	–	(492,593)
Net gains arising from investment securities	8,896	–	1,964,335	11,883	1,985,114
Other operating income	4,685	8,015	200	119,375	132,275
Operating income	12,036,495	3,409,098	7,660,517	103,954	23,210,064
Operating expenses	(4,558,479)	(3,053,473)	(880,395)	(183,415)	(8,675,762)
Impairment (losses)/reversals on assets	(6,598,720)	(681,783)	772,618	–	(6,507,885)
Share of profits of associate	–	–	–	1,045	1,045
Profit/(loss) before tax	879,296	(326,158)	7,552,740	(78,416)	8,027,462
Segment assets	555,465,710	174,394,793	295,989,311	3,535,596	1,029,385,410
Deferred tax assets					5,065,922
Total assets					1,034,451,332
Segment liabilities	620,466,917	36,681,472	311,858,429	9,585,393	978,592,211
Total liabilities					978,592,211
Credit commitment	250,210,571	5,290,947	–	–	255,501,518
Other segment information					
– Depreciation and amortisation	197,161	193,668	21,290	135,061	547,180
– Capital expenditure	259,653	255,053	28,038	177,869	720,613

	Year ended 31 December 2019				
	Corporate banking	Retail banking	Financial markets	Others	Total
Operating income					
External net interest income	8,909,016	11,555,504	2,445,885	–	22,910,405
Internal net interest income/(expense)	1,694,902	(5,803,622)	4,108,720	–	–
Net interest income	10,603,918	5,751,882	6,554,605	–	22,910,405
Net fee and commission income/(expense)	1,727,815	(284,580)	2,803,333	(20,819)	4,225,749
Net trading gains	39,848	–	156,544	–	196,392
Net gains arising from investment securities	73,184	2,369	842,087	44,217	961,857
Other operating income	11,051	8,962	4,856	59,122	83,991
Operating income	12,455,816	5,478,633	10,361,425	82,520	28,378,394
Operating expenses	(4,508,384)	(3,242,565)	(877,827)	(228,084)	(8,856,860)
Impairment losses on assets	(7,060,775)	(1,556,563)	(949,575)	–	(9,566,913)
Share of losses of associate	–	–	–	(52,771)	(52,771)
Profit/(loss) before tax	886,657	679,505	8,534,023	(198,335)	9,901,850
Segment assets	602,476,375	240,761,177	262,303,470	5,023,912	1,110,564,934
Deferred tax assets					6,365,091
Total assets					1,116,930,025
Segment liabilities	636,100,588	56,746,341	330,281,394	11,163,105	1,034,291,428
Total liabilities					1,034,291,428
Credit commitment	256,350,410	5,069,857	–	–	261,420,267
Other segment information					
– Depreciation and amortisation	503,894	495,087	54,425	345,388	1,398,794
– Capital expenditure	192,759	189,391	20,820	132,125	535,095

(b) Geographical segment

Geographically, the Bank mainly conducts its business in the four areas listed below in Mainland China.

Northern and Northeast China includes Head Office, Beijing Branch, Tianjin Branch, Binhai Branch, Tianjin Pilot Free Trade Zone Branch, Dalian Branch, Hohhot Branch, Taiyuan Branch, Shijiazhuang Branch, Changchun Branch and Shenyang Branch.

Eastern China includes Nanjing Branch, Hangzhou Branch, Jinan Branch, Shanghai Branch, Shanghai Pilot Free Trade Zone Branch, Hefei Branch, Suzhou Branch, Qingdao Branch, Ningbo Branch and Nanchang Branch.

Central and Southern China includes Guangzhou Branch, Shenzhen Branch, Shenzhen Qianhai Branch, Hong Kong Representative Office, Changsha Branch, Wuhan Branch, Fuzhou Branch, Zhengzhou Branch, Xiamen Pilot Free Trade Zone Branch, Haikou Branch and Nanning Branch.

Western China includes Chengdu Branch, Xi'an Branch and Chongqing Branch.

	Year ended 31 December 2017					
	Northern and Northeast China	Eastern China	Central and Southern China	Western China	Elimination	Total
Operating income						
External net interest income	10,765,531	2,953,094	2,587,727	714,045	–	17,020,397
Internal net interest (expense)/income	(924,133)	369,445	570,690	(16,002)	–	–
Net interest income	9,841,398	3,322,539	3,158,417	698,043	–	17,020,397
Net fee and commission income	5,448,753	1,541,247	1,395,044	300,987	–	8,686,031
Net trading losses	(552,322)	–	(663)	–	–	(552,985)
Net losses arising from investment securities	(13,693)	–	–	–	–	(13,693)
Other operating income	37,143	22,136	15,995	35,123	–	110,397
Operating income	14,761,279	4,885,922	4,568,793	1,034,153	–	25,250,147
Operating expenses	(5,212,834)	(1,802,379)	(1,680,338)	(375,847)	–	(9,071,398)
Impairment losses on assets	(4,040,596)	(1,043,652)	(2,063,476)	(607,288)	–	(7,755,012)
Share of profits of associate	1,691	–	–	–	–	1,691
Profit before tax	5,509,540	2,039,891	824,979	51,018	–	8,425,428
Segment assets	824,333,096	153,673,362	126,791,795	32,329,597	(139,390,153)	997,737,697
Deferred tax assets						4,829,352
Total assets						1,002,567,049
Segment liabilities	786,939,203	150,791,598	124,059,567	31,701,532	(139,390,153)	954,101,747
Total liabilities						954,101,747
Credit commitment	57,448,794	74,272,429	41,515,774	9,527,839	–	182,764,836
Other segment information						
– Depreciation and amortisation	325,557	114,393	86,595	23,937	–	550,482
– Capital expenditure	289,114	81,893	107,907	226,329	–	705,243

	Year ended 31 December 2018					
	Northern and Northeast China	Eastern China	Central and Southern China	Western China	Elimination	Total
Operating income						
External net interest income	5,765,071	2,988,363	4,757,875	1,716,623	–	15,227,932
Internal net interest income/(expense)	199,506	615,198	(120,171)	(694,533)	–	–
Net interest income	5,964,577	3,603,561	4,637,704	1,022,090	–	15,227,932
Net fee and commission income	4,206,149	860,006	1,104,878	186,303	–	6,357,336
Net trading (losses)/gains	(530,004)	2,731	24	34,656	–	(492,593)
Net gains arising from investment securities	1,985,114	–	–	–	–	1,985,114
Other operating income	54,786	20,311	45,574	11,604	–	132,275
Operating income	11,680,622	4,486,609	5,788,180	1,254,653	–	23,210,064
Operating expenses	(4,877,483)	(1,683,968)	(1,721,411)	(392,900)	–	(8,675,762)
Impairment losses on assets	(3,735,910)	(1,022,669)	(1,054,854)	(694,452)	–	(6,507,885)
Share of profits of associate	1,045	–	–	–	–	1,045
Profit before tax	3,068,274	1,779,972	3,011,915	167,301	–	8,027,462
Segment assets	804,735,149	151,146,119	140,834,035	55,200,501	(122,530,394)	1,029,385,410
Deferred tax assets						5,065,922
Total assets						1,034,451,332
Segment liabilities	761,367,522	148,481,262	136,904,382	54,369,439	(122,530,394)	978,592,211
Total liabilities						978,592,211
Credit commitment	81,450,675	89,840,206	59,194,331	25,016,306	–	255,501,518
Other segment information						
– Depreciation and amortisation	335,345	102,391	78,668	30,776	–	547,180
– Capital expenditure	572,187	50,157	55,722	42,547	–	720,613

	Year ended 31 December 2019					
	Northern and Northeast China	Eastern China	Central and Southern China	Western China	Elimination	Total
Operating income						
External net interest income	10,869,654	3,528,513	5,765,278	2,746,960	–	22,910,405
Internal net interest income/(expense)	2,729,117	(146,116)	(1,317,924)	(1,265,077)	–	–
Net interest income	13,598,771	3,382,397	4,447,354	1,481,883	–	22,910,405
Net fee and commission income	2,585,162	716,313	721,208	203,066	–	4,225,749
Net trading gains/(losses)	170,450	3,690	(26)	22,278	–	196,392
Net gains arising from investment securities	961,857	–	–	–	–	961,857
Other operating income	45,931	28,085	8,742	1,233	–	83,991
Operating income	17,362,171	4,130,485	5,177,278	1,708,460	–	28,378,394
Operating expenses	(4,852,571)	(1,864,761)	(1,722,679)	(416,849)	–	(8,856,860)
Impairment losses on assets	(6,000,431)	(2,606,464)	(987,713)	27,695	–	(9,566,913)
Share of losses of associate	(52,771)	–	–	–	–	(52,771)
Profit/(loss) before tax	6,456,398	(340,740)	2,466,886	1,319,306	–	9,901,850
Segment assets	808,734,648	186,775,559	172,577,161	56,413,851	(113,936,285)	1,110,564,934
Deferred tax assets						6,365,091
Total assets						1,116,930,025
Segment liabilities	739,053,099	184,695,473	169,305,078	55,174,063	(113,936,285)	1,034,291,428
Total liabilities						1,034,291,428
Credit commitment	89,180,118	83,612,681	67,257,590	21,369,878	–	261,420,267
Other segment information						
– Depreciation and amortisation	675,817	338,915	316,655	67,407	–	1,398,794
– Capital expenditure	216,301	102,222	59,589	156,983	–	535,095

42 RISK MANAGEMENT

The Bank has exposure to the following risks from its use of financial instruments: credit risk, market risk, liquidity risk and operational risk.

The Bank develops and continually improves risk management policies, limit system, control procedures and IT systems based on the latest changes in regulatory policies, market conditions and business development to analyze, identify, monitor and report various risks.

This note presents information about the Bank's exposure to each of the above risks and their sources, and the Bank's objectives, policies and procedures for measuring and managing these risks.

Risk management system

The backbones of the Bank's organizational structure to manage its risks are the Board of Directors, the Risk Management Committee of the Board of Directors, (Related Party Transactions Control Committee), the Audit and Consumer Rights Protection Committee of the Board of Directors, Development Strategy and Inclusive Finance Committee of the Board of Directors, the Board of Supervisors, senior management and its Risk Control Committee, Assets and Liabilities Management Committee, Information Technology Committee, Data Management Committee, Financial Review and Approval Committee, and relevant functional departments at Head Office, including Risk Management Department, Credit Review Department and Regional Approval Center, Credit Monitoring Department, Retail Risk Management Department, Assets and Liabilities Management Department, Internal Control and Compliance Department, Legal Affairs Department, and other departments responsible for operational risks, Information Technology Department, the General Office (Public Relations Department), Office of Strategic Development and Investment Management, Audit Department and Regional Audit Center, and risk management functional departments of the subsidiaries and branches.

The Board of Directors of the Bank is responsible for the ultimate responsibility for comprehensive risk management and is responsible for fulfilling the establishment of risk culture, formulating risk management strategies, setting risk preferences and ensuring the establishment of risk limits, reviewing and approving major risk management policies and procedures, and supervising senior management to conduct comprehensive risk management, reviewing comprehensive risk management reports, approval of the disclosure of comprehensive risks and various significant risk information, hiring the chief risk management officer, and taking the lead in comprehensive risk management and other responsibilities related to risk management.

The Board of Supervisors of the Bank is responsible for the supervision of comprehensive risk management and is responsible for supervising the performance of the Board of Directors and senior management in risk management and the rectification.

The senior management shall assume the responsibilities for implementing comprehensive risk management, implementing the resolutions of the Board of Directors and fulfilling the following duties: establishing an operational management structure applicable to the comprehensive risk management; clarifying the division of risk management responsibilities of the comprehensive risk management department, business department and other departments; building an operational mechanism featuring mutual coordination and effective checks and balances among departments; formulating a clear implementation and accountability mechanism to ensure that the risk management strategies, risk appetites and risk limits are fully conveyed and effectively implemented; setting risk limits according to the risk appetites set by the Board of Directors for various dimensions including, but not limited to, industries, regions, customers and products; formulating risk management policies and procedures, and conducting periodic assessments and making adjustments when necessary; evaluating the management for comprehensive risks and various key risks and reporting to the Board of Directors; establishing a sound management information system and data quality control mechanism; supervising the breach of risk appetites and risk limits and violations of risk management policies and procedures, and handling such cases according to the authorization of the Board of Directors; and other risk management responsibilities.

The Bank has established a risk prevention system consisting of three lines of defense against each main risk to which it is exposed. The first line of defense is formed by various business departments at the head office, branches, and sub-branches of the Bank, who are directly responsible for the prevention of various types of risks. The second line of defense is business management departments of risk management line, Assets and Liabilities Management Department and Internal Control and Compliance Departments of the Bank, who take the lead in formulating the requisite policies and procedures, and supervising bank-wide risk management measures. The third line of defense is the Audit departments of the Bank, which are responsible for conducting independent valuation of risk management system and its implementation, and monitoring the effectiveness of risk management policies.

(a) Credit risk

Credit risk represents the potential loss that may arise from the failure of a debtor or counterparty to meet its contractual obligation or commitment to the Bank. It arises primarily from credit and bond investment portfolios and guarantees granted. Credit risk is one of the most important risks facing the business operations of the Bank. The Bank may be exposed to significant risks when all counterparties are concentrated in a single industry or region. This is mainly because the counterparties' abilities to repay their loans are subject to the same impact by the economic development of the region or industry in which they operate.

The Bank insists on a comprehensive, vertical and independent management model of risk management, continuously improving the posting mechanism of risk management personnel. At the head office level, Risk Management Department, Credit Review Department, Credit Monitoring Department, Retail Risk Management Department and Regional Approval Centers of Beijing, Shanghai and Guangzhou are established. At the branch level, all tier-one branches appoint a Risk Director to report to the Chief Risk Officer, and establish Risk Management Department, Credit Monitoring Department. Tier-two branches set up Risk Management Department, and some of them have Risk Directors in place.

The Bank balances the benefits and risks through active controls, so that each type of business could achieve benefits matching its risk level at least and the capital could achieve optimal allocation. The Bank controls credit risks by formulating policies, limit control, conducting pre-lending investigation, pre-repayment monitoring, post-lending management, risk classification and recovery of bad loans. The Bank has set up a kind of credit decision-making mechanism of "three in one", with the independent responsibility examination, risk review and accountability approval as the core, to improve the expertise and independence of credit approval.

By attaching high importance to credit risk management, the Bank assiduously complies with different requirements of Board of Directors and regulatory bodies, which include persistently building a defense line of risk and strictly observing the systemic risk bottom line, combined with the current economic environment, adjusting credit policies in a timely manner, strengthening management on credit admission and approval processes, as well as lending and post-lending processes, and putting into production information system tools relating to risk warning through research & development, reinforcing risk warning of key areas, checking out disposal of non-performing assets and continuing to optimize asset structure according to changes in external environment, to maintain asset stability and ensure that the general credit risk is controllable. By considering changes in economic environment, the Bank reasonably makes provision for impairment loss and enhances the ability to resist risk on a continuous basis.

Measurement of credit risk

Loans and advances to customers and off-balance sheet credit commitments

The Risk Management Department, Credit Review Department, Credit Monitoring Department and Retail Risk Management Department are jointly responsible for management of credit risks in various credit exposures, and the credit risk management for financial investments. For corporate credit, the Bank keeps itself closely informed of the clients' credit ratings through credit rating assessment using its client credit rating models and facility rating models, and applies the ratings in its loan reviews. Together with the early warning system which monitors the risk of a customer in real time, they are the basis of credit extension. The Bank uses facility rating to determine the loss given default for each credit facility and help its credit officers to balance the risks and rewards. With respect to retail credit business, the Bank measures the credit risks of loans and borrowers through closely studying the ecological platform of the retail credit segment, continuously improving credit scoring models and data mining and risk analysis of the historical performance of the borrowers, so as to gradually improve the effectiveness and efficiency of credit access, asset management, asset classification and impairment provisioning.

Deposits and placements with banks and other financial institutions and financial assets purchased under resale agreements

The Bank adopts a centralized underwriting process in relation to approving credit limits for financial institution counterparties engaged in interbank placements, investment securities and securities under repurchase and resale agreements. The Bank assesses the credit risk of these counterparties adopting a quantitative and qualitative approach which collectively involves the assessment and review of their credit rating in the banking industry, customer base and profiles, management capabilities, business prospects, industry position, external environment, cooperation with the Bank and financial standing and performance etc.

Debt investments and derivative financial instruments

Before making investment in bonds issued by financial institutions or corporate bonds or before any dealing in financial derivatives with clients, the Bank conducts credit assessment on the issuers and the potential clients for dealing in derivative financial instruments. The Bank is also appropriately using external credit rating in assessing risk.

The credit risks in derivatives engaged by the Bank are mitigated mainly through margin deposits and credit facilities from banks.

Prior to approval, the Asset and Liability Management Department assess the potential future exposure ratio for settlement of foreign exchange on behalf of customers which is guaranteed by margin. The authorized approver is responsible for approving credit limits. The Credit Monitor Department is responsible for reviewing the specific business, specific operations are carried out in accordance with the business administrative measures.

Credit risk limit management

Loans and advances to customers and off-balance sheet credit commitments

The Bank complies with relevant regulatory requirements in controlling the concentration risks and implementing various regulatory measures, with increased focus on monitoring of credit limits. Circumstances of over utilization of limit and excess in credit limit by customers are vigorously. Where clients provide collateral, credit limits shall be frozen or adjusted in a timely manner in responding to the change in value of the collateral.

The Bank strictly complies with relevant regulatory requirements in controlling the concentration risks and implementing various regulatory measures, with increased focus on monitoring of credit limits and concentration.

Debt investment and derivative trading

In managing the limits to other bank clients or non-banking clients with respect to debt investments and derivative instruments, the Bank considers all relevant information, including credit approval and risk exposure.

Establishment of credit limits for financial institutions and the monitoring of the limits for debt investments and derivative trading are charged by the Credit Monitoring Department of the head office.

Credit risk mitigation measures

Collateral

The credit policies of the Bank provide specific requirements on the acceptable collaterals and pledges, and set different rates for different collaterals and pledges based on their nature and extent of realization. The Bank sets out specific requirements for the qualifications of professional evaluation agencies. In addition, through credit risk management system, the Bank implements strict management on the collaterals and pledges and their ownership certificates to prevent the occurrence of operational risks.

If the decrease in value or quantity of collateral makes it insufficient for the actual value of the collateral to meet the collateral rate, the Bank shall freeze the underlying credit lines, require the client to provide additional collateral or security deposit or return the corresponding credit lines.

In respect of real estate development loans, the Bank, by complying with relevant regulatory requirements, assesses the value of collateralized real estate properties based on their progress of construction, cost to resume and complete construction, expected time of completion, selling prices and reasonable discount rates to prevent over extension of credit. For real estate properties accepted for pledge, the Bank sets the minimum requirements on their completion.

The acceptable collateral includes financial collateral, real estate properties, accounts receivable and other collateral, mainly consisting of the following types:

- Cash and it equivalent
- Bills
- Stock
- State-owned construction land use right
- Residential real estate
- Commercial real estate
- Accounts receivable
- Vehicle

- Mechanical equipment
- Inventory
- Resource assets
- Intellectual property

Master netting arrangements

The Bank and its counterparties enter into master netting arrangements for derivatives transactions to further reduce credit risk. Master netting arrangements may not lead to the offsetting between assets and liabilities on the statement of financial position, because the transactions are usually settled on a gross basis. However, the credit risk associated with favorable contracts is reduced by a master netting arrangement to the extent that if a default occurs, all amounts are terminated and settled on a net basis.

The derivatives are mainly settled in accordance with the provisions of the International Swaps and Derivatives Association and the features of the products, using, in principle, the method that involves the lowest settlement risk.

Credit commitments

The main objective of credit commitments is to ensure that clients obtain the funds they need. The Bank makes irrevocable guarantee when it issues letters of guarantee, letters of credit and bank's acceptance bill, i.e., the Bank shall make repayments on behalf of the client if the client cannot meet its repayment obligations to a third party, and the Bank assumes the same credit risks as those of a loan, review should be done in strict compliance with the Bank's relevant requirements in conducting such business.

The Bank defines margin deposit as one of the risk mitigations and receives certain margin deposits when conducting relevant credit extension business, with the exception of certain creditworthy clients, to reduce the credit risk involved in providing this service. The margin deposit is collected at a certain percentage of the committed amount based on the credibility of the client.

Impairment and provisioning policies

The following credit risk management applies to the period before 1 January 2018:

The Bank adopts a loan risk classification approach to manage its loan portfolio risk. Loans are generally classified as normal, special mention, substandard, doubtful and loss according to their levels of risk. Substandard, doubtful and loss loans are considered to be impaired loans and advances. They are classified as such when one or more events demonstrate that there is objective evidence of a loss event. The impairment loss is assessed collectively or individually as appropriate.

The core definitions of the five categories of loans and advances are set out below:

Normal:	Borrowers can honor the terms of their loans. There is no reason to doubt their ability to repay principal and interest in full on a timely basis.
Special mention:	Borrowers are currently able to service their loans and interest, although repayment may be adversely affected by specific factors.
Substandard:	Borrowers' ability to service their loans is in question and they cannot rely entirely on normal business revenues to repay principal and interest. Losses may ensue even when collaterals or guarantees are invoked.
Doubtful:	Borrowers cannot repay principal and interest in full and significant losses will need to be recognised even when collaterals or guarantees are invoked.
Loss:	Principal and interest of loans cannot be recovered or only a small portion of them can be recovered after taking all possible measures or resorting to all necessary legal procedures.

The Banks performs both individual and collective impairment assessment on credit assets and investment receivables.

The Bank identifies individual impairment through methods such as risk classification and early warning. For assets for which an allowance for impairment loss is provided individually, the Bank determines the allowance amount by assessing the losses of each loan at the reporting date. During the assessment stage, the Bank generally considers the financial status of the borrower, the disposal of collateral, the repayment ability of the guarantor and related parties to estimate the recoverable future cash flows and discounts the recoverable future cash to the present value of the significant impaired loans at a reasonable discount rate. The difference between the carrying value and the estimated present value of the significant impaired loans shall be provided for as the impairment loss on credit asset.

The expected loss model is used to determine provisions for the following asset groups based on collective assessment:

– A group of assets which are individually insignificant but share similar credit risk characteristic; and

– Assets which are impaired but have not yet been identified.

The following credit risk management applies to the period after 1 January 2018:

Stages of risks in financial instrument

After adopting IFRS 9 at 1 January 2018, the financial assets are categorized by the Bank into the following stages to manage its financial assets' credit risk:

Stage 1: Financial assets have not experienced a significant increase in credit risk since origination and impairment recognised on the basis of 12 months expected credit losses.

Stage 2: Financial assets have experienced a significant increase in credit risk since origination and impairment is recognised on the basis of lifetime expected credit losses.

Stage 3: Financial assets that are in default and considered credit-impaired.

Significant increase in credit risk

The Bank evaluates the whether the credit risk of related financial instruments at least on each date of statement of financial position has increased significantly since initial recognition. The Bank makes full use of all reasonable and supportable information, including forward-looking information, to reflect the significant changes in its credit risk when it conducts the classification of losses of financial instruments. Criteria include regulation and operation environment, internal and external credit ratings, solvency, ability to continue as a going concern, provisions of loan contract, and repayment activities etc. Based on a single financial instrument or a combination of financial instruments with similar credit risk characteristics, the Bank compares the risk of default of financial instruments on the date of statement of financial position to determine the change in default risk during the expected duration of financial instruments. The Bank judges whether the credit risk of a financial instrument has significantly increased since initial confirmation from the risk classification, risk overdue days, internal and external ratings, probability of default, and market price etc.

As at 2019, the Bank has not considered that any of its financial assets has lower credit risk and no longer compared the credit risk at the date of statement of financial position with that at the initial recognition to identify whether there was a significant increase in credit risk.

Definition of "default" and "credit-impaired assets"

When a financial asset is impaired, the Bank identifies the financial asset as a default. Generally speaking, if the financial asset is overdue for more than 90 days, it is considered as a default.

At each date of the statement of financial position, the Bank assesses whether financial assets carried at amortised cost and debt instruments at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable data:

– significant financial difficulty of the borrower or issuer;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– for economic or contractual reasons relating to the borrower's financial difficulty, the Bank having granted to the borrower a concession that would not otherwise consider;

– it becoming probable that the borrower will enter into bankruptcy or other financial reorganization;

– the disappearance of an active market for that financial asset because of financial difficulties;

– purchase or source a financial asset at significant discount, which reflects that the financial asset is credit-impaired; or

– overdue more than 90 days.

The above criteria apply to all financial assets of the Bank and they are consistent with the definition of "default" adopted by the internal management of credit risk.

Measurement of expected credit losses ("ECL")

The Bank adopts ECL model to measures provision for loss of financial assets based on the stages categorised above.

The ECL is the result of the discounted product of probability of default (PD), exposure at default (EAD) and loss given default (LGD). The definitions of these terms are as follows:

– PD refers to the likelihood that a borrower will be unable to meet his repayment obligations over the next 12 months or the remaining lifetime of the loan;

– EAD is the amount that the Bank should be reimbursed upon default of an obligor over the next 12 months or the remaining lifetime of the loan;

– LGD refers to the expected degree of loss arising from the exposure at default which is predicted by the Bank. LGD varies according to different types of counterparties, methods and priority of recovering debts, and the availability of collaterals or other credit support.

The Bank determines the ECL by estimating the PD, LGD and EAD of individual exposure or asset portfolios in the future years. The Bank multiplies these three parameters and makes adjustments according to the probability of their continuance (i.e. there is no prepayment or default at an earlier period). For the purpose of calculating the lifetime ECL, the Bank calculated the ECL of each period, and the results of calculation are then discounted to the date of statement of financial position and added up. The discount rate used in the calculation of ECL is the initial effective interest rate or its approximate value.

The lifetime PD is deduced from using the maturity model or 12-month probability of default. The maturity model describes the development rule of the defaults of the asset portfolio over its lifetime. The model is developed based on historical observational data and applicable to all assets in the same portfolio with the same credit rating. The above method is supported by empirical analysis.

The 12-month EAD and lifetime EAD are determined based on expected repayment arrangements, which are different according to different types of products.

– In respect of the financial assets with instalment repayments and bullet repayment, the Bank determines 12-month or lifetime EAD according to the repayment schedule agreed in the contract, and makes adjustment based on prediction of overlimit repayment and prepayments/refinancing made by the borrower.

– As to the off-balance sheet credit commitments, the parameter of EAD is calculated using the current exposure method, and obtained from multiplying the nominal amount of the off-balance sheet items on the date of statement of financial position by the credit conversion factor (CCF).

– The Bank determines the 12-month loss given default (LGD) and lifetime LGD based on the factors that affects post-default recovery. LGD for different product types are different.

– As to financial assets classified as guarantees, the Bank determines the loss given default (LGD) according to the types of collaterals and their expected value, the discount rate at the compulsory sale, the recovery time and the estimated recovery cost.

– As to credit-based financial assets, the Bank usually determines loss given default (LGD) in the product level due to the limited differences in recoverable amounts from different borrowers.

Forward-looking economic information should be considered when determining the 12-month and lifetime probability of default, exposure at default and loss given default.

The Bank quarterly monitors and reviews assumptions related to the calculation of expected credit losses, including the changes in PD and the value of collaterals under the different time limits.

During the year ended 31 December 2019, there has been no significant changes in the estimate techniques and key assumptions of the Bank.

Forward-looking information included in the expected credit loss model is as follows:

The calculation of expected credit losses involves forward-looking information. After the historical analysis, the Bank identified the key economic indicators related to expected credit loss, such as gross domestic product (GDP), consumer price index (CPI), Purchasing Managers' index (PMI), Broad money (M2), Industrial Added Value, and Real Estate Climate Index. The Bank carried out regression analysis to determine the relationship between these economic indicators and PD and LGD, so as to ascertain the impact of historical changes in these indicators on PD and LGD. The Bank forecasts these economic indicators at least annually and provides the best estimates of the economic conditions for the coming year.

The Bank established measurement models to identify the three risk weights, i.e. positivity, neutrality and negativity. The Bank measures allowance for credit losses for the first stage based on the weighted average of the credit losses in the three cases in the next 12 months; and measures allowance for credit losses for the second and third stages based on the weighted average of credit losses in the three cases within the lifetime.

(i) Maximum credit risk exposure

	At 31 December		
	2017	**2018**	**2019**
Credit risk exposures relating to on-balance sheet items:			
Cash and deposits with the central bank	104,327,914	122,716,567	92,583,747
Deposits with banks and other financial institutions	8,722,789	25,923,142	14,051,627
Placements with banks and other financial institutions	10,167,977	2,059,135	4,410,809
Derivative financial assets	198,100	393,405	158,709
Financial assets purchased under resale agreements	–	10,571,016	1,850,258
Net loans and advances	449,813,708	548,022,432	687,279,098
Financial investments			
– Financial investments at fair value through profit or loss	12,860,914	23,193,080	36,238,313
– Financial investments at fair value through other comprehensive income	–	45,569,455	64,967,327
– Financial investments at amortised cost	–	244,195,336	199,101,251
– Available-for-sale financial assets	36,495,682	–	–
– Held-to-maturity investments	87,364,519	–	–
– Investments classified as receivables	275,927,480	–	–
Other assets	5,848,778	416,870	659,912
Sub-total	991,727,861	1,023,060,438	1,101,301,051
Credit risk exposures relating to off-balance items:			
Acceptances	94,054,166	155,296,893	167,506,456
Letters of credit	51,660,338	68,464,136	67,528,818
Letters of guarantees	26,991,075	25,619,242	21,315,136
Credit card commitment	3,335,207	5,290,947	5,069,857
Loan commitments	6,724,050	830,300	–
Sub-total	182,764,836	255,501,518	261,420,267
Total	1,174,492,697	1,278,561,956	1,362,721,318

(ii) Financial assets analysed by credit quality are summarized as follows:

	At 31 December 2017				
	Loans and advances	Deposits/ placements with banks and other financial institutions	Financial assets held under resale agreement	Financial investments	Others
				(*)	(**)
Impaired					
Individually assessed gross amount	7,576,396	–	–	3,170,000	–
Provision for impairment losses	(3,869,256)	–	–	(1,746,600)	–
Sub-total	3,707,140	–	–	1,423,400	–
Collectively assessed gross amount	533,722	–	–	–	–
Provision for impairment losses	(400,627)	–	–	–	–
Sub-total	133,095	–	–	–	–
Overdue but not Impaired					
Less than three months (inclusive)	2,117,920	–	–	–	–
Between three months and six months (inclusive)	979,012	–	–	–	–
Between six months and one year (inclusive)	440,676	–	–	–	–
More than one year	70,498	–	–	–	–
Gross amount	3,608,106	–	–	–	–
Provision for impairment losses	(556,337)	–	–	–	–
Sub-total	3,051,769	–	–	–	–
Neither overdue nor impaired					
Gross amount	453,171,609	18,890,766	–	414,521,480	5,848,778
Provision for impairment losses	(10,249,905)	–	–	(3,296,285)	–
Sub-total	442,921,704	18,890,766	–	411,225,195	5,848,778
Total	449,813,708	18,890,766	–	412,648,595	5,848,778

	At 31 December 2018				
	Loans and advances	Deposits/ placements with banks and other financial institutions	Financial assets held under resale agreement	Financial investments	Others
				(***)	(**)
Balance of financial assets that are assessed for expected credit losses over the next 12 months					
– Overdue but not credit-impaired	545,515	–	–	–	–
– Neither overdue nor credit-impaired	537,202,368	27,851,100	10,565,112	286,667,393	416,870
Sub-total	537,747,883	27,851,100	10,565,112	286,667,393	416,870
Balance of financial assets that are not credit-impaired and assessed for lifetime expected credit losses					
– Overdue but not credit-impaired	2,826,291	–	–	–	–
– Neither overdue nor credit-impaired	13,478,467	–	–	58,183	–
Sub-total	16,304,758	–	–	58,183	–
Balance of credit-impaired financial assets that are assessed for lifetime expected credit losses					
– Overdue and credit-impaired	10,416,769	–	–	3,339,673	–
Sub-total	10,416,769	–	–	3,339,673	–
Interests accrued	2,018,557	176,296	8,186	3,538,279	–
Balance of financial assets at fair value through profit or loss	984,299	–	–	23,193,080	–
Less: Provision for impairment losses	(19,449,834)	(45,119)	(2,282)	(3,838,737)	–
Net value	548,022,432	27,982,277	10,571,016	312,957,871	416,870

	At 31 December 2019				
	Loans and advances	Deposits/ placements with banks and other financial institutions	Financial assets held under resale agreement	Financial investments	Others
				(***)	(**)
Balance of financial assets that are assessed for expected credit losses over the next 12 months					
– Overdue but not credit-impaired	5,764,608	–	–	–	–
– Neither overdue nor credit-impaired	668,178,959	18,431,790	1,850,000	258,242,268	659,912
Sub-total	673,943,567	18,431,790	1,850,000	258,242,268	659,912
Balance of financial assets that are not credit-impaired and assessed for lifetime expected credit losses					
– Overdue but not credit-impaired	4,360,617	–	–	–	–
– Neither overdue nor credit-impaired	16,403,232	157,747	–	2,207,851	–
Sub-total	20,763,849	157,747	–	2,207,851	–
Balance of credit-impaired financial assets that are assessed for lifetime expected credit losses					
– Overdue and credit-impaired	12,591,449	–	–	3,203,960	–
Sub-total	12,591,449	–	–	3,203,960	–
Interests accrued	2,822,439	62,392	664	3,618,807	–
Balance of financial assets at fair value through profit or loss	758,665	–	–	36,238,313	–
Less: Provision for impairment losses	(23,600,871)	(189,493)	(406)	(3,204,308)	–
Net value	687,279,098	18,462,436	1,850,258	300,306,891	659,912

* Financial investments include financial investments at fair value through profit or loss, available-for-sale debt investments, held-to-maturity investments and investments classified as receivables.

** Other comprise interests receivable and other receivables in other assets.

*** Financial investments include financial investments at fair value through profit or loss, financial investments at fair value through other comprehensive income and financial investments measured at amortised cost.

Financial assets (excluded interests accrued) analysed by credit quality

	At 31 December 2018							
	Balance				Provision for expected credit losses			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Financial assets measured at amortised cost								
Cash and deposits with the central bank	123,210,564	–	–	123,210,564	–	–	–	–
Deposits with banks and other financial institutions	25,856,998	–	–	25,856,998	(40,911)	–	–	(40,911)
Placements with banks and other financial institutions	1,994,102	–	–	1,994,102	(4,208)	–	–	(4,208)
Financial assets held under resale agreements	10,565,112	–	–	10,565,112	(2,282)	–	–	(2,282)
Loans and advances to customers	524,579,072	16,304,758	10,374,146	551,257,976	(7,920,917)	(5,531,574)	(5,997,343)	(19,449,834)
Financial investments	241,995,148	58,183	3,339,673	245,393,004	(2,066,212)	(22,583)	(1,749,942)	(3,838,737)
Other assets	416,870	–	–	416,870	–	–	–	–
Total	928,617,866	16,362,941	13,713,819	958,694,626	(10,034,530)	(5,554,157)	(7,747,285)	(23,335,972)
Financial assets at fair value through other comprehensive income								
Loans and advances to customers	13,168,811	–	42,623	13,211,434	(7,856)	–	(17,377)	(25,233)
Financial investments	44,672,245	–	–	44,672,245	(17,684)	–	–	(17,684)
Total	57,841,056	–	42,623	57,883,679	(25,540)	–	(17,377)	(42,917)
Credit commitments	254,788,849	638,669	74,000	255,501,518	(885,490)	(43,015)	(11,332)	(939,837)

	At 31 December 2019							
	Balance				Provision for expected credit losses			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Financial assets measured at amortised cost								
Cash and deposits with the central bank	92,980,538	–	–	92,980,538	–	–	–	–
Deposits with banks and other financial institutions	14,031,065	157,747	–	14,188,812	(150,274)	(30,351)	–	(180,625)
Placements with banks and other financial institutions	4,400,725	–	–	4,400,725	(8,868)	–	–	(8,868)
Financial assets held under resale agreements	1,850,000	–	–	1,850,000	(406)	–	–	(406)
Loans and advances to customers	664,530,049	20,763,849	12,591,449	697,885,347	(9,281,200)	(6,213,635)	(8,106,036)	(23,600,871)
Financial investments	194,201,266	2,207,851	3,190,327	199,599,444	(1,313,800)	(406,945)	(1,483,563)	(3,204,308)
Other assets	659,912	–	–	659,912	–	–	–	–
Total	972,653,555	23,129,447	15,781,776	1,011,564,778	(10,754,548)	(6,650,931)	(9,589,599)	(26,995,078)
Financial assets at fair value through other comprehensive income								
Loans and advances to customers	9,413,518	–	–	9,413,518	(37,215)	–	–	(37,215)
Financial investments	64,041,002	–	13,633	64,054,635	(809,442)	–	(13,371)	(822,813)
Total	73,454,520	–	13,633	73,468,153	(846,657)	–	(13,371)	(860,028)
Credit commitments	260,916,685	496,700	6,882	261,420,267	(730,049)	(36,935)	(1,396)	(768,380)

The overall ECL rate for financial assets and credit commitments analysed by credit quality

	At 31 December 2018			
	Stage 1	Stage 2	Stage 3	Total
Financial assets measured at amortised cost	1.08%	33.94%	56.49%	2.43%
Financial assets at fair value through other comprehensive income	0.04%	N/A	40.77%	0.07%
Credit commitments	0.35%	6.74%	15.31%	0.37%

	At 31 December 2019			
	Stage 1	Stage 2	Stage 3	Total
Financial assets measured at amortised cost	1.11%	28.76%	60.76%	2.67%
Financial assets at fair value through other comprehensive income	1.16%	N/A	44.57%	1.18%
Credit commitments	0.28%	7.44%	20.28%	0.29%

At 31 December 2017, the fair value of collaterals held against loans and advances overdue but not impaired amounted to RMB1,222 million. The fair value of collaterals held against loans and advances impaired at 31 December 2017 amounted to RMB3,588 million. The collaterals mainly include land, buildings, machinery and equipment, etc. The fair value of collaterals were estimated by the Bank based on the latest external valuations available, adjusted in light of disposal experience and current market conditions.

As at 31 December 2018 and 2019, the fair value of collaterals held against loans and advances that are not credit-impaired and assessed for lifetime expected credit losses amounted to RMB1,029 million and RMB3,030 million. The fair value of collaterals held against loans and advances that are assessed for lifetime expected credit losses amounted to RMB4,608 million and RMB5,435 million. The collaterals mainly include land, buildings, machinery and equipment, etc. The fair value of collaterals were estimated by the Bank based on the latest external valuations available, adjusted in light of disposal experience and current market conditions.

(iii) Rescheduled loans and advances to customers

Restructured loans refer to those loans that the financial status of the relevant borrowers deteriorate, or that borrowers are not capable of repaying and therefore certain clauses on the loan contract are adjusted. As at 31 December 2017, 2018 and 2019, the Bank's restructured loans amounted to RMB1,096 million, RMB3,180 million and RMB6,511 million.

(iv) Credit rating

The Bank adopts a credit rating approach in managing the credit risk of the debt securities portfolio. Debt securities are rated with reference to major rating agencies where the issuers of the securities are located. The carrying amounts of debt securities investments (exclusive interests accrued) analysed by the rating agency designations as at 31 December 2017, 2018 and 2019 are as follows:

	At 31 December		
	2017	**2018**	**2019**
Neither overdue nor impaired			
Ratings			
– AAA	123,167,901	145,599,417	160,913,737
– AA- to AA+	533,924	4,228,995	6,276,793
– A- to A+	–	11,153	–
Sub-total	123,701,825	149,839,565	167,190,530
Overdue and credit-impaired			
Ratings			
– C	–	–	13,633
Unrated	339,790	148,390	183,410
Total	124,041,615	149,987,955	167,387,573

(b) Market risk (including the interest rate risk in the banking book)

Market risk refers to the risk of losses to the Bank's on-balance sheet and off-balance sheet activities arising from unfavorable changes in market prices, mainly including interest rates and exchange rates, commodity risk and equity risks. The interest rate risk in the banking book refers to the risk of losses on the economic value and the overall income of the banking book resulted from unfavorable changes in interest rate levels and the maturity structure. The Bank is exposed to market risks in its trading book and banking book. Financial instruments and commodity position recorded in the trading book are those held by the Bank for the purpose of trading or avoiding risks in other items of trading book and which can be traded freely. The assets and liabilities of long-term positions held for the purpose of managing the liquidity of the Bank, regulatory reserve or profit maximization are included in the banking book. Generally, the assets and liabilities recorded in the banking book are mainly held-to-maturity.

The Board is responsible for approving management strategies of market risk (including interest rate risks in the banking book, similarly hereinafter), policy and procedure, determining the level of market risk tolerance, urging senior management to undertake necessary measures to identify, measure, monitor and control market risk, obtaining periodic reports associated with nature and level of market risk, monitoring and evaluating the comprehensiveness, effectiveness, and performance of market risk management. The Bank's senior management has set up the Asset and Liability Management Committee which is in charge of formulating, reviewing and supervising market risk policy and procedure, and process execution. The committee sets market risk limit according to the Board's risk appetite.

The Bank sets up the market risk management team under the Asset and Liability Management Department. The team is independent of trading department, and responsible for market risk identification, measurement, monitoring, and control, ensuring that the market risk of the Bank is in compliance with the requirements of internal limits and external supervision according to Bank's market risk management policies and procedures.

Trading book market risk

Limits management

In order to control trading book market risk, the Bank sets Value-at-Risk limits, Basis Point Value limits and stop loss limits.

Stress testing

Stress testing is used to assess the loss sustainability under extremely adverse conditions when significant market changes take place, including the extreme fluctuations of market risk elements, such as interest rates and exchange rates,unexpected political or economic events, or a combination of the above situations. The market risk of the Bank goes through stress testing on a regular basis.

Assessment of fair value

Assessment of the fair value of financial instruments is based on the quantitative analysis of the financial products that takes into consideration the specific characteristics of the financial products, trading strategy, market situation, risk factors and the quality and qualification of counterparties. The Bank assesses the fair value of its financial instruments on a regular basis.

Interest rate risk of banking book

Interest rate risk of the banking book are measured and managed mainly through gap management, sensitivity analysis and duration analysis to ensure the interest rate risk of the banking book are controlled within the scope set by the risk appetite statement.

The Bank calculates the interest rate sensitivity gap based on repricing cash flow of the interest-earning assets and interest-bearing liabilities, and conducts scenario analysis, to assess the impact on the Bank of changes in interest rates. The impact on the market value of assets or liabilities of one basis point movement in interest rate was assessed through calculation of Basic Point Value.

Interest rate risk of the Bank's banking book goes through stress testing on a regular basis. In such stress testing, basic interest rate and market rate is treated as a prime factor, and other factors such as political and economic contingency or several contingencies happened at the same time are included.

Interest rate risk

The Bank operates its business predominantly in mainland China under the interest rate scheme regulated by PBoC.

The Bank manages its interest rate risks through gap analysis, duration analysis and sensitivity analysis of its assets and liabilities. The Bank has set limits to the gap, duration and interest rate sensitivity, and monitors regularly to ensure that the exposures are within the Bank's limit.

(i) *The table below summarizes the Bank's exposures to interest rate risks. It presents the Bank's assets and liabilities on the statement of financial position at carrying amounts, by the earlier of the contractual re-pricing date or the maturity date.*

	At 31 December 2017					
	Total	**Non-interest bearing**	**Less than three months**	**Between three months and one year**	**Between one year and five years**	**More than five years**
Assets						
Cash and deposits with the central bank	105,000,258	672,344	104,327,914	–	–	–
Deposits with banks and other financial institutions	8,722,789	–	8,222,789	500,000	–	–
Placements with banks and other financial institutions	10,167,977	–	10,167,977	–	–	–
Derivative financial assets	198,100	198,100	–	–	–	–
Financial assets held under resale agreements	–	–	–	–	–	–
Loans and advances to customers *(Note (i))*	449,813,708	–	278,173,414	151,513,295	18,042,929	2,084,070
Financial investments *(Note (ii))*	412,648,595	304,625	29,775,069	121,746,077	253,391,740	7,431,084
Other	16,015,622	16,015,622	–	–	–	–
Total assets	1,002,567,049	17,190,691	430,667,163	273,759,372	271,434,669	9,515,154
Liabilities						
Borrowing from the central bank	24,000,000	–	8,500,000	15,500,000	–	–
Deposits from banks and other financial Institutions	151,789,208	–	68,457,394	82,191,814	1,140,000	–
Placements from banks and other financial institutions	37,837,151	–	16,217,062	21,620,089	–	–
Derivative financial liabilities	2,109,765	2,109,765	–	–	–	–
Financial assets sold under repurchase agreements	2,213,804	–	2,213,804	–	–	–
Deposits from customers	582,103,318	385,974	362,562,237	124,709,018	94,046,089	400,000
Debt securities issued	138,415,194	–	60,073,317	53,320,179	16,033,918	8,987,780
Other	15,633,307	15,633,307	–	–	–	–
Total liabilities	954,101,747	18,129,046	518,023,814	297,341,100	111,220,007	9,387,780
Asset-liability gap	48,465,302	(938,355)	(87,356,651)	(23,581,728)	160,214,662	127,374

	At 31 December 2018					
	Total	Non-interest bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
Assets						
Cash and deposits with the central bank	123,250,042	572,953	122,677,089	–	–	–
Deposits with banks and other financial institutions	25,923,142	107,055	9,141,107	16,674,980	–	–
Placements with banks and other financial institutions	2,059,135	69,242	343,932	1,645,961	–	–
Derivative financial assets	393,405	393,405	–	–	–	–
Financial assets held under resale agreements	10,571,016	–	10,571,016	–	–	–
Loans and advances to customers *(Note (i))*	548,022,432	2,018,557	323,432,770	183,968,423	37,503,385	1,099,297
Financial investments *(Note (iii))*	312,957,871	14,929,844	41,478,014	71,161,802	171,832,879	13,555,332
Other	11,274,289	11,274,289	–	–	–	–
Total assets	1,034,451,332	29,365,345	507,643,928	273,451,166	209,336,264	14,654,629
Liabilities						
Borrowing from the central bank	28,595,785	595,785	13,000,000	15,000,000	–	–
Deposits from banks and other financial Institutions	69,587,853	631,131	50,432,965	18,523,757	–	–
Placements from banks and other financial institutions	19,534,990	220,271	17,395,175	1,919,544	–	–
Derivative financial liabilities	140,601	140,601	–	–	–	–
Financial assets sold under repurchase agreements	22,363,754	22,331	22,209,426	131,997	–	–
Deposits from customers	606,701,396	8,679,615	320,023,902	184,772,908	89,573,971	3,651,000
Debt securities issued	218,678,993	–	110,333,120	61,485,084	37,872,027	8,988,762
Other	12,988,839	12,988,839	–	–	–	–
Total liabilities	978,592,211	23,278,573	533,394,588	281,833,290	127,445,998	12,639,762
Asset-liability gap	55,859,121	6,086,772	(25,750,660)	(8,382,124)	81,890,266	2,014,867

	At 31 December 2019					
	Total	Non-interest bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
Assets						
Cash and deposits with the central bank	93,013,699	463,113	92,550,586	–	–	–
Deposits with banks and other financial institutions	14,051,627	43,440	13,396,250	611,937	–	–
Placements with banks and other financial institutions	4,410,809	18,952	992,840	3,399,017	–	–
Derivative financial assets	158,709	158,709	–	–	–	–
Financial assets held under resale agreements	1,850,258	664	1,849,594	–	–	–
Loans and advances to customers *(Note (i))*	687,279,098	2,822,439	348,310,422	261,183,421	71,190,885	3,771,931
Financial investments *(Note (iii))*	300,306,891	16,285,810	44,817,935	63,062,043	154,003,340	22,137,763
Other	15,858,934	15,858,934	–	–	–	–
Total assets	1,116,930,025	35,652,061	501,917,627	328,256,418	225,194,225	25,909,694
Liabilities						
Borrowing from the central bank	46,905,557	605,557	5,000,000	41,300,000	–	–
Deposits from banks and other financial Institutions	78,547,430	608,842	42,009,283	35,929,305	–	–
Placements from banks and other financial institutions	21,500,177	279,980	7,358,081	13,862,116	–	–
Derivative financial liabilities	171,758	171,758	–	–	–	–
Financial assets sold under repurchase agreements	23,069,093	22,513	22,179,072	867,508	–	–
Deposits from customers	647,764,551	9,885,750	298,670,078	177,863,197	155,121,526	6,224,000
Debt securities issued	196,603,843	703,767	70,741,274	94,254,960	30,903,842	–
Other	19,729,019	19,729,019	–	–	–	–
Total liabilities	1,034,291,428	32,007,186	445,957,788	364,077,086	186,025,368	6,224,000
Asset-liability gap	82,638,597	3,644,875	55,959,839	(35,820,668)	39,168,857	19,685,694

Notes:

(i) As at 31 December 2017, 2018 and 2019, for loans and advances to customers, the category "Less than three months" includes overdue amounts (net of provision for impairment losses) of RMB7,051 million, RMB7,025 million and RMB12,471 million, respectively.

(ii) Financial investments include financial investments at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and investments classified as receivables.

(iii) Financial investments include financial investments at fair value through profit or loss, financial investments at fair value through other comprehensive income and financial investments measured at amortised cost.

(ii) Interest rate sensitivity analysis

The Bank uses sensitivity analysis to measure the impact of changes in interest rate on the Bank's net profit or loss and equity. The following table sets forth the results of the Bank's interest rate sensitivity analysis on net profit and equity with an assumption that all other variables held constant.

	At 31 December		
	2017	**2018**	**2019**
Change in net profit	*(Decrease)/ Increase*	*(Decrease)/ Increase*	*Increase/ (Decrease)*
Up 100 bps parallel shift in yield curves	(1,191,551)	(562,426)	29,170
Down 100 bps parallel shift in yield curves	1,191,551	562,426	(29,170)

	At 31 December		
	2017	**2018**	**2019**
Change in equity	*(Decrease)/ Increase*	*(Decrease)/ Increase*	*Increase/ (Decrease)*
Up 100 bps parallel shift in yield curves	(1,050,429)	(320,373)	290,943
Down 100 bps parallel shift in yield curves	1,050,429	320,373	(290,943)

The sensitivity analysis above is based on a static interest rate risk profile of the Bank's assets and liabilities. This analysis measures only the impact of changes in interest rates within one year, showing how annualized net profit or loss and equity would have been affected by repricing of the Bank's assets and liabilities within the one-year period. The sensitivity analysis is based on the following assumptions:

–– Interest rate movements at 31 December 2017, 2018 and 2019 apply to non-derivative financial instruments of the Bank;

– At 31 December 2017, 2018 and 2019, an interest rate movement of 100 basis points is based on the assumption of interest rates movement over the next 12 months;

– There is a parallel shift in the yield curve with the changes in interest rates;

– There are no other changes to the assets and liabilities portfolio;

– Other variables (including exchange rates) remain unchanged; and

– The analysis does not take into account the effect of risk management measures taken by the management.

Due to the adoption of the aforementioned assumptions, the actual changes in the Bank's net profit or loss and equity caused by an increase or decrease in interest rates might vary from the estimated results of this sensitivity analysis.

Foreign currency risk

Foreign exchange risk refers to the risk of losses arising from the negative changes in the rate of exchange. The Bank conducts the majority of its business in RMB, with certain foreign transactions in United States dollars ("USD"), Hong Kong dollars ("HKD") and, to a much lesser extent, other currencies.

The Bank's principle in controlling foreign exchange risk is to match its assets and liabilities by currency and to maintain foreign exchange risk within established limits. The Bank has set foreign exchange risk limits which are consistent with the guidelines established by the Risk Management Committee of the Bank and are in accordance with relevant regulatory requirements, and reflect management's assessment of current circumstances. The Bank also manages its sources and uses of foreign currencies to minimize potential mismatches.

The Bank monitors its foreign exchange risk closely. The Bank mainly uses the foreign exchange exposure analysis, scenario analysis and stress testing to measure and analyze the foreign exchange risk. Besides, the Bank monitors and controls the foreign exchange risk through the limit management. The Asset and Liability Management Department's market risk team performs independent monitoring, reporting, and management for the entire bank's foreign exchange risk. Meanwhile, the Bank managed the on-balance sheet foreign exchange risk exposures through derivative financial instruments such as foreign exchange swaps and foreign exchange futures, and kept the Bank's total exposures of on-balance sheet and off-balance sheet to a low level. Therefore, the foreign exchange exposure at the end of the period is not sensitive to exchange rate fluctuations, and the potential impact on the Bank's net profit and shareholders' equity is not significant.

The following table summarizes the Bank's exchange risk of assets and liabilities at reporting date. Included in the table are the carrying value of assets and liabilities, and the off-balance sheet credit commitments in RMB equivalent, categorized by the original currency.

The Bank's currency exposures as at 31 December 2017, 2018 and 2019 are as follows:

	At 31 December 2017			
	RMB	USD (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
Assets				
Cash and deposits with the central bank	102,518,062	2,442,961	39,235	105,000,258
Deposits with banks and other financial institutions	2,608,117	2,513,766	3,600,906	8,722,789
Placements with banks and other financial institutions	1,250,647	8,917,330	–	10,167,977
Derivative financial assets	59,849	138,251	–	198,100
Financial assets held under resale agreements	–	–	–	–
Loans and advances to customers	432,286,785	16,916,691	610,232	449,813,708
Financial investments *(Note (i))*	412,453,325	195,270	–	412,648,595
Other assets	15,844,715	140,726	30,181	16,015,622
Total assets	967,021,500	31,264,995	4,280,554	1,002,567,049
Liabilities				
Borrowing from the central bank.	24,000,000	–	–	24,000,000
Deposits from banks and other financial Institutions	141,390,551	10,396,768	1,889	151,789,208
Placements from banks and other financial institutions	17,661,144	19,425,839	750,168	37,837,151
Derivative financial liabilities	2,035,719	74,046	–	2,109,765
Financial assets sold under repurchase agreements	2,213,804	–	–	2,213,804
Deposits from customers	541,900,894	35,788,411	4,414,013	582,103,318
Debt securities issued	138,415,194	–	–	138,415,194
Other liabilities	14,810,990	784,024	38,293	15,633,307
Total liabilities	882,428,296	66,469,088	5,204,363	954,101,747
Net position	84,593,204	(35,204,093)	(923,809)	48,465,302
Off-balance sheet credit commitments	162,296,227	13,607,231	6,861,378	182,764,836

	At 31 December 2018			
	RMB	USD (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
Assets				
Cash and deposits with the central bank	121,482,913	1,756,666	10,463	123,250,042
Deposits with banks and other financial institutions	20,319,791	4,410,408	1,192,943	25,923,142
Placements with banks and other financial institutions	1,715,052	344,083	–	2,059,135
Derivative financial assets	393,405	–	–	393,405
Financial assets held under resale agreements	10,571,016	–	–	10,571,016
Loans and advances to customers	528,659,381	18,244,180	1,118,871	548,022,432
Financial investments *(Note (ii))*	311,899,856	1,058,015	–	312,957,871
Other assets	11,271,536	2,726	27	11,274,289
Total assets	1,006,312,950	25,816,078	2,322,304	1,034,451,332
Liabilities				
Borrowing from the central bank	28,595,785	–	–	28,595,785
Deposits from banks and other financial Institutions	68,822,399	763,468	1,986	69,587,853
Placements from banks and other financial institutions	10,190,552	9,313,948	30,490	19,534,990
Derivative financial liabilities	140,601	–	–	140,601
Financial assets sold under repurchase agreements	22,363,754	–	–	22,363,754
Deposits from customers	583,118,544	23,025,494	557,358	606,701,396
Debt securities issued	218,678,993	–	–	218,678,993
Other liabilities	12,912,562	60,030	16,247	12,988,839
Total liabilities	944,823,190	33,162,940	606,081	978,592,211
Net position	61,489,760	(7,346,862)	1,716,223	55,859,121
Off-balance sheet credit commitments	235,388,433	14,001,036	6,112,049	255,501,518

	At 31 December 2019			
	RMB	USD (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
Assets				
Cash and deposits with the central bank	90,799,927	2,202,896	10,876	93,013,699
Deposits with banks and other financial institutions	5,121,261	7,800,023	1,130,343	14,051,627
Placements with banks and other financial institutions	3,052,200	1,358,609	–	4,410,809
Derivative financial assets	158,709	–	–	158,709
Financial assets held under resale agreements	1,850,258	–	–	1,850,258
Loans and advances to customers	660,182,784	26,012,154	1,084,160	687,279,098
Financial investments *(Note (ii))*	293,876,406	6,311,027	119,458	300,306,891
Other assets	15,833,164	25,716	54	15,858,934
Total assets	1,070,874,709	43,710,425	2,344,891	1,116,930,025
Liabilities				
Borrowing from the central bank	46,905,557	–	–	46,905,557
Deposits from banks and other financial Institutions	78,547,199	1	230	78,547,430
Placements from banks and other financial institutions	4,129,413	17,370,764	–	21,500,177
Derivative financial liabilities	171,758	–	–	171,758
Financial assets sold under repurchase agreements	23,069,093	–	–	23,069,093
Deposits from customers	607,404,401	39,550,897	809,253	647,764,551
Debt securities issued	196,603,843	–	–	196,603,843
Other liabilities	18,094,517	134,161	1,500,341	19,729,019
Total liabilities	974,925,781	57,055,823	2,309,824	1,034,291,428
Net position	95,948,928	(13,345,398)	35,067	82,638,597
Off-balance sheet credit commitments	247,232,602	11,469,456	2,718,209	261,420,267

(i) Financial investments include financial investments at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and investments classified as receivables.

(ii) Financial investments include financial investments at fair value through profit or loss, financial investments at fair value through other comprehensive income, financial investments measured at amortised cost.

(c) Liquidity risk

The Bank adopts a centralized approach with respect to its liquidity risk management, in which the head office centrally manages overall liquidity risk across the Bank under the policies and guidance of the Board of Directors. Liquidity risk is managed on three levels from the Board of Directors, to senior management and down to individual departments, so that all the Bank is involved in the liquidity risk management. The Asset and Liability Management Department is the leading department in managing the liquidity risk, and is responsible for formulating liquidity risk management strategies, policies and procedures, and identifying, measuring, monitoring and controlling liquidity risk, and ensuring the Bank's overall liquidity risk is controlled within the Bank's risk tolerance based on cash flow gap analysis, with the help of intraday position management, early-warning indicators and limit control, among other means and methods, and by conducting stress testing and crisis response exercises, strengthening market prejudgment and implementing dynamic liquidity risk management when appropriate. The Bank reviews the above practices and means and methods at least once a year. The Corporate Banking Department, Retail Banking Department and Financial Market Department, among others at the head office, and the subsidiaries engage in their business activities in compliance with the liquidity risk management policies, appetite, processes, limits and other requirements as set down by the Board of Directors and senior management.

In addition to effectively managing intraday positions, the Bank managed cash flow, balancing liquidity and profitability and ensuring safety payment of the Bank and implementing integration management of local and foreign currency. For medium and long term liquidity risk management, the Bank strengthened management measures on regulatory ratios and internal limit, and timely monitored early warning indicators, implemented initiative supplementing of liabilities, stabilized the source of capital and improved future maturity structure of assets and liabilities. Regulatory indicators mainly including liquidity proportion, liquidity coverage ratio and net stable funding ratio are set to guide business development. Internal limits, primarily on treasury loans, debt securities pledged as security and asset-liability maturity gap, are monitored to manage and adjust mismatches between the duration of assets and liabilities. Enforcing the establishment and analysis of customer behavior models, leveraging liquidity management models that use prudent assumptions on the Bank's cash inflows and outflows from its assets and liabilities, and by monitoring, analyzing and managing its compliance with regulatory indicators and internal limits, the Bank has been able to maintain a sound liquidity position.

In order to cope with its liquidity risks arising from fluctuation of capital market and changes of macro-economic environment, the Bank sticks to the practice of stress testing of them, including the test of cash flow gaps in the future 7 days and 30 days and implementation of shortest lifetime management of the Bank by introducing the results of customer behaviors analysis to test the Bank's tolerance of liquidity risks under different stress scenarios through stimulation of decline in the price of marketable securities and outflow of deposits. Also, in consideration of its business size, complexity, level of risk and organizational structure, the Bank has emergency plans in place and explicit internal labor division and emergency procedures to ensure its liquidity under a crisis situation.

To bolster the Bank's liquidity, the Bank formulates investment guidelines and regularly assesses and adjusts its investment strategies for debt securities in light of actual risk management needs, clearly defines the ceiling for collateral bonds through internal limits. This ensures the availability of sufficient quality liquid assets which are readily realizable, and structurally ensure the potential liquidity needs of the Bank are well taken care of. The bank focuses on the adjustment and optimization of asset structure, establishes a portfolio of liquidity reserve assets, and implements asset planning management, and pay attention to the stable return of funds when business is due. In addition, the Bank continues to expand its various debt channels, actively strengthens the degree of participation in the issuance of financial bonds, inter-bank customer relationship management and open market operations of the PBoC, attempts to expand the Bank's medium and long-term stable sources of liabilities, so as to improve the Bank's financing ability under high liquidity pressure.

Maturity analysis

The following tables provide an analysis of non-derivative assets and liabilities of the Bank into relevant maturity groupings based on the remaining periods to repayment at 31 December 2017, 2018 and 2019:

	At 31 December 2017							
	Indefinite	**Repayable on demand**	**Within one month**	**Between one month and three months**	**Between three months and one year**	**Between one year and five years**	**More than five years**	**Total**
	Note (i)							
Assets								
Cash and deposits with the central bank	77,478,208	27,522,050	–	–	–	–	–	105,000,258
Deposit with banks and other financial institutions	–	8,222,789	–	–	500,000	–	–	8,722,789
Placements with banks and other financial institutions	–	–	9,967,977	200,000	–	–	–	10,167,977
Financial assets held under resale agreements	–	–	–	–	–	–	–	–
Loans and advances to customers	7,095,811	407,241	22,664,962	29,319,791	120,189,663	175,758,480	94,377,760	449,813,708
Financial investments (ii)	1,536,624	–	10,126,918	16,770,805	122,937,143	251,816,294	9,460,811	412,648,595
Other	16,015,622	–	–	–	–	–	–	16,015,622
Total assets	102,126,265	36,152,080	42,759,857	46,290,596	243,626,806	427,574,774	103,838,571	1,002,368,949
Liabilities								
Borrowing from the central bank	–	–	6,500,000	2,000,000	15,500,000	–	–	24,000,000
Deposits from banks and other financial Institutions	–	23,452,561	14,074,746	30,930,087	82,191,814	1,140,000	–	151,789,208
Placements from banks and other financial institutions	–	–	4,510,869	11,706,194	21,620,088	–	–	37,837,151
Financial assets sold under repurchase agreements	–	–	2,084,700	129,104	–	–	–	2,213,804
Deposit from customers	96,158	281,574,648	39,148,310	42,129,095	123,709,018	93,346,089	2,100,000	582,103,318
Debt securities issued	–	–	22,744,628	37,328,689	63,317,808	6,036,289	8,987,780	138,415,194
Other	15,633,307	–	–	–	–	–	–	15,633,307
Total liabilities	15,729,465	305,027,209	89,063,253	124,223,169	306,338,728	100,522,378	11,087,780	951,991,982
Net position	86,396,800	(268,875,129)	(46,303,396)	(77,932,573)	(62,711,922)	327,052,396	92,750,791	50,376,967

	At 31 December 2018							
	Indefinite	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	Total
	Note (i)							
Assets								
Cash and deposits with the central bank	72,366,056	50,883,986	–	–	–	–	–	123,250,042
Deposit with banks and other financial institutions	–	7,043,657	–	2,123,808	16,755,677	–	–	25,923,142
Placements with banks and other financial institutions	–	343,933	151	1,646,480	68,571	–	–	2,059,135
Financial assets held under resale agreements	–	–	10,571,016	–	–	–	–	10,571,016
Loans and advances to customers	6,402,814	257,546	28,196,508	46,672,722	164,368,615	196,886,050	105,238,177	548,022,432
Financial investments *(iii)*	1,951,919	14,280,368	13,849,130	18,232,203	71,727,254	179,037,546	13,879,451	312,957,871
Other	11,274,289	–	–	–	–	–	–	11,274,289
Total assets	91,995,078	72,809,490	52,616,805	68,675,213	252,920,117	375,923,596	119,117,628	1,034,057,927
Liabilities								
Borrowing from the central bank	–	–	8,253,500	5,136,951	15,205,334	–	–	28,595,785
Deposits from banks and other financial Institutions	–	–	37,809,228	13,005,375	18,169,250	604,000	–	69,587,853
Placements from banks and other financial institutions	–	–	11,263,685	6,341,129	1,930,176	–	–	19,534,990
Financial assets sold under repurchase agreements	–	–	22,200,130	31,474	132,150	–	–	22,363,754
Deposit from customers	245,501	180,734,528	77,647,970	63,493,887	188,224,194	92,684,944	3,670,372	606,701,396
Debt securities issued	–	–	25,634,373	84,698,746	61,485,085	37,872,027	8,988,762	218,678,993
Other	12,988,839	–	–	–	–	–	–	12,988,839
Total liabilities	13,234,340	180,734,528	182,808,886	172,707,562	285,146,189	131,160,971	12,659,134	978,451,610
Net position	78,760,738	(107,925,038)	(130,192,081)	(104,032,349)	(32,226,072)	244,762,625	106,458,494	55,606,317

	At 31 December 2019							
	Indefinite	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	Total
	Note (i)							
Assets								
Cash and deposits with the central bank	64,534,750	28,478,949	–	–	–	–	–	93,013,699
Deposit with banks and other financial institutions	–	12,357,476	506,246	555,290	632,615	–	–	14,051,627
Placements with banks and other financial institutions	–	–	–	1,002,573	3,408,236	–	–	4,410,809
Financial assets held under resale agreements	–	–	1,850,258	–	–	–	–	1,850,258
Loans and advances to customers	7,718,389	2,517,674	50,460,530	54,213,485	230,715,509	224,557,388	117,096,123	687,279,098
Financial investments *(iii)*	4,782,757	16,790,675	9,856,670	10,588,916	66,970,562	166,993,333	24,323,978	300,306,891
Other	15,858,934	–	–	–	–	–	–	15,858,934
Total assets	92,894,830	60,144,774	62,673,704	66,360,264	301,726,922	391,550,721	141,420,101	1,116,771,316
Liabilities								
Borrowing from the central bank	–	–	5,150,063	–	41,755,494	–	–	46,905,557
Deposits from banks and other financial Institutions	–	18,477	24,164,236	18,151,387	35,761,330	452,000	–	78,547,430
Placements from banks and other financial institutions	–	–	4,074,591	3,524,298	13,901,288	–	–	21,500,177
Financial assets sold under repurchase agreements	–	–	22,025,336	173,467	870,290	–	–	23,069,093
Deposit from customers	258,777	185,303,287	62,388,941	52,474,341	181,369,406	159,719,112	6,250,687	647,764,551
Debt securities issued	–	–	9,028,586	61,912,497	85,768,448	30,903,842	8,990,470	196,603,843
Other	19,729,019	–	–	–	–	–	–	19,729,019
Total liabilities	19,987,796	185,321,764	126,831,753	136,235,990	359,426,256	191,074,954	15,241,157	1,034,119,670
Net position	72,907,034	(125,176,990)	(64,158,049)	(69,875,726)	(57,699,334)	200,475,767	126,178,944	82,651,646

Notes:

(i) Indefinite amount of cash and deposits with the central bank represents the statutory deposit reserves and fiscal deposits with the central bank. Indefinite amount of loans and advances to customers includes all the impaired loans and advances, as well as those overdue more than one month. Loans and advances to customers with no impairment but overdue within one month are classified into the category of repayable on demand. Indefinite amount of investments represents impaired investments or those overdue more than one month. Equity investments are listed in the category of indefinite.

(ii) Financial investments include financial investments at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and investments classified as receivables.

(iii) Financial investments include financial investments at fair value through profit or loss, financial investments at fair value through other comprehensive income, financial investments measured at amortised cost.

Analysis on contractual undiscounted cash flows of non-derivative financial liabilities

The following tables provide an analysis of the contractual undiscounted cash flow of the non-derivative financial liabilities of the Bank at 31 December 2017, 2018 and 2019:

	At 31 December 2017							
	Carrying amount	Contractual undiscounted cash flow	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
Non-derivative financial liabilities								
Borrowing from the central bank	24,000,000	24,468,550	–	6,691,325	2,051,733	15,725,492	–	–
Deposits from banks and other financial institutions	151,789,208	156,866,328	23,458,478	14,427,632	31,708,571	85,700,863	1,570,784	–
Placements from banks and other financial institutions	37,837,151	38,224,973	–	4,557,533	11,824,280	21,843,160	–	–
Financial assets sold under repurchase agreements	2,213,804	2,218,753	–	2,089,264	129,489	–	–	–
Deposits from customers	582,103,318	607,347,793	281,585,567	39,851,811	42,942,559	133,818,646	106,947,543	2,201,667
Debt securities issued	138,415,194	138,415,194	–	22,744,628	37,328,689	63,317,808	6,036,289	8,987,780
Other financial liabilities	15,633,307	15,633,307	15,633,307	–	–	–	–	–
Total non-derivative financial liabilities	951,991,982	983,174,898	320,677,352	90,362,193	125,985,321	320,405,969	114,554,616	11,189,447
Credit commitments	182,764,836	182,764,836	4,069,716	14,945,471	36,633,615	111,926,222	15,189,812	–

	At 31 December 2018							
	Carrying amount	Contractual undiscounted cash flow	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
Non-derivative financial liabilities								
Borrowing from the central bank	28,595,785	28,595,785	–	–	8,253,500	5,136,952	15,205,333	–
Deposits from banks and other financial institutions	69,587,853	69,587,853	22,051	37,787,177	13,005,375	18,169,250	604,000	–
Placements from banks and other financial institutions	19,534,990	19,535,077	–	11,088,669	6,503,235	1,943,173	–	–
Financial assets sold under repurchase agreements	22,363,754	22,386,522	–	22,221,529	31,611	133,382	–	–
Deposits from customers	606,701,396	607,404,967	180,980,029	77,437,057	63,117,940	189,567,330	91,332,239	4,970,372
Debt securities issued	218,678,993	227,974,593	–	26,280,000	84,707,016	64,312,399	40,819,879	11,855,299
Other financial liabilities	12,988,839	12,988,839	12,988,839	–	–	–	–	–
Total non-derivative financial liabilities	978,451,610	988,473,636	193,990,919	174,814,432	175,618,677	279,262,486	147,961,451	16,825,671
Credit commitments	255,501,518	255,501,518	6,179,380	15,167,445	33,590,463	191,341,926	8,542,304	680,000

	At 31 December 2019							
	Carrying amount	Contractual undiscounted cash flow	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
Non-derivative financial liabilities								
Borrowing from the central bank	46,905,557	46,905,557	–	5,150,063	–	41,755,494	–	–
Deposits from banks and other financial institutions	78,547,430	78,613,281	18,476	24,176,963	18,168,889	35,796,953	452,000	–
Placements from banks and other financial institutions	21,500,177	21,773,652	–	4,092,753	3,604,688	14,076,211	–	–
Financial assets sold under repurchase agreements	23,069,093	23,085,395	–	22,034,038	174,039	877,318	–	–
Deposits from customers	647,764,551	672,176,102	185,562,064	62,440,450	52,706,101	184,776,187	178,826,161	7,865,139
Debt securities issued	196,603,843	203,764,241	–	9,052,273	62,265,633	87,282,517	33,186,076	11,977,742
Other financial liabilities	19,729,019	20,499,347	15,772,723	225,721	88,135	604,528	2,912,996	895,244
– Lease liabilities	3,956,296	4,726,624	–	225,721	88,135	604,528	2,912,996	895,244
– Other	15,772,723	15,772,723	15,772,723	–	–	–	–	–
Total non-derivative financial liabilities	1,034,119,670	1,066,817,575	201,353,263	127,172,261	137,007,485	365,169,208	215,377,233	20,738,125
Credit commitments	261,420,267	261,420,267	6,065,520	31,607,383	53,270,981	163,850,036	5,946,347	680,000

This analysis of the non-derivative financial liabilities by contractual undiscounted cash flow might diverge from actual results.

Analysis on contractual undiscounted cash flow of derivative financial instruments

The Bank's derivatives financial instruments that will be settled on a net basis include interest rate swaps and precious metals derivatives. The Bank's derivatives financial instruments that will be settled on a gross basis are exchange rate swaps and exchange rate forwards.

The following table analyses the contractual undiscounted cash flow any of financial derivatives that will be settled on net amounts and gross amounts basis held by the Bank at the year end. The amounts disclosed are the contractual undiscounted cash flows.

	At 31 December 2017				
	Within one month	One months to three months	Three months to one year	One year to five years	Total
Derivative financial instruments settled on net basis					
Interest rate swaps	–	177	1,817	(16,817)	(14,823)
Precious metal derivatives	–	(141,233)	(283,521)	–	(424,754)
Derivative financial instruments settled on gross basis					
Exchange rate swaps					
– Cash inflow	549,772	10,920,316	24,363,596	–	35,833,684
– Cash outflow	(562,986)	(11,392,633)	(25,645,670)	–	(37,601,289)
Total cash inflow	549,772	10,920,316	24,363,596	–	35,833,684
Total cash outflow	(562,986)	(11,392,633)	(25,645,670)	–	(37,601,289)

	At 31 December 2018				
	Within one month	One months to three months	Three months to one year	One year to five years	Total
Derivative financial instruments settled on net basis					
Interest rate swaps	(5,031)	(3,534)	(5,970)	(290)	(14,825)
Derivative financial instruments settled on gross basis					
Exchange rate swaps					
– Cash inflow	3,379,785	2,126,835	1,169,345	–	6,675,965
– Cash outflow	(3,308,910)	(1,996,721)	(1,102,528)	–	(6,408,159)
Exchange rate forwards					
– Cash inflow	11,418	–	37,832	–	49,250
– Cash outflow	(10,700)	–	(35,896)	–	(46,596)
Total cash inflow	3,391,203	2,126,835	1,207,177	–	6,725,215
Total cash outflow	(3,319,610)	(1,996,721)	(1,138,424)	–	(6,454,755)

	At 31 December 2019				
	Within one month	One months to three months	Three months to one year	One year to five years	Total
Derivative financial instruments settled on net basis					
Interest rate swaps	(113)	77	305	12,661	12,930
Derivative financial instruments settled on gross basis					
Exchange rate swaps					
– Cash inflow	6,278,166	1,301,781	4,873,750	164,362	12,618,059
– Cash outflow	(6,307,286)	(1,306,058)	(4,926,405)	(156,168)	(12,695,917)
Exchange rate forwards					
– Cash inflow	–	–	115,856	–	115,856
– Cash outflow	–	–	(117,210)	–	(117,210)
Total cash inflow	6,278,166	1,301,781	4,989,606	164,362	12,733,915
Total cash outflow	(6,307,286)	(1,306,058)	(5,043,615)	(156,168)	(12,813,127)

(d) Operational risk

Operational risk is the risk of losses due to inadequate or flawed internal processes, staff and IT systems, and external events. It includes legal risk but excludes strategic risk and reputational risk.

The Bank minimizes losses from operational risk through a sound risk management system in internal controls that identifies, assesses, monitors, controls, mitigates and reports operational risk. The system covers all business lines – finance, credit, accounting, settlement, saving, treasury, intermediary business, application and management of IT systems, asset preservation and legal affairs. Key internal control measures include:

- Strengthening the operational risk management mechanism consisting of three lines of defence, complying with regulatory requirements, implementing related management policies to further standardise the methods and processes of operational risk management for effective risk management.

- Raising the control quality of the operational risk management tool and improving dynamic updates of Key Control Standards (KCS) and Key Control Self Assessment (KCSA); Monitoring Key Risk Indicators (KRI) with enhanced risk warning; continuously strengthening the development and application of internal control compliance management information platform, and improving its analysis and application, in order to strengthen the quality and effect of monitoring, early warning and supporting.

- Emphasise the combination of inspection and defence, enhance case risk investigation and major operational risk prevention and control management and investigation, and joint operation of three level inspection, implement special inspection targets; implementing the "Guidelines for the Management of Practitioners in Banking and Financial Institutions", strengthening the behaviour management of practitioners and preventing moral risks and underlying crimes arising from "a slight error in thought and a slight difference in behaviour"; strictly implementing the policy and regulation requirements of anti-money laundering, implementing the Policy No. 3 and the Guidelines for the Money Laundering and Terrorism Financing Risks Management for Legal Financial Institutions (Trial), accomplishing the implementation of new anti-money laundering system, continue optimising designs for indicators and models, and improving the evaluation and monitor of money laundering risks of customers and meeting the requirements of business improvement and management.

- Strengthening business sustainability management, assessing the business continuity and urging functional departments to perform their duties and improve the management to improve the response to emergencies.

In addition, the Bank continued to improve its operational risk management system to improve system operation efficiency and data quality, and provide informatisation support for effective identification, assessment, monitoring, control and reporting of operational risks. The operational management system has the functions of recording and storing operational risk event information, supporting operational risks self-assessment, monitoring key risk indicators and other functions.

43 FAIR VALUE

(a) Methods and assumptions for measurement of fair value

The Bank adopts the following methods and assumptions when evaluating fair values:

(i) Debt securities and equity investments

The fair values of debt securities and equity investments that are traded in an active market are based on their quoted market prices in an active market at the year end of 2017, 2018 and 2019. If quoted market prices are not available, then fair values are estimated on the basis of pricing models, such as discounted cash flows model.

(ii) Receivables and other non-derivative financial assets

Fair values are estimated as the present value of the future cash flows, discounted at the market interest rates at the year end of 2017, 2018 and 2019.

(iii) Debt securities issued and other non-derivative financial liabilities

Fair values of debt securities issued are based on their quoted market prices at the year end of 2017, 2018 and 2019, or the present value of estimated future cash flows. The fair values of other non-derivative financial liabilities are valued at the present value of estimated future cash flows. The discount rates are based on the market interest rates at the year end of 2017, 2018 and 2019.

(iv) Derivatives

Derivatives valued using a valuation technique with market observable inputs are mainly interest rate swaps, foreign exchange forwards, swaps and options, etc. The most frequently applied valuation techniques include discounted cash flow model and the Garman Kohlhagen model extended from Black Scholes model. The models incorporate various inputs including foreign exchange spot and forward rates, foreign exchange rate volatility, interest rate yield curves, etc.

(b) Fair value measurement

(i) Financial assets

The Bank's financial assets mainly consist of cash and deposits with the central bank, deposit with banks and other financial institutions, placements with banks and other financial institutions, derivative financial assets, financial assets held under resale agreements, loans and advances to customers, and investments.

Deposits with the central bank, deposit with banks and other financial institutions, placements with banks and other financial institutions and financial assets held under resale agreements are mostly priced at market interest rates and due within one year. Accordingly, the carrying amounts approximate the fair values.

Loans and advances to customers are mostly priced at floating rates close to the PBoC rates. Accordingly, the carrying amounts approximate the fair values.

Derivative financial assets, available-for-sale investments, financial investments at fair value through other comprehensive income and financial assets at fair value through profit or loss are stated at fair value. The carrying amount and fair value of held-to-maturity investments are disclosed in Note 20. Financial investments at amortised cost and the carrying amounts of investments classified as receivables are the reasonable approximations of their fair values because, for example, they are short-term in nature or repriced at current market rates frequently.

(ii) Financial liabilities

The Bank's financial liabilities mainly include deposits from banks and other financial institutions, placements from banks and other financial institutions, derivative financial liabilities, financial assets sold under repurchase agreements, deposits from customers and debt securities issued.

Derivative financial liabilities are stated at fair value. The book value and fair value of debt securities issued is presented in Note 31. The carrying amounts of other financial liabilities approximate their fair value.

(c) Fair value hierarchy

The following table presents the fair value of financial instruments measured at the end of the reporting period on a recurring basis, categorized into the three-level fair value hierarchy as defined in IFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

– Level 1: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date;

– Level 2: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available; and

– Level 3: Fair value measured using significant unobservable inputs.

If there is a reliable market quote for financial instruments that measured at fair value, the fair value of which is based on quoted market prices. When quoted prices on open market are not available, the Banks will determine the fair value of financial instruments by using appropriate valuation model, enquiry or by reference to the valuation results of third-party valuation institution. The Bank selects appropriate models based on the risk characteristics, liquidity, counterparty risk and pricing basis of specific financial instruments or trading strategies to ensure that their fair value are truly and effectively reflected. The Bank selects the quoted prices or refers to the valuation results of third-party valuation agencies for evaluation of the fair value of a financial instrument, and when referring to the valuation results of third-party valuation agencies, the authority, independence and professionalism of the agencies should be assessed.

	At 31 December 2017			
	Level 1	**Level 2**	**Level 3**	**Total**
Recurring fair value measurements				
Assets				
Derivative financial assets	–	198,100	–	198,100
Financial investments at fair value through profit or loss				
– debt securities	–	486,039	–	486,039
– investment funds	–	12,374,875	–	12,374,875
Available-for-sale financial assets				
– debt securities	–	36,191,057	–	36,191,057
Total	–	49,250,071	–	49,250,071
Liabilities				
Derivative financial liabilities	–	(2,109,765)	–	(2,109,765)
Total	–	(2,109,765)	–	(2,109,765)

	At 31 December 2018			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements				
Assets				
Derivative financial assets	–	393,405	–	393,405
Loans and advances to customers measured at fair value through profit or loss				
– Corporate loans and advance	–	984,299	–	984,299
Loans and advances to customers measured at fair value through other comprehensive income:				
– discounted bills	–	13,211,434	–	13,211,434
Financial investments at fair value through profit or loss				
– debt securities	–	1,125,495	–	1,125,495
– investment funds	–	14,280,368	–	14,280,368
– trust plans and asset management plans	–	4,315,841	–	4,315,841
– wealth management products	–	3,038,951	–	3,038,951
– equity investments	110,056	–	322,369	432,425
Financial investments at fair value through other comprehensive income				
– debt securities (exclusive interests accrued)	–	41,920,016	–	41,920,016
– equity investments	–	–	200,000	200,000
– trust plans and asset management plans (exclusive interests accrued)	–	2,552,229	–	2,552,229
Total	110,056	81,822,038	522,369	82,454,463
Liabilities				
Derivative financial liabilities	–	(140,601)	–	(140,601)
Total	–	(140,601)	–	(140,601)

	At 31 December 2019			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements				
Assets				
Derivative financial assets	–	158,709	–	158,709
Loans and advances to customers measured at fair value through profit or loss				
– Corporate loans and advance	–	758,665	–	758,665
Loans and advances to customers measured at fair value through other comprehensive income:				
– discounted bills	–	9,413,518	–	9,413,518
Financial investments at fair value through profit or loss				
-debt securities	–	804,971	–	804,971
– investment funds	–	25,480,840	–	25,480,840
– trust plans and asset management plans	–	6,263,005	1,848,206	8,111,211
– equity investments	145,274	–	1,696,017	1,841,291
Financial investments at fair value through other comprehensive income				
– debt securities (exclusive interests accrued)	–	54,874,916	–	54,874,916
– equity investments	–	–	200,000	200,000
– trust plans and asset management plans (exclusive interests accrued)	–	8,979,719	–	8,979,719
Total	145,274	106,734,343	3,744,223	110,623,840
Liabilities				
Derivative financial liabilities	–	(171,758)	–	(171,758)
Total	–	(171,758)	–	(171,758)

As at 31 December 2017, there was no financial assets and liabilities categorized into the Level 3

The movement during the year ended 31 December 2018 in the balance of Level 3 fair value measurements is as follows:

	31 December 2017	Changes in accounting policies	Total gains or losses of the year		Additions, issues, sales and settlements				31 December 2018	Unrealized gains or losses for the year included in profit or loss for assets held at the end of the year
			Recorded in profit or loss	Recorded in other comprehensive income	Additions	Issues	Sales	Settlements		
Assets										
Financial assets at fair value through profit or loss										
– equity investments	–	104,625	–	–	217,744	–	–	–	322,369	–
Sub-total	–	104,625	–	–	217,744	–	–	–	322,369	–
Financial assets at fair value through other comprehensive income										
– equity investments	–	200,000	–	–	–	–	–	–	200,000	–
Total	–	304,625	–	–	217,744	–	–	–	522,369	–

The movement during the year ended 31 December 2019 in the balance of Level 3 fair value measurements is as follows:

	1 January 2019	Transfer into Level 3	Transfer out of Level 3	Total gains or losses of the year		Additions, issues, sales and settlements				31 December 2019	Unrealized gains or losses for the year included in profit or loss for assets held at the end of the year
				Recorded in profit or loss	Recorded in other comprehensive income	Additions	Issues	Sales	Settlements		
Assets											
Financial assets at fair value through profit or loss											
– trust plans and asset management plans	–	–	–	–	–	1,848,206	–	–	–	1,848,206	–
– equity investments	322,369	–	–	–	–	1,373,648	–	–	–	1,696,017	–
Sub-total	322,369	–	–	–	–	3,221,854	–	–	–	3,544,223	–
Financial assets at fair value through other comprehensive income											
– equity investments	200,000	–	–	–	–	–	–	–	–	200,000	–
Total	522,369	–	–	–	–	3,221,854	–	–	–	3,744,223	–

During the years ended 31 December 2017, 2018 and 2019, there were no significant transfers among instruments in Level 1, Level 2 and Level 3.

The valuation techniques used and the qualitative and quantitative information of key parameters for recurring fair value measurements categorized within Level 3.

Quantitative information of Level 3 fair value measurement is as below:

	Fair value as at 31 December 2018	Valuation techniques	Unobservable input
Financial assets at fair value through profit or loss			
– equity investments	322,369	Discounted cash flow	Risk-adjusted discount rate, cash flow
Financial investments at fair value through other comprehensive income			
– equity investments	200,000	Discounted cash flow	Risk-adjusted discount rate, cash flow

	Fair value as at 31 December 2019	Valuation techniques	Unobservable input
Financial assets at fair value through profit or loss			
– trust plans and asset management plans	1,848,206	Discounted cash flow	Risk-adjusted discount rate, cash flow
– equity investments	1,696,017	Discounted cash flow	Risk-adjusted discount rate, cash flow
Financial investments at fair value through other comprehensive income			
– equity investments	200,000	Discounted cash flow	Risk-adjusted discount rate, cash flow

During the years ended 31 December 2017, 2018 and 2019, there were no significant change in the valuation techniques.

As at 31 December 2018 and 2019, significant unobservable inputs such as risk-adjusted discount rate and cash flow were used in the valuation of financial assets at fair value classified as Level 3, which were mainly equity investments. The fair value of these financial assets fluctuates according to the changes in the unobservable inputs. An increases (decreases) in risk-adjusted discount rate in isolation would result in a lower (higher) fair value measurement, and increases (decreases) in cash flow in isolation would result in a higher (lower) fair value measurement. There are no interrelationships between those inputs.

The sensitivity of the fair value on changes in significant unobservable inputs for Level 3 financial instruments is measured at fair value on an ongoing basis.

The fair value of financial instruments is, in certain circumstances, measured using valuation models which incorporate assumptions that are not supported by prices from observable current market transactions in the same instrument and are not based on observable market data.

The following table shows the sensitivity of fair value due to 1% movement (100bps) of risk-adjusted discount rate change to reasonably possible alternative assumptions.

	At 31 December 2018			
	Effect on net profit		Effect on other comprehensive income	
	Favourable	(Unfavourable)	Favourable	(Unfavourable)
Financial assets at fair value through profit or loss				
– equity investments	11,203	(10,585)	–	–
Financial investments at fair value through other comprehensive income				
– equity investments	–	–	5,520	(5,229)

	At 31 December 2019			
	Effect on net profit		Effect on other comprehensive income	
	Favourable	(Unfavourable)	Favourable	(Unfavourable)
Financial assets at fair value through profit or loss				
– trust plans and asset management plans	73,045	(68,969)	–	–
– equity investments	64,035	(60,477)	–	–
Financial investments at fair value through other comprehensive income				
– equity investments	–	–	5,016	(4,755)

The following table shows the sensitivity of fair value due to 10% movement of cash flow change to reasonably possible alternative assumptions.

	At 31 December 2018			
	Effect on net profit		Effect on other comprehensive income	
	Favourable	(Unfavourable)	Favourable	(Unfavourable)
Financial assets at fair value through profit or loss				
– equity investments	7,581	(7,581)	–	–
Financial investments at fair value through other comprehensive income				
– equity investments	–	–	3,901	(3,901)

	At 31 December 2019			
	Effect on net profit		Effect on other comprehensive income	
	Favourable	(Unfavourable)	Favourable	(Unfavourable)
Financial assets at fair value through profit or loss				
– trust plans and asset management plans	65,809	(65,809)	–	–
– equity investments	58,142	(58,142)	–	–
Financial investments at fair value through other comprehensive income				
– equity investments	–	–	4,945	(4,945)

Base on above sensitivity analysis, changing one or more of the unobservable inputs to reflect reasonably possible alternative assumptions would not result in a significant change in the fair value of relevant financial instruments.

44 ENTRUSTED LENDING BUSINESS

The Bank provides entrusted lending business services to customers. All entrusted loans are funded by entrusted funds from these customers. The Bank does not take any credit risk in relation to these transactions. The Bank acts as an agent to hold and manage these assets and liabilities at the direction of the entrustor and receives fee income for the services provided. The entrusted assets are not the assets of the Bank and are not recognised in the statements of financial position. Surplus funding is accounted for as deposits from customers.

	At 31 December		
	2017	2018	2019
Entrusted loans	289,090,668	158,160,702	68,800,182
Entrusted funds	289,090,668	158,160,702	68,800,182

45 COMMITMENTS AND CONTINGENT LIABILITIES

(a) Credit commitments

The Bank's credit commitments take the form of approved loans with signed contracts, credit card commitments, bank acceptances, letters of credit and financial guarantees.

The contractual amounts of loans commitments represent the amounts should the contracts be fully drawn upon. The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. Acceptances comprise of undertakings by the Bank to pay bills of exchange drawn on customers. The Bank expects most acceptances to be settled simultaneously with the reimbursement from the customers.

	At 31 December		
	2017	2018	2019
Loan commitments			
– Original contractual maturity within one year	450,000	–	–
– Original contractual maturity more than one year (inclusive)	6,274,050	830,300	–
Credit card commitments	3,335,207	5,290,947	5,069,857
Sub-total	10,059,257	6,121,247	5,069,857
Acceptances	94,054,166	155,296,893	167,506,456
Letters of credit	51,660,338	68,464,136	67,528,818
Letters of guarantees	26,991,075	25,619,242	21,315,136
Total	182,764,836	255,501,518	261,420,267

The Bank may be exposed to credit risk in all the above credit businesses. Bank Management periodically assesses credit risk and makes provision for any probable losses. As the facilities may expire without being drawn upon, the total of the contractual amounts shown above is not representative of expected future cash outflows. As at 31 December 2017, 2018 and 2019, provisions for credit commitments were RMB18 million, RMB940 million and RMB768 million.

(b) Credit risk-weighted amount for credit commitments

	At 31 December		
	2017	**2018**	**2019**
Credit risk-weighted amounts	70,656,027	60,992,984	61,677,273

The credit risk-weighted amount for credit commitments represents the amount calculated with reference to the guidelines issued by the former CBRC.

(c) Lease commitments

As at 31 December 2017 and 2018, the Bank's future minimum lease payments under non-cancellable operating leases for properties are as follows:

	At 31 December	
	2017	**2018**
Within one year (inclusive)	836,746	1,014,474
After one year but within two years (inclusive)	703,533	751,854
After two year but within three years (inclusive)	630,819	695,410
After three year but within five years (inclusive)	1,242,905	1,214,360
After five years	1,201,736	950,041
Total	4,615,739	4,626,139

(d) Capital commitments

As at 31 December 2017, 2018 and 2019, the Bank's authorised capital commitments are as follows:

	At 31 December		
	2017	**2018**	**2019**
Contracted but not paid for	167,845	131,471	93,799
Authorised but not contracted for	457,635	90,579	48,659
Total	625,480	222,050	142,458

(e) Outstanding litigations and disputes

As at 31 December 2017, 2018 and 2019, the Bank has been involved in certain claims and the defendant in certain outstanding litigations and disputes with an estimated gross amount of RMB66.20 million, RMB43.74 million and RMB79.32 million, respectively. The Bank has assessed the impact of the above outstanding litigation and disputes that may lead to an outflow of economic benefits. According to the opinion of the Bank's lawyers and external lawyers, at 31 December 2017, 2018 and 2019 certain pending litigations and claims arising from normal course of business resulted in provisions of RMB42.24 million, RMB42.24 million, RMB42.24 million being made.

(f) Bonds underwriting commitments and redemption obligations

As an underwriting agent of PRC government bonds, the Bank has the responsibility to buy back its bonds if the holders decide to early redeem the bonds held. The redemption price for the bonds at any time before their maturity date is based on the coupon value plus any interest unpaid and accrued up to the redemption date. Accrued interest payable to the bond holders are calculated in accordance with relevant rules of the Ministry of Finance and the PBoC.

The redemption price may be different from the fair value of similar instruments traded in the markets at the redemption date. The redemption obligations below represent the nominal value of government bonds underwritten and sold by the Bank, but not yet matured at 31 December 2017, 2018 and 2019:

	At 31 December		
	2017	**2018**	**2019**
Redemption obligations	30,764,000	40,110,000	39,311,500

46 SUBSEQUENT EVENTS

(a) Financial bonds issued

In January 2020, the Bank issued three-year financial bonds with face value of RMB10 billion. The fixed coupon interest rate per annum is 3.47%. In February 2020, the Bank issued three-year financial bonds with face value of RMB8 billion. The fixed coupon interest rate per annum is 3.24%.

(b) Impact assessment on novel coronavirus pneumonia epidemic

Since the outbreak of pneumonia epidemic caused by novel coronavirus ("the COVID-19 outbreak") across the country in January 2020, the prevention and control of the pneumonia epidemic continues nationwide. The Bank will earnestly implement the requirements of the "*Notice on Further Enhancing Financial Support for Controlling the Novel Coronavirus Outbreak* (《關於進一步強化金融支持防控新型冠狀病毒感染肺炎疫情的通知》)" and other relevant policies and regulations jointly published by the People's Bank of China, the Ministry of Finance, the CBIRC, the CSRC and the SAFE, to strengthen financial support for epidemic prevention and control.

The pneumonia epidemic will have certain impact on the operation of enterprises in some provinces, cities and industries, including Hubei Province, and the overall economic operation, which may affect the asset quality or return on assets of the Bank's credit assets and investment assets to a certain extent. The degree of impact will depend on the situation, duration of the epidemic prevention and control, and the implementation of various control policies. These estimated impacts have not been reflected in Historical Financial Information.

In light of information collected by the Bank as of the date of this report, the COVID-19 outbreak has had no significant impact on the operations of the Bank. The Bank will continue to closely monitor the development of the pneumonia epidemic, assess and actively respond to its impact on the financial position, operating results and other aspects of the Bank.

Except for the above, the Bank had no other material events for disclosure subsequent to 31 December 2019 and up to the date of this Historical Financial Information.

C SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Bank in respect of any period subsequent to 31 December 2019.

The information set out below does not form part of the Accountants' Report prepared by the independent reporting accountants, KPMG, Certified Public Accountants, Hong Kong, as set out in Appendix I to this prospectus, and is included herein for information purpose only.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(Expressed in thousands of Renminbi, unless otherwise stated)

In accordance with the Listing Rules and Banking (Disclosure) Rules, the Bank discloses the unaudited supplementary financial information as follows:

1 LIQUIDITY COVERAGE RATIO AND LEVERAGE RATIO

(a) Liquidity coverage ratio

	At 31 December 2017	Average for the year ended 31 December 2017
Liquidity coverage ratio (RMB and foreign currency)	103.03%	96.59%

	At 31 December 2018	Average for the year ended 31 December 2018
Liquidity coverage ratio (RMB and foreign currency)	135.34%	117.49%

	At 31 December 2019	Average for the year ended 31 December 2019
Liquidity coverage ratio (RMB and foreign currency)	139.86%	129.91%

Pursuant to the Administrative Measures for Liquidity Risk Management of Commercial Banks the liquidity coverage ratio of commercial banks shall reach 100% by the end of 2018. During the transitional period, such ratio shall not fall below 90%.

(b) Leverage Ratio

	At 31 December 2017	At 31 December 2018	At 31 December 2019
Leverage Ratio	4.24%	4.52%	6.22%

Pursuant to the Leverage Ratio Management of Commercial Banks (Revision) issued by the former CBRC and was effective since 1 April 2015, a minimum leverage ratio 4% is required.

(c) Net Stable Funding Ratio

	30 June 2019	30 September 2019	31 December 2019
Available stable funding	695,833,330	706,612,590	708,950,035
Required stable funding	570,571,958	587,514,832	627,425,565
Net Stable Funding Ratio	121.95%	120.27%	112.99%

Pursuant to the Administrative Measures on the Liquidity Risk Management of Commercial Banks, a minimum net stable funding ratio 100% is required.

The above liquidity coverage ratio, leverage ratio and net stable funding ratio are calculated in accordance with the formula promulgated by the former CBRC and based on the financial information prepared in accordance with PRC GAAP.

2 CURRENCY CONCENTRATIONS

	At 31 December 2017			
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	Total
Spot assets	31,264,995	656,308	3,624,246	35,545,549
Spot liabilities	(66,469,088)	(624,076)	(4,580,287)	(71,673,451)
Net position	(35,204,093)	32,232	(956,041)	(36,127,902)

	At 31 December 2018			
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	Total
Spot assets	25,816,078	172,651	2,149,653	28,138,382
Spot liabilities	(33,162,940)	(4,971)	(601,110)	(33,769,021)
Net position	(7,346,862)	167,680	1,548,543	(5,630,639)

	At 31 December 2019			
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	Total
Spot assets	43,710,425	180,217	2,164,674	46,055,316
Spot liabilities	(57,055,823)	(126,944)	(2,182,880)	(59,365,647)
Net position	(13,345,398)	53,273	(18,206)	(13,310,331)

3 INTERNATIONAL CLAIMS

The Bank is principally engaged in business operations within Mainland China, and regards all claims on third parties outside Mainland China as international claims.

International claims include loans and advances to customers, deposits with the central bank, deposits with banks and other financial institutions, placements with banks and other financial institutions and financial investments.

A country or geographical area is reported where it constitutes 10% or more of the aggregate amount of international 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.

	At 31 December 2017		
	Banks	Non-bank financial institutions	Total
Asia Pacific (excluding North and South America)	557,987	1,372,157	1,930,144
Europe	3,392,973	–	3,392,973
North and South America	1,745,296	–	1,745,296
Others	551	–	551
Total	5,696,807	1,372,157	7,068,964

	At 31 December 2018		
	Banks and other financial institutions	Non-bank financial institutions	Total
Asia Pacific (excluding North and South America)	150,326	5,156,455	5,306,781
Europe	691,052	–	691,052
North and South America	2,419,916	–	2,419,916
Others	2,007	–	2,007
Total	3,263,301	5,156,455	8,419,756

	At 31 December 2019		
	Banks	Non-bank financial institutions	Total
Asia Pacific (excluding North and South America)	1,007,467	3,949,098	4,956,565
Europe	725,210	–	725,210
North and South America	1,518,246	–	1,518,246
Others	6,535	–	6,535
Total	3,257,458	3,949,098	7,206,556

4 Gross amount of overdue loans and advances

	At 31 December		
	2017	2018	2019
Gross loans and advances which have been overdue with respect to either principal or interest for periods of			
– between 3 and 6 months (inclusive)	1,090,032	712,663	1,030,593
– between 6 months and 1 year (inclusive)	2,112,197	2,159,548	1,784,811
– between 1 year and 3 years (inclusive)	5,780,298	6,156,863	4,645,943
– over 3 years	600,313	1,286,049	3,562,961
Total	9,582,840	10,315,123	11,024,308
As a percentage of total gross loans and advances			
– between 3 and 6 months (inclusive)	0.23%	0.13%	0.15%
– between 6 months and 1 year (inclusive)	0.46%	0.38%	0.25%
– between 1 year and 3 years (inclusive)	1.24%	1.09%	0.66%
– over 3 years	0.13%	0.23%	0.50%
Total	2.06%	1.83%	1.56%

The information set out in this appendix does not form part of the Accountants' Report prepared by the independent reporting accountants, KPMG, Certified Public Accountants, Hong Kong, as set out in Appendix I to this prospectus, and is included herein for illustrative purposes only.

The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the Accountants' Report set out in Appendix I to this prospectus.

UNAUDITED PRO FORMA FINANCIAL INFORMATION

(Expressed in thousands of Renminbi, unless otherwise stated)

A. UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted net tangible assets of China Bohai Bank Co., Ltd. (the Bank) is prepared in accordance with Rule 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and is set out below to illustrate the effect of the Global Offering on the Bank's net tangible assets attributable to Shareholders of the Bank as of 31 December 2019, as if the Global Offering had taken place on 31 December 2019.

The preparation of the unaudited pro forma statement of adjusted net tangible assets is for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the Bank's net tangible assets attributable to Shareholders of the Bank had the Global Offering been completed as of 31 December 2019 or at any future date.

	Net tangible assets attributable to Shareholders of the Bank as of 31 December 2019	**Estimated net proceeds from the Global Offering**	**Pro forma adjusted net tangible assets attributable to Shareholders of the Bank**	**Pro forma adjusted net tangible assets per Share**	
	RMB Million	RMB Million	RMB Million	RMB	HK$
	(Note (1))	*(Note (2)&(5))*	*(Note (3))*	*(Note (4))*	*(Note (5))*
Base on an Offer Price of HK$4.75 per Share	62,541.5	12,204.4	74,745.9	4.31	4.71
Base on an Offer Price of HK$4.98 per Share	62,541.5	12,798.2	75,339.7	4.35	4.75

Notes:

(1) The net tangible assets attributable to Shareholders of the Bank as of 31 December 2019 are based on the total equity of the Bank of RMB82,638.6 million, after deduction of intangible assets of RMB135.5 million and undated capital bonds classified as equity instruments of RMB19,961.6 million.

(2) The estimated net proceeds from the Global Offering for the purpose of unaudited pro forma adjusted net tangible assets are based on the Offer Price of HK$4.75 per H Share (being the low-end of the proposed Offer Price range) and HK$4.98 per H Share (being the high-end of the proposed Offer Price range) and there are 2,880,000,000 H Shares newly issued in the Global Offering, after deduction of the underwriting fees and other related listing expenses payable by the Bank (excluding listing expenses of RMB7.9 million which have already been charged to statements of profit or loss and other comprehensive income during the Track Record Period) and taking no account of any H Shares which may be issued upon the exercise of the Over-allotment Option.

(3) The pro forma adjusted net tangible assets attributable to Shareholders of the Bank do not take into account the financial results or other transactions of the Bank subsequent to 31 December 2019.

(4) The pro forma adjusted net tangible assets per Share are arrived at after the adjustments for the estimated net proceeds from the Global Offering as described in note (2) and on the basis of 17,330,000,000 Shares in issue assuming that the Global Offering has been completed on 31 December 2019, and taking no account of any H Shares which may be issued upon the exercise of the Over-allotment Option.

(5) The estimated net proceeds from the Global Offering and the pro forma adjusted net tangible assets per Share are translated into or from Renminbi at the rate of RMB0.9150 to HK$1.00, the exchange rate set by the PBoC prevailing on 19 June 2020. No representation is made that the Hong Kong dollar amounts have been, could have been or could be converted to Renminbi, or vice versa, at that rate or at any other rate.

B. REPORT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from the reporting accountants, KPMG, Certified Public Accountants, Hong Kong, in respect of the Bank's pro forma financial information for the purpose in this prospectus.

KPMG

INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION

To the Directors of China Bohai Bank Co., Ltd.

We have completed our assurance engagement to report on the compilation of pro forma financial information of China Bohai Bank Co., Ltd. (the "**Bank**") by the directors of the Bank (the "**Directors**") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted net tangible assets as at 31 December 2019 and related notes as set out in Part A of Appendix III to the prospectus dated 30 June 2020 (the "**Prospectus**") issued by the Bank. The applicable criteria on the basis of which the Directors have compiled the pro forma financial information are described in Part A of Appendix III to the Prospectus.

The pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed offering of the ordinary shares of the Bank (the "**Global Offering**") on the Bank's financial position as at 31 December 2019 as if the Global Offering had taken place at 31 December 2019. As part of this process, information about the Bank's financial position as at 31 December 2019 has been extracted by the Directors from the Bank's historical financial information included in the Accountants' Report as set out in Appendix I to the Prospectus.

Directors' Responsibilities for the Pro Forma Financial Information

The Directors are responsible for compiling the pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("**AG 7**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

The firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms That Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements ("**HKSAE**") 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the pro forma financial information in accordance with paragraph 4.29 of the Listing Rules, and with reference to AG 7 issued by the HKICPA.

For purpose of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information.

The purpose of pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Bank as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of events or transactions as at 31 December 2019 would have been as presented.

A reasonable assurance engagement to report on whether the pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Bank, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our procedures on the pro forma financial information have not been carried out in accordance with attestation standards or other standards and practices generally accepted in the United States of America, auditing standards of the Public Company Accounting Oversight Board (United States) or any overseas standards and accordingly should not be relied upon as if they had been carried out in accordance with those standards and practices.

We make no comments regarding the reasonableness of the amount of net proceeds from the issuance of the Bank's shares, the application of those net proceeds, or whether such use will actually take place as described in the section headed "Future Plans and Use of Proceeds" in the Prospectus.

Opinion

In our opinion:

(a) the pro forma financial information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Bank, and

(c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

KPMG
Certified Public Accountants
Hong Kong
30 June 2020

This Appendix sets out summaries of certain aspects of PRC laws and regulations, which are relevant to the Bank's operations and business. Laws and regulations relating to taxation in the PRC are discussed separately in "Appendix VI – 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 Listing Rules and additional provisions required by the Hong Kong Stock Exchange for inclusion in the articles of association of PRC issuers. The principal objective of this summary is to provide potential investors with an overview of the principal legal and regulatory provisions applicable to the Bank. This summary is not intended to include all the information which may be important to potential investors. For discussion of laws and regulations which are relevant to our business, see "Supervision and Regulation" in this prospectus.

PRC LAWS AND REGULATIONS

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, autonomous regulations, separate regulations, rules and regulations of State Council departments, rules and regulations of local governments, laws of special administrative regions and international treaties of which the PRC Government is a signatory and other regulatory documents. Court judgments do not constitute legally binding precedents, although they are used for the purposes of judicial reference and guidance.

Pursuant to the Constitution and the Legislation Law of the PRC (《中華人民共和國立法法》) (the "**Legislation Law**"), the National People's Congress (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. 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 parts of the laws enacted by the NPC during the adjournment of the NPC, provided that such supplements and amendments are not in conflict with the basic principles of such laws.

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 formulate local regulations based on the specific circumstances and actual needs of their respective administrative areas, provided that such regulations do not contravene any provision of the Constitution, laws or administrative regulations. The people's congresses of cities with districts and their respective standing committees may formulate local regulations with respect to urban and rural construction and administration, environmental protection, historical and cultural protection and other aspects according to the specific circumstances and actual needs of such cities, provided that such local regulations do not contravene any provision of the Constitution, laws, administrative regulations and local regulations of their respective provinces or autonomous regions. If the law provides otherwise on the formulation of local regulations by cities divided into districts, those provisions shall prevail. Such local regulations will become enforceable after being reported to and approved by the standing committees of the People's congresses of the relevant 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 cities with districts 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 handle the issue.

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 departmental rules and regulations within the permissions 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 the matters related to the enforcement of the laws and administrative regulations, the decisions and orders of the State Council. The people's governments of the provinces, autonomous regions, municipalities directly under the central government and cities with districts 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 June 10, 1981, issues related to the further clarification or supplement of laws should be interpreted or provided by the Standing Committee of the NPC, issues related to the application of laws in a court trial should be interpreted by the Supreme People's Court, issues related to the application of laws in a prosecution process should be interpreted by the Supreme People's Procuratorate, and the legal issues other than the above-mentioned should be interpreted by the State Council and the competent authorities. The State Council and its ministries and commissions are also vested with the power to give interpretations of the administrative regulations and departmental rules 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.

The PRC Judicial System

Under the Constitution and the Law of Organization of the People's Courts of the PRC (《中華人民共和國人民法院組織法》), the people's courts are classified into the Supreme People's Court, the local people's courts at various local levels, and other special people's courts. The local people's courts at various local levels are divided into three levels, namely, the primary people's courts, the intermediate people's courts and the higher people's courts. The primary people's courts are further divided into civil, criminal and economic divisions. The intermediate people's courts have divisions similar to those of the primary 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 Supreme People's Procuratorate is authorized to supervise the judgment and ruling of the people's courts at all levels which have been legally effective, and the people's procuratorate at a higher level is authorized to supervise the judgment and ruling of a people's court at a lower level which have been legally effective. 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 people's courts employ a two-tier appellate system. The judgments or rulings of the second instance at a people's court are final. A party may appeal against the judgment or ruling of the first instance of a local people's court. The people's procuratorate may present a protest 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 judgments or rulings of the people's court are final. Judgments 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. Judgments or rulings of the first instance of the Supreme People's Court are also final. However, if the Supreme People's Court or a people's court at the next higher level discovers an error in a final and binding judgment or ruling 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 judgment or ruling which has taken effect in the court over which he presides, a retrial of the case may be initiated 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 April 9, 1991 and amended on October 28, 2007, August 31, 2012 and June 27, 2017, respectively, prescribes the conditions for instituting a civil action, the jurisdiction of the people's courts, the procedures to be followed for conducting a civil action, and the procedures for enforcement of a civil judgment or 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 should be located at places directly connected with the disputes, such as the plaintiff's or the defendant's place of domicile, the place where the contract is executed or signed or the place where the object of the action is located. However, such choice shall not in any circumstances contravene the regulations of differential jurisdiction and exclusive jurisdiction.

A foreign individual, a person without nationality, a foreign enterprise or a foreign organization that institute or respond to proceedings in a people's court is 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 shall apply the same limitations to the citizens and enterprises of such foreign country. A foreign individual, a person without nationality, a foreign enterprise or a foreign organization must engage a PRC lawyer in case he or it needs to engage a lawyer for the purpose of initiating actions or defending against litigations at a PRC court. In accordance with the international treaties to which the PRC is a signatory or a participant or according to the principle of reciprocity, a people's court and a foreign court may request each other to serve documents, conduct investigation, collect evidence and conduct other actions on its behalf. A PRC court shall not accommodate any request made by a foreign court which will result in the violation of sovereignty, security or public interests of the PRC.

All parties to a civil action shall perform legally effective judgments and rulings. If any party to a civil action refuses to abide by a judgment 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 application for postponed enforcement or revocation. If a party fails to satisfy within the stipulated period a judgment which the court has granted an enforcement approval, the court may, upon the application of the other party, mandatorily enforce the judgment. A party seeking to enforce a judgment 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 judgment or ruling. Alternatively, the people's court may, pursuant to an international treaty concluded or acceded to by the People's Republic of China or in accordance with the principle of reciprocity, request the foreign court to recognize and execute the judgment 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 or according to the principle of reciprocity, a foreign judgment or ruling may also be recognized and enforced in accordance with the PRC enforcement procedures by a PRC court unless the people's court considers that the recognition or enforcement of such judgment or ruling would violate the basic legal principles of the PRC, its sovereignty or national security, or would not be in the public interest.

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 December 29, 1993 and came into effect on July 1, 1994. It was successively amended on December 25, 1999, August 28, 2004, October 27, 2005, December 28, 2013 and October 26, 2018. The revised PRC Company Law came into effect on October 26, 2018.

The Special Regulations were passed at the 22nd Standing Committee Meeting of the State Council on July 4, 1994 and promulgated and implemented on August 4, 1994. The Special Regulations include provisions 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 August 27, 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 of the Bank. References to a "company" made in this Appendix are to a joint stock limited company established under the PRC Company Law with H shares to be issued. 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" (the "**company**") refers to a corporate legal person established in China 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 shall be incorporated by a minimum of two but no more than 200 promoters, and at least half of the promoters must be residents 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 incorporated by promotion shall not be offered to others unless the registered capital has been fully paid up. For companies incorporated by subscription, the registered capital is the total paid-up capital as registered with the relevant registration authorities. If laws, administrative regulations and decisions of the State Council 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' agreements. After the promoters have confirmed the capital contribution under the articles of association, a board of directors and a board of supervisors shall be elected and the board of directors shall apply for registration of incorporation by filing the articles of association with the company registration authority, and other documents as required by laws 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 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 security companies established under PRC laws, and an underwriting agreement shall be concluded thereon. 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 is obliged to 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 laws must be engaged to conduct a capital verification and furnish a certificate thereon. The promoters shall preside over and convene an inauguration meeting within 30 days from the date of the full payment of subscription monies. The inauguration meeting shall be formed by the promoters and subscribers. Where the shares issued are not fully subscribed for within the offer period 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 calculated at bank rates of a deposit for the same period. Within 30 days of the conclusion of the inauguration meeting, the board of directors shall apply to the registration authority for registration of the establishment of the company. A company is formally established and has the status of a legal person after approval of registration has been given by the relevant administration bureau for industry and commerce and a business license has been issued.

A company's promoters shall be liable for:

(i) the debts and expenses incurred in the incorporation process jointly and severally if the company cannot be incorporated;

(ii) the refund of subscription monies paid by the subscribers together with interest calculated at bank rates of deposit for the same period jointly and severally if the company cannot be incorporated; and

(iii) the compensation of any damages suffered by the company in the course of its incorporation as a result of the promoters' default.

Share Capital

The promoters may make a capital contribution in currencies, or non-monetary assets such as in kind, 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 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 provisions of laws or administrative regulations on valuation without any over-valuation or under-valuation.

The issuance of shares shall be conducted in a fair and equitable manner. Each share of the same class must carry equal rights. Shares issued at the same time and within the same class must be issued on the same conditions and at the same price. The same price per share shall be paid by any share subscriber (whether an entity or an individual). The share offering price may be equal to or greater than the par value of the share, but may not be less than the par value.

A company must obtain the approval of the CSRC to offer its shares to the overseas public. 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 currencies. 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, except these regions above, 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 in addition to the number of underwritten shares.

Under the PRC Company Law, a company issuing registered share certificates shall maintain a shareholder registry which sets forth the following matters:

(i) the name and domicile of each shareholder;

(ii) the number of shares held by each shareholder;

(iii) the serial numbers of shares held by each shareholder; and

(iv) the date on which each shareholder acquired the shares.

Increase in Share Capital

Pursuant to the PRC Company Law, 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 registration department 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

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 the 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 company registration authority for registration of the change and reduction in registered capital.

Repurchase of Shares

Pursuant to the PRC Company Law, a company shall not purchase its own shares other than in any of the following circumstances:

(i) reducing its registered capital;

(ii) merging with another company which holds its shares;

(iii) utilizing the shares for employee stock ownership plan or stock ownership incentive scheme;

(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;

(v) utilizing the shares for conversion of corporate bonds which are convertible into shares issued by a listed company; and

(vi) where it is necessary for a listed company to maintain its corporate value and stockholders' equity.

Any company's purchase of its own shares for any reason specified in item (i) and item (ii) of the preceding paragraph shall be subject to a resolution of the general meeting; any company's purchase of its own shares for any reason specified in item (iii), item (v) and item (vi) of the preceding paragraph may be subject to a resolution of the board meeting with more than two thirds of directors present, according to the provisions of the articles of associations or upon authorization by the general meeting.

The shares acquired under the circumstance stipulated in item (i) hereof shall be deregistered within ten days from the date of acquisition of shares; the shares shall be assigned or deregistered within six months if the share buyback is made under the circumstances stipulated in either item (ii) or item (iv); and the shares held in total by a company after a share buyback under any of the circumstances stipulated in item (iii), item (v) or item (vi) shall not exceed 10% of the company's total outstanding shares, and shall be assigned or deregistered within three years.

Listed companies making a share buyback shall perform their obligation of information disclosure according to the provisions of the PRC Securities Law. If the share buyback is made under any of the circumstances stipulated in item (iii), item (v) or item (vi) hereof, centralized trading shall be adopted publicly.

A company shall not accept its own shares as the subject matter of pledge.

Transfer of Shares

Shares held by shareholders may be transferred in accordance with the relevant laws. Pursuant to the PRC Company Law, a shareholder should 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 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 5 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 that changes due to share transfer should not be made to shareholder registry within 30 days before a shareholders' general meeting or within 5 days before the record date for the purpose of determining entitlements to dividend distributions.

Pursuant to the PRC Company Law, 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 every year. 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 after they leave 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 on a shareholders' general meeting or a meeting of the board of directors that has not been convened in compliance with the laws, regulations or the articles of association or whose voting has been conducted in an invalid manner, or any resolution the contents of which 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 attend or appoint a proxy to attend shareholders' general meetings and exercise the voting rights;

(v) to inspect the articles of association, share register, counterfoil of company debentures, minutes of shareholders' general meetings, board resolutions, resolutions of the board of supervisors and financial and accounting reports, and to make suggestions or inquiries in respect of the company's operations;

(vi) to receive dividends in respect of the number of shares held;

(vii) to participate in distribution of 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 laws, administrative regulations, other normative documents and 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 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 plans;

(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 of directors;

(iv) to review and approve the reports of the board of supervisors or supervisors;

(v) to review and approve the company's annual financial budgets and final accounts plan;

(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 merger, division, dissolution and liquidation of the company or change of its corporate form;

(x) to amend the company's articles of association; and

(xi) to exercise any other authority stipulated in the articles of association.

Pursuant to the PRC Company Law, 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 law or less than two thirds of the number specified in the articles of association;

(ii) the outstanding losses of the company amounted to one-third of the company's total paid in 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 of directors deems necessary;

(v) the board of supervisors so proposes; or

(vi) any other circumstances as provided for in the articles of association.

A shareholders' general meeting shall be convened by the board of directors and presided over by the chairman of the board of directors. 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 half or more of the directors shall preside over the meeting. Where the board of directors is incapable of performing or is not performing its duties to convene the general meeting, the board of supervisors shall convene and preside over such meeting in a timely manner. If the board of supervisors fails to convene and preside over such meeting, shareholders individually or in aggregate holding 10% or more of the company's shares for 90 days or more 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. 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.

In accordance with the Mandatory Provisions, a written 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 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.

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 no less than 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 notify shareholders again within five days by announcement of the matters to be considered at the meeting as well as the date and venue of the meeting, and the general meeting may be held by the company thereafter.

According to the Official Reply of the State Council on Adjusting the Provisions Governing Matters Including the Application of the Notice Period for the Convening of Shareholders' General Meetings by Companies Listed Overseas (《國務院關於調整適用在境外上市公司召開股東大會通知期限等事項規定的批覆》) promulgated by the State Council on October 17, 2019, for those companies registered in the PRC and listed overseas, provisions and requirements stipulated in the PRC Company Law in relation to the notice period, shareholders' right to submit proposals to, and the procedures for convening, shareholders' general meetings shall apply, and Article 20 to Article 22 of the Special Regulations shall no longer apply.

Pursuant to the PRC Company Law, 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.

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.

Pursuant to the PRC Company Law, 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 resolutions relating to merger, division 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 board of directors shall convene a shareholders' general meeting promptly to vote on such matters.

A shareholder may entrust a proxy to attend the general meeting on his/her behalf. The proxy shall present the shareholders' power of attorney to the company and exercise voting rights within the scope of authorization.

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.

Pursuant to the Mandatory Provisions, the increase or reduction of share capital, the issuance of shares of any class, warrants or other similar securities and corporate bonds, the division, merger, dissolution and liquidation of the company, the amendments to the articles of association 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 (including his/her proxies) present at the meeting.

The Mandatory Provisions require a special resolution to be passed at the general meeting and a class meeting 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 of Directors

A company shall have a board of directors which shall consist of 5 to 19 members. Members of the board of directors 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 of directors 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 proposals for 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, division 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 manager and decide on his/her remuneration and, based on the manager's recommendation, to appoint or dismiss any deputy 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 of directors 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 proposed to be convened by shareholders representing more than 10% of the voting rights, more than one-third of the directors or the board of supervisors. The chairman shall convene the meeting within 10 days of receiving such proposal, and preside over the meeting. The board of directors may otherwise determine the means and the period of notice for convening an interim board meeting. Meetings of the board of directors shall be held only if more than half of the directors are present. Resolutions of the board of directors 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 of directors. Directors shall attend the meetings of the board of directors 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 authorization. The board of directors shall make minutes of the meeting's decisions on the matters discussed at the meeting, and the directors attending the meeting shall sign the minutes.

If a resolution of the board of directors violates any laws, administrative regulations or the articles of association or resolutions of the general meeting, and as a result of which the company sustains 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 person may not serve as a director in a company:

(i) a person who is unable or has limited ability to undertake any civil liabilities;

(ii) a person who has been convicted of an offense of corruption, bribery, embezzlement, misappropriation of property or destruction of the socialist economic order, or who has been deprived of his political rights due to his crimes, in each case where no more than five years have elapsed since the date of completion of the sentence;

(iii) a person who has been a former director, factory manager or manager of a company or an enterprise that has entered into insolvent liquidation and who was personally liable for the insolvency of such company or enterprise, where no more than three years have elapsed since the date of the completion of the bankruptcy and liquidation of the company or enterprise;

(iv) a person who has been a legal representative of a company or an enterprise that has had its business license revoked due to violations of the law or has been ordered to close down by law and the person was personally responsible, where less than three years have elapsed since the date of such revocation; and

(v) a person who is liable for a relatively large amount of debts that are overdue.

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.

In addition, the Mandatory Provisions further stipulate other circumstances under which a person is disqualified from acting as a director of a company, including: (1) the person is under investigation by the judicial authorities after a claim has been brought for violating the criminal law and the case has yet to be settled; (2) a person cannot assume the position of leader of an enterprise according to laws and administrative regulations; (3) the person is not a natural person; and (4) no more than 5 years has elapsed since the date the person was found to be in violation of the provisions of relevant securities regulations and was involved in deceitful or dishonest activities as ruled by the competent authority.

Pursuant to the PRC Company Law, the board of directors 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 elected by more than half of the directors shall perform his/her duties.

Board of Supervisors

Pursuant to the PRC Company Law, a company shall have a board of supervisors composed of not less than three members. The board of supervisors shall consist of representatives of the shareholders and an appropriate proportion of representatives of the company's staff, among which the proportion of representatives of the company's staff shall not be less than one-third, and the actual proportion shall be determined in the articles of association. Representatives of the company's staff at the board of supervisors shall be democratically elected by the company's staff at the staff representative assembly, general staff meeting or otherwise. The board of supervisors shall appoint a chairman and may appoint a vice chairman. The chairman and the vice chairman of the board of supervisors shall be elected by more than half of the supervisors. Directors and senior management shall not act concurrently as supervisors.

The chairman of the board of supervisors shall convene and preside over board of supervisors meetings. Where the chairman of the board of supervisors is incapable of performing or is not performing his/her duties, the vice chairman of the board of supervisors shall convene and preside over supervisory board meetings. Where the vice chairman of the board of supervisors 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 meetings of the board of 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 board of supervisors 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 directors or senior 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 personnel 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 board meetings and make inquiries or proposals in respect of the resolutions of the board. The board of supervisors 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.

Manager and Senior Management

Pursuant to the PRC Company Law, a company shall have a manager who shall be appointed or removed by the board of directors. The manager 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 of directors;

(ii) to arrange for the implementation of the company's annual operation plans and investment proposals;

(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 specific rules and regulations;

(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 of directors); and

(viii) to exercise any other authority granted by the board of directors.

Other provisions in the articles of association on the manager's powers shall also be complied with. The manager shall be present at meetings of the board of directors. However, the manager shall have no voting rights at meetings of the board of directors unless he/she concurrently serves as a director.

Pursuant to the PRC Company Law, senior management refers to the manager, deputy manager, financial officer, secretary to the board of directors of a listed company and other personnel as stipulated in the articles of association.

Duties of Directors, Supervisors, Managers and Other Senior Management

Directors, supervisors and senior management are required under the PRC Company Law to comply with the relevant laws, regulations and the articles of association, and shall be obliged to be faithful and diligent towards the Company.

Directors, supervisors and management personnel are prohibited from abusing their authority in 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 under their own names or the names of other individuals;

(iii) loaning company funds to others or providing guarantees in favor of others supported by company's property in violation of the articles of association or without approval of the general meeting or the board of directors;

(iv) entering into contracts or transactions with the company in violation of the articles of association or without approval of the general meeting;

(v) using their position to procure business opportunities for themselves or others that should have otherwise been available to the company or operating businesses similar to that of the company for their own benefits or on behalf of others without approval of the general meeting;

(vi) accepting commissions paid by a third party for transactions conducted with the company for their own benefit;

(vii) unauthorized divulgence of confidential information of the company; and

(viii) other acts in violation of their duty of loyalty to the company.

Income generated by directors or senior management in violation of aforementioned 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 liable to the company for compensation.

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 inquiries from shareholders. Directors and senior management shall furnish all true information and materials to the board of supervisors, without impeding the discharge of duties by the board of supervisors or 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 more than 180 days may request in writing that the board of supervisors institute litigation at a people's court. Where the board of supervisors violates the laws or administrative regulations or the articles of association in the discharge of its duties resulting in any loss to the company, such shareholder(s) may request in writing that the board of directors institute litigation at a people's court on its behalf. If the board of supervisors or the board of directors refuses to institute litigation after receiving the abovementioned 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, such 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, 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 in the company for their own benefits. The Mandatory Provisions contain detailed stipulations on these duties.

Finance and Accounting

Pursuant to the PRC Company Law, 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 reports shall be made available for shareholders' inspection at the company 20 days before the convening of an annual general meeting. A joint stock limited company that makes public stock offerings shall publish its financial reports.

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 more than 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 of directors 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 of directors in accordance with the articles of association. The accounting firm should be allowed to make representations when the general meeting or the board of directors conduct a vote on the dismissal of the accounting firm. The company should provide true and complete accounting evidence, accounting books, financial and accounting reports and other accounting information to the engaged accounting firm without any refusal, 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. The accounting firm's term of office shall commence from the end of the shareholders' annual general meeting to the end of the next shareholders' annual general meeting.

Profit Distribution

According to the PRC Company Law, a company shall not distribute profits before losses are covered and the statutory common reserve fund is provided. The Special Regulations require that dividends and other distributions to be paid to holders of H shares shall be declared and calculated in RMB and paid in foreign currencies. Under the Mandatory Provisions, the payment of foreign currency to shareholders shall be made through receiving agents.

Amendments to the Articles of Association

Pursuant to the PRC Company Law, the resolution of a shareholders' general meeting regarding any amendment to a company's articles of association requires affirmative votes by more than two-thirds of the votes held by shareholders attending the meeting. Pursuant to the Mandatory Provisions, the company may amend its articles of association according to the laws, administrative regulations and the articles of association. The amendment to articles of association involving content of the Mandatory Provisions will only be effective upon approval of the department in charge of company examination and approval and the securities regulatory department authorized by the State Council, while the amendment to articles of association involving matters of company registration must be registered with the relevant authority in accordance with applicable laws.

Dissolution and Liquidation

Pursuant to the PRC Company Law, a company shall be dissolved for any of the following reasons:

(i) the term of its operation 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 division;

(iv) the business license of the company is revoked or the company is ordered to close down or to be 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 ongoing existence of the company a cause for significant losses to the shareholders' interests.

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 above shall require the approval of more than two-thirds of voting rights of shareholders attending a shareholders' general meeting.

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 occurs. The liquidation committee shall be composed of directors or any other persons determined by 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 following powers during the liquidation:

(i) to dispose of 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 related to the liquidation;

(iv) to pay any overdue tax together with any tax arising during the liquidation process;

(v) to settle the company's 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 from 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 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 disposal 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 shares held by them. 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 prepare a liquidation report and submit it to the shareholders' general meeting or a people's court for confirmation of its completion, and to the company 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 willful 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 CSRC, and the listing must be arranged in accordance with procedures specified by the State Council. Pursuant to the Special Regulations, a company may issue shares to overseas investors and list its shares overseas upon approval from the Securities Committee of the State Council. Subject to approval of the company's plans to issue overseas-listed foreign shares and domestic shares by the Securities Committee of the State Council, the board of directors of the company may make arrangement to implement such plans for the issuance of the foreign shares and domestic shares, respectively, within fifteen (15) months from the date of approval by the Securities Committee of the State Council.

At the same time, according to the provisions of the Special Regulations, if the company's shares determined by the company's issuance plan are not fully issued, new shares which were not included in the original issue plan shall not be issued by the company. If the company needs to adjust the issuance plan, the general meeting of shareholders shall make a resolution. After being approved by the company's examination and approval department authorized by the State Council, it shall be submitted to the securities commission of the State Council for examination and approval.

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).

A separate procedure regarding the loss of share certificates and H shares certificates of the overseas-listed foreign shareholders of the PRC is provided for in the Mandatory Provisions, details of which are set out in the articles of association.

Merger and Division

Pursuant to the PRC Company Law, 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 from the date of passing the resolution approving the merger notify their respective creditors and publicly announce the merger in newspapers within 30 days. A creditor may, within 30 days of receipt of the notification, or within 45 days from the date of the announcement if he has not received the notification, request the company to settle any outstanding debts or provide corresponding 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 division, 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 division is approved, the company should notify all its creditors within 10 days from the date of passing such resolution and publicly announce the division 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 registration as a result of the merger or division shall be registered with the relevant administration authority.

B. The PRC Securities Law, Regulations and Regulatory Regimes

The PRC has promulgated a series of regulations that relate to the issue and trading of the shares and disclosure of information. In October 1992, the State Council established the Securities Committee and the CSRC. The Securities Committee is responsible for coordinating the drafting of securities regulations, formulating securities-related policies, planning the development of securities markets, directing, coordinating 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 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.

On April 22, 1993, the State Council promulgated 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 December 25, 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, other distributions of domestic listed foreign shares and disclosure of information of joint stock limited companies having domestic listed foreign shares.

The PRC Securities Law took effect on July 1, 1999 and was revised as of August 28, 2004, October 27, 2005, June 29, 2013, August 31, 2014 and December 28, 2019 respectively. It was the first national securities law in the PRC, and is divided into 14 chapters and 226 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. 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.

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 August 31, 1994, which became effective on September 1, 1995 and was amended on August 27, 2009 and September 1, 2017. The PRC Arbitration Law 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 settle disputes by means of arbitration, 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 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 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 overseas listed foreign 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 China International Economic and Trade Arbitration Commission (the "**CIETAC**") or the Hong Kong International Arbitration Center (the "**HKIAC**"). Disputes in respect of the definition of shareholder and disputes in relation to the company's shareholder registry need not be resolved by arbitration. 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 and the PRC Civil Procedure Law, an arbitral award shall be final and binding on the parties involved in the arbitration. If any party fails to comply with the arbitral 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, but not limited to, 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 recognition and enforcement of the award. Likewise, an arbitral award made by a foreign arbitration body may be recognized and enforced by a PRC court in accordance with the principle of reciprocity or any international treaties concluded or acceded to by the PRC.

The PRC acceded to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the "**New York Convention**") adopted on June 10, 1958 pursuant to a resolution of the Standing Committee of the NPC passed on December 2, 1986. The New York Convention provides that all arbitral awards made in a state which is a party to the New York Convention shall be recognized and enforced by other parties 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 apply the New York Convention to the recognition and enforcement of arbitral awards made in the territory of another contracting state based on the principle of reciprocity; and (ii) the New York Convention will only apply to disputes deemed under PRC law to be arising from contractual or non-contractual mercantile legal relations.

An agreement has been reached between Hong Kong and the Supreme People's Court of the PRC for the mutual enforcement of arbitral awards. On June 18, 1999, the Supreme People's Court of the PRC adopted the Arrangement on Mutual Enforcement of Arbitral Awards between Mainland and Hong Kong Special Administrative Region (《關於內地與香港特別行政區相互執行仲裁裁決的安排》), which became effective on February 1, 2000. The arrangement is made in accordance with the spirit of the New York Convention. Pursuant to this arrangement, awards made by PRC arbitral authorities acknowledged by Hong Kong arbitration rules can be enforced in Hong Kong, and Hong Kong arbitration awards are also enforceable in mainland China. Where a court of the mainland China finds that enforcement in the mainland China of the ruling made by the Hong Kong arbitral authority will violate public interests of the mainland China, execution of the ruling may be ignored.

SUMMARY OF MATERIAL DIFFERENCES BETWEEN HONG KONG AND PRC COMPANY LAW

The Hong Kong laws applicable to a company incorporated in Hong Kong is based on the Companies Ordinance and the Companies (Winding Up and Miscellaneous Provisions) Ordinance and are 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, the Bank is 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 under the PRC Company Law. This summary is, however, not intended to be an exhaustive comparison.

Corporate Existence

Under the Hong Kong company law, a company with share capital, shall be 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 subscription. The amended PRC Company Law which came into effect on October 26, 2018 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 of joint stock companies, 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 the 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 the company's registered capital must be approved by its shareholders' general meeting and the relevant PRC governmental and regulatory authorities.

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 assets transfer procedures 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, the Bank's Domestic Shares, which are denominated and subscribed for in Renminbi, may only be subscribed for and 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, Taiwan or any country and territory outside the PRC, or qualified domestic institutional investors. However, eligible institutional investors and individual investors may participate in the trading of Hong Kong Stock Connect and Shanghai Stock Connect (or Shenzhen Stock Connect) through participating in Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect.

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 the 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 transferred each year by its directors, supervisors and senior management 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 such person 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 senior management. There are no such restrictions on shareholdings and transfers of shares under Hong Kong law apart from 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 separate 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 summarized in the appendix headed "Appendix V – 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 interested contracts 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 members of the senior management are subject to the supervision of the board of supervisors. There is no mandatory requirement for the establishment of the 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

The 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 obligations and cause damages to a company, the shareholders individually or jointly holding more than 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 obligations and cause damages 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 people's 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 favor 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 Company Law stipulates that if the company's operation and management are seriously distressed and continuous existing will cause significant losses to shareholders' interests and cannot be resolved through other channels, shareholders holding more than 10% of the company's shareholders' voting rights may request the People's Court to dissolve the company. 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 shareholders' annual general meeting and an extraordinary shareholders meeting must be given to shareholders not less than 20 days and 15 days before the meeting, respectively. 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 send their writing replies to the company at least 20 days before the date of the meeting. According to the Official Reply of the State Council on Adjusting the Provisions Governing Matters Including the Application of the Notice Period for the Convening of Shareholders' General Meetings by Companies Listed Overseas (《國務院關於調整適用在境外上市公司召開股東大會通知期限等事項規定的批覆》) promulgated by the State Council on October 17, 2019, for those companies registered in the PRC and listed overseas, provisions and requirements stipulated in the PRC Company Law in relation to the notice period, shareholders' right to submit proposals to, and the procedures for convening, shareholders' general meetings shall apply, and Article 20 to Article 22 of the Special Regulations shall no longer apply.

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 company 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.

Voting

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 (including agent for 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 lower of the after-tax profits of a specific fiscal year stated in the statements prepared based on the above-mentioned principles shall prevail in the allocation of such profits. The company shall publish its financial reports twice in each accounting year. An interim financial report shall be published within 60 days after the end of the first six months of each accounting year, while an annual financial report shall be published within 120 days after the end of each accounting year.

The Special Regulations require that there should not be any contradiction 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 Shareholders

The PRC Company Law gives shareholders the right to inspect the company's articles of association, minutes of the shareholders' general meetings, share register, counterfoil of company debentures, resolutions of board meetings, resolutions of the board of supervisors and financial and accounting reports, 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 three 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 Reorganization

Corporate reorganization 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 the form of a joint stock limited company has to be approved by shareholders at the shareholders' 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 hand, 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 senior management 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 senior management 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 laws 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 three 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 Mandatory Provisions, directors, supervisors and senior management are not permitted, without the approval of the shareholders' general meeting that has been informed, 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 under 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 the Bank 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 the Bank.

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 authorized 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 advisor 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 authorized 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 (the "**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 authorized 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 capitalization at the time of listing of not less than HK$125 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 capitalization 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 authorizing, 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 unless (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 authorize, 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 of the date of the passing of the relevant special resolution; or (ii) such shares are issued as part of the Bank'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 the Bank 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 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 the PRC issuer's issued share capital;
- the PRC issuer's 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 the PRC issuer 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 laws, 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 H Share Certificates

A PRC issuer is required to ensure that all of its listing documents and H 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) agrees 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 authorize 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

- authorizes 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, 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 affairs between the Bank 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 shall be final and conclusive. 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, 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 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 laws or the laws of any jurisdiction is recommended to seek independent legal advice.

Set out below is a summary of the principal provisions of the Articles of Association, the principal objective of which is to provide investors with an overview of the 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 text of the Articles of Association are available for inspection as mentioned in "Appendix VIII – Documents Delivered to the Registrar of Companies and Available for Inspection".

The Articles of Association were adopted by the Shareholders of our Bank on the 56th Meeting of the Shareholders' general meeting held on November 14, 2019 and were approved by CBIRC on January 23, 2020. The Articles of Association will become effective on the date that our H Shares are listed on the Hong Kong Stock Exchange.

DIRECTORS AND OTHER SENIOR MANAGEMENT

Power to Allot and Issue Shares

There is no provision in the Articles of Association empowering the Directors to allot and issue shares.

To increase the registered capital of our Bank, the proposal must be submitted for approval by a special resolution at a Shareholders' general meeting.

Power to Dispose of the Assets of Our Bank or Any Subsidiary

For the disposal of any fixed assets by the Board, if the aggregate of the expected value of the fixed assets proposed to be disposed of and the value of the fixed assets which had been disposed of within four months immediately preceding such proposal for disposal exceeds 33% of the fixed assets value shown in the most recent balance sheet reviewed at a Shareholders' general meeting, the Board shall not dispose of or approve of the disposal of such fixed assets without the approval of the Shareholders' general meeting. The disposal of fixed assets referred to in this paragraph includes the transfer of interests of certain assets, but excludes the provision of fixed assets as pledges to any guarantees.

Any breach of the above paragraph shall not affect the validity of any transaction in disposing of fixed assets.

EMOLUMENTS AND COMPENSATION FOR LOSS OF OFFICE

The Bank shall enter into written contracts with the Directors and the Supervisors regarding remuneration which are subject to the prior approval from the Shareholders' general meeting. The aforesaid "remunerations" include:

(a) remuneration for the Directors, Supervisors or senior management personnel of the Bank;

(b) remuneration for the Directors, Supervisors or senior management personnel of the subsidiary companies of the Bank;

(c) remuneration for providing other services for managing the Bank and its subsidiary companies;

(d) compensation to Directors or Supervisors for loss of their office or upon retirement.

Except for the contracts mentioned above, the Directors and Supervisors shall not initiate litigation against the Bank and claim benefits due to them for the foregoing matters.

The remuneration contracts between the Bank and its Directors or Supervisors shall stipulate that if the Bank is acquired, the Directors and Supervisors of the Bank shall, subject to prior approval from the Shareholders' general meeting, be entitled to compensation or other funds for loss of their positions or upon retirement. The "acquisition of the Bank" mentioned in this paragraph refers to one of the following circumstances:

(a) a takeover offer made by any person to all Shareholders;

(b) a takeover offer made by any person with the intent of becoming the controlling shareholder. Please see the definition of "controlling shareholder" in the "-Rights of Minority Shareholders".

If the Directors and Supervisors concerned do not comply with the preceding provisions, any funds received by them shall go to the person who have accepted the offer mentioned above and sell their shares. The Directors and Supervisors shall bear the expenses arising from the distribution of such amounts proportionally, and such expenses shall not be deducted from the amounts.

LOANS TO DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The Bank shall not, directly or indirectly, provide any loan or loan guarantee to the Directors, Supervisors, and senior management personnel of the Bank and of its parent company, nor shall the Bank provide the same to their connected persons.

The preceding provision shall not apply in the following circumstances:

(a) loans or loan guarantees provided by the Bank to its subsidiary companies;

(b) loans, loan guarantees or other funds provided by the Bank to the Directors, Supervisors, or senior management personnel of the Bank pursuant to their employment contracts which were adopted by the Shareholders' general meeting, so that the foregoing persons can make payments in the interests of the Bank or for the expenses incurred in performing their duties and responsibilities;

(c) loans and loan guarantees can be provided by the Bank to the relevant Directors, Supervisors, senior management personnel of the Bank and their connected persons, provided that the loans and loan guarantees are provided on normal commercial terms.

If the Bank provides a loan in breach of the provisions above, regardless of the terms of the loan, the person who has received the loan shall repay it immediately.

The Bank shall not be forced to perform the loan guarantee it provides in breach of the provision above, except in the following circumstances:

(a) the loan provider does not know that the loans were provided to the connected persons of the Directors, Supervisors, or other senior management personnel of the Bank or its parent company;

(b) the collateral provided by the Bank has been legally sold by the loan provider to a goodwill buyer.

The "guarantee" as referred to in the preceding provision includes the act of the guarantor to assume the liability or provide assets to secure the performance of obligations by the obligor.

FINANCIAL ASSISTANCE FOR THE ACQUISITION OF SHARES IN OUR BANK

The Bank (including its branches and sub-branches) or its subsidiaries shall not offer any financial assistance at any time by any means to purchasers or prospective purchasers who will or who wish to purchase the Bank's shares. The aforementioned purchasers shall include both persons who have directly or indirectly assumed obligations due to purchasing the Bank's shares.

The Bank (including its branches and sub-branches) or its subsidiaries shall not offer any financial assistance at any time by any means in order to reduce or relieve the obligations of the aforesaid obligators.

"Financial assistance" referred to in the Articles of Association for these purposes shall include, without limitation, the following means:

(a) financial assistance given by gifts;

(b) financial assistance given by guarantee (including the assumption of liability by the guarantor or the provision of assets by the guarantor to secure the performance of obligations by the obligor), indemnity (other than an indemnity in respect of the Bank's neglect or default) or the release or waiver of any rights;

(c) the provision of loans or the entrance into any agreement under which the obligations of the Bank are to be fulfilled before the obligations of another party, and a change in the parties to, or the assignment of rights arising under such loans or agreement;

(d) any other form of financial assistance given by the Bank when the Bank is insolvent, has no net assets, or when its net assets would be reduced to a material extent as a result of such financial assistance.

The "obligations" referred to in the above provisions shall include the obligations of an obligor which have arisen by entering into an agreement or making an arrangement (regardless of whether the aforesaid agreement or arrangement is enforceable, or whether such obligations are assumed by the obligor individually or jointly with any other person) or any obligations that arise out of changes made in any other way to the obligor's financial condition.

The acts listed below are not prohibited by Article 36 of our Articles of Association:

(a) the financial assistance provided by the Bank is either genuinely for the interests of the Bank and the main purpose of the financial assistance is not to purchase shares of the Bank, or the financial assistance is an incidental part of the Bank's overall plans;

(b) the lawful distribution of the Bank's assets in the form of dividends;

(c) the distribution of dividends in the form of shares;

(d) The reduction of registered capital, repurchase of shares, and adjustment of shareholding structure, etc. in accordance with our Articles of Association;

(e) The provision of a loan by the Bank within its scope of business and in the ordinary course of business (provided that this does not lead to a reduction in the net assets of the Bank or that if this causes a reduction, the financial assistance is taken from the Bank's distributable profits);

(f) Provision of funds by the Bank for an employee shareholding scheme (provided that this does not lead to a reduction in the net assets of the Bank or that if there causes a reduction, the financial assistance is taken from the Bank's distributable profits).

DISCLOSURE OF INTERESTS IN CONTRACTS WITH OUR BANK

The Directors, Supervisors and senior management personnel of the Bank having any direct or indirect material conflict of interests in any executed or proposed contracts, transactions or arrangements of the Bank (except the employment contracts between the Bank and its Directors, Supervisors and senior management personnel), regardless of whether such interests are usually subject to the approval or consent of the Board, such persons shall disclose the nature and extent of the interests to the Board as soon as possible.

Unless the Directors, Supervisors and senior management personnel of the Bank with conflicts of interest have disclosed their interests to the Board in accordance with the requirements of the preceding paragraph, and the Board has approved the matter without counting the interested persons into the quorum and without their participation in the vote, the Bank shall have the right to rescind such contracts, transactions or arrangements, except in circumstances where the counterparty is acting in good faith and unaware that the Directors, Supervisors and senior management personnel are in breach of their obligations.

If the related persons of a Director, Supervisor and senior management personnel of the Bank have any conflict of interests with any contracts, transactions or arrangements, the Director, Supervisor and senior management personnel shall be deemed to have a conflict of interests as well.

Before the Bank considers entering into contracts, transactions or arrangements for the first time, and if the interested Directors, Supervisors and senior management personnel of the Bank have provided a written notice to the Board stating that they have a conflict of interests in the contracts, transactions or arrangements which would be entered into by the Bank in the future for the reasons set out in the notice, then the Director, Supervisor and senior management personnel concerned shall be deemed to have made the disclosure as required above to the extent as set out in the notice.

REMUNERATION

The remuneration of Directors must be approved in a Shareholders' general meeting. Please see "– Emoluments and Compensation for Loss of Office" above.

APPOINTMENT, REMOVAL AND RETIREMENT

The Directors and senior management personnel of the Bank shall have the qualifications prescribed by the regulatory authority and shall be examined or filed by them. The Directors of the Bank are natural persons and shall be elected or replaced by Shareholders' general meeting. The term of office of a Director shall be three years, and the director may be re-elected upon expiry of his/her term of office.

For the candidates for non-independent Directors, within the number of head count as specified by the Articles of Association and based on the proposed number of candidates to be elected, the Nomination and Remuneration Committee of the Board of Directors may propose a list of candidates for Directors; shareholders who individually or collectively hold more than 3% of the total number of voting shares issued by the Bank may propose candidates for non-independent Directors to the Board of Directors.

The same shareholder and its related persons shall not nominate the candidates for Directors and Supervisors to Shareholders' general meeting at the same time; if the candidates for Directors (Supervisors) nominated by the same shareholder and its related persons have held the position of Directors (Supervisors), the shareholder shall not nominate the candidates of Supervisors (Directors) before the expiry of their term of office or replacement.

In principle, the number of Directors nominated by the same Shareholder and its related persons shall not be more than one third of the total members of the Board, except as otherwise required under the laws and regulations.

The Nomination and Remuneration Committee of the Board and Shareholders of the Bank who individually or collectively hold more than 1% of the total voting shares issued by the Bank may propose candidates for independent Directors to the Board. The Shareholders who have already nominated a Director are not allowed to nominate an independent Director. In principle, the same Shareholder may only nominate one candidate for independent Director. The election of independent Directors should primarily comply with the market principle.

The Board of the Bank shall be composed of the executive Directors and non-executive Directors (including independent Directors). The executive Directors refer to the chairman of the Board of Directors and Directors who hold positions in the senior management of the Bank. The Board of Directors are comprised of eighteen Directors, including, among others, four executive Directors and six independent Directors. The Board of the Bank shall have one chairman and one vice chairman. The chairman and vice chairman shall be elected and removed by voting by more than half of all Directors. The vice chairman shall assist the chairman in handling work.

The following persons may not hold the position of Director, Supervisor, and senior management personnel of the Bank:

(a) a non-natural person;

(b) a person without or with limited capacity for civil conduct;

(c) a person who has willful or material default criminal records;

(d) a person who has been penalized or sentenced due to corruption, bribery, embezzlement, appropriation of property or the disruption of the socialist market economy, and five (5) years have not elapsed from which the punishment or deprivation of political rights for the crimes committed was carried out;

(e) a person under investigation by judicial authorities for suspected violations of criminal law and the investigation is still ongoing;

(f) a person has been ruled as violations of the provisions of relevant securities regulations by the competent authority, involving fraud or dishonesty, and it does not exceed five years from the date of the ruling;

(g) a person committing misconducts in violation of social morality and causing bad influence;

(h) a person who was personally liable or assumed direct liability for the illegal business activities or significant loss of his/her former employer, and the circumstances are serious;

(i) a person who serves or served as a director or a senior management of an institution being taken over, revoked, declared bankrupt or having its business license revoked, except where it can be proved that he/she was not personally liable for such take-over, revocation, bankruptcy or business license revocation;

(j) a person who serves as a legal representative of companies or enterprises which were compulsorily closed down due to a violation of laws in which such person was personally liable, and three years have not elapsed from which the business license of the company or enterprise was revoked;

(k) a person in violation of professional ethics or moral, or conducts serious dereliction of duty, and causing significant loss or bad influence;

(l) a person who instigates or participates in the employer confronting legal supervision or case investigation;

(m) a person who has been disqualified for serving as a director or senior management for a lifetime, or punished by regulatory agencies or other financial regulatory authorities for cumulative two times or above;

(n) a person who has been prohibited by CBIRC from entering the market and the prohibition has not yet been lifted;

(o) a person who does not equipped with qualifications as prescribed by the Articles of Association, attempts to gain the qualification approval by improper means;

(p) a person or his/her spouse who has a large amount of outstanding debts, including but not limited to the overdue loans repayable to the Bank;

(q) a person and his/her close relatives who jointly holding more than 5% of the Bank's shares, with the total credits from the Bank significantly exceed the net equity of the Bank held by him/her;

(r) a person and the companies controlled by him/her who/which jointly holding more than 5% of the Bank's shares, with the total credits from the Bank significantly exceed the net equity of the Bank held by him/her/them;

(s) a person or his/her spouse who works in the company holding more than 5% of the Bank's shares, with the total credits from the Bank significantly exceed the net equity of the Bank held by it, unless it can be proved that such credit has no relationship with him/her or his/her spouse;

(t) a person who has obvious conflict of interest between other positions with the proposed position or current position in the Bank, or significantly disperses his/her working hours and effort in the Bank;

(u) a person banned from holding leadership positions as stipulated by laws and regulations;

(v) a person who shall not serves as a director, a supervisor or a senior management of a bank, as stipulated by laws and regulations.

The validity of any act by Directors or senior management personnel made on behalf of the Bank towards a third party acting in good faith shall not be affected by any non-compliance in regulations of that person's position, election procedure or qualifications.

CREDIT POWERS

The Board of Directors of the Bank formulates proposals on the issuance of bonds by the Bank, and the issuance of the Bank's bonds shall be approved by the shareholders' general meeting by a special resolution. The Chairman of the Board signs the Bank's equity certificate, bonds and other securities.

AMENDMENTS TO THE ARTICLES OF ASSOCIATION OF THE BANK

The Bank shall amend the Articles of Association if any of the following circumstances occurs:

(a) any matters contained in the Articles of Association becoming in conflict with the mandatory provisions of the amended PRC Company Law or relevant laws and regulations;

(b) certain changes of the Bank resulting in inconsistency with the Articles of Association; or

(c) a resolution being passed by the shareholders' general meeting to amend the Articles of Association.

Where any amendment made by the Shareholders' general meeting to the Articles of Association that shall be approved by competent authorities, such amendment shall be submitted to former competent authorities for approval. The Bank shall go through the registration of change according to law where items requiring registration are involved.

VARIATION OF RIGHTS OF EXISTING SHARES OR CLASSES OF SHARES

Any plan of the Bank to change or abolish the rights of a class Shareholder shall be subject to the approval of the Shareholders' general meeting through a special resolution and the approval of the affected class Shareholders at a separately convened general meeting in accordance with Articles 131 to 135 of the Articles of Association before it can be implemented.

The rights of a class Shareholder shall be deemed to be changed or abolished under any of the following circumstances:

(a) increase or reduce the number of shares of that class, or increase or reduce the number of shares of other class with equal or more voting rights, distribution rights and other privileges;

(b) convert all or part of the shares of that class into other class(es) or convert all or part of shares of other class(es) into that class, or grant such conversion right;

(c) cancel or reduce the right of that class of shares to obtain dividends generated or cumulative dividends;

(d) reduce or cancel the right of that class of shares to receive dividends on a priority basis or the priority right to receive property distribution in the liquidation of the Bank;

(e) increase, cancel or reduce the conversion, option, voting, transfer or privileged allotment rights or the right to obtain the securities of the Bank of that class of shares;

(f) cancel or reduce the right of that class of shares to receive amounts payable by the Bank in specified currencies;

(g) create new class(es) of shares entitled to equal or more voting rights, distribution rights or other privileges as compared with that class of shares;

(h) impose restrictions on the transfer or ownership of that class of shares or increase such restrictions;

(i) issue subscription or conversion rights for shares of that class or another class;

(j) increase the rights and privileges of other class(es) of shares;

(k) any restructuring plan of the Bank may result in the assumption of disproportionate responsibilities by different classes of Shareholders during the restructuring;

(l) amend or abolish the clauses stipulated in the Articles of Association.

Where issues specified in (b) to (h), (k) to (l) above are involved, the affected class shareholders, whether or not they are entitled to vote at Shareholders' general meetings originally, shall have the right to vote at class meetings. However, shareholders with conflicts of interests shall not be entitled to vote at such class meetings. Shareholders with conflicts of interests refer to:

(a) if the Bank has made a repurchase offer to all Shareholders in the same proportion in accordance with the provisions of Article 28 of the Articles of Association or has repurchased its own shares through public transaction on a stock exchange, "Shareholders with conflicts of interests" shall mean the "Controlling Shareholders" defined in the Articles of Association;

(b) if the Bank has repurchased its own shares under an off-market agreement in accordance with the provisions of Article 28 of the Articles of Association, "Shareholders with conflicts of interests" shall mean Shareholders who are connected with the aforementioned agreement;

(c) under a restructuring scheme of the Bank, "Shareholders with conflicts of interests" shall mean Shareholders who assume liability in a lower proportion than other Shareholders of the same class, or those who own different interests as compared with other Shareholders of the same class.

A resolution of the class meeting shall be adopted by above two-thirds of the voting shares represented by Shareholders of that class present at the meeting.

The written notice of class meeting of the Bank shall be sent at the same time as that of non-class meeting proposed to be convened together, to inform all the registered shareholders of that class of the matters to be examined at the meeting as well as the date and venue of the meeting.

The quorum of various class meetings (excluding adjourned meetings) convened to consider modifying the rights of any class of shares shall be at least 1/3 of the holders holding the issued shares of the said class.

The notice of a class meeting only needs to be delivered to the Shareholders entitled to vote at that meeting.

The procedures for convening a class meeting shall be the same as the procedures for the Shareholders' general meeting to the extent practical, and the provisions in the Articles of Association relating to the procedure to convene a Shareholders' general meeting shall apply to the class meeting.

Apart from other classes of Shareholders, the holders of Domestic shares and overseas listed foreign shares are deemed to be Shareholders of different classes.

The special procedures for voting by a class Shareholder shall not apply in the following circumstances:

(a) upon the approval by way of a special resolution passed by a Shareholders' general meeting, the Bank independently or simultaneously issues Domestic Shares and/or overseas listed foreign shares every 12 months, provided that the amount of each class of shares intended to be issued is not more than 20% of the outstanding shares of the respective class;

(b) the Bank's plan on issuing Domestic Shares and overseas listed foreign shares at the time of incorporation, which is completed within 15 months upon the date of approval from the securities regulatory authorities of the State Council;

(c) the relevant authorities such as the securities regulatory authorities of the State Council have given approval for unlisted shares held by holders of Domestic Shares of the Bank to be transferred into overseas listed shares and to be listed and traded in overseas stock exchanges.

RESOLUTIONS – MAJORITY REQUIRED

The resolutions of a Shareholders' general meeting shall either be classified as ordinary resolutions or special resolutions.

Ordinary resolutions shall be approved by a simple majority of voting rights held by the Shareholders (including their proxies) attending the Shareholders' general meeting.

Special resolutions shall be approved by above two-thirds of voting rights held by the Shareholders (including their proxies) attending the Shareholders' general meeting.

VOTING RIGHTS

Shareholders (including proxies thereof) who vote at a Shareholders' general meeting shall exercise their voting rights in relation to the amount of voting shares they represent. Each share shall have one vote. However, the shares held by the Bank have no voting rights and will not counted into the total number of shares with voting rights held by shareholders attending the Shareholders' general meeting.

If any laws and regulations require that any shareholder shall abstain from voting on a certain proposal or limit any shareholder to cast affirmative or negative votes on a certain proposal, any votes cast by the shareholder or proxy thereof in violation of the aforesaid requirement or restriction shall not be counted to the results of the voting.

Any voting by shareholders at a Shareholders' general meeting shall be taken by way of registered poll, except where the presider of the meeting, in good faith, decides to allow a proposal which relates purely to a procedural or administrative matter to be voted on by a show of hands.

In voting, shareholders (including proxies thereof) entitled to two or more votes need not cast all the votes in the same way of pros or cons.

REQUIREMENT FOR ANNUAL GENERAL MEETINGS

The annual general meeting shall be held once a year within six months after the previous financial year end.

ACCOUNTS AND AUDIT

The Bank shall formulate its financial accounting system in accordance with the requirements of laws and regulations. The Bank shall prepare its financial statements in accordance with PRC accounting standards and regulations; as well as in accordance with the international accounting standards or the accounting standards of the overseas listing place. If there are any material differences between the financial statements prepared in accordance with the two accounting standards, such differences shall be stated in the notes to the financial statements. When distributing the after-tax profits for the relevant fiscal year, the Bank shall adopt the one with the lower after-tax profits out of the aforesaid two financial statements. The interim results or financial information published or disclosed by the Bank shall be prepared in accordance with the PRC accounting standards and regulations, as well as the international accounting standards or the accounting standards of the overseas listing place.

Our Bank shall publish its financial report twice each financial year, i.e. publish the interim financial report within 60 days after the end of the first six months of each financial year and publish its annual financial report within 120 days after the end of each financial year. If the securities regulators in the place where the Shares are listed have regulations otherwise, such regulations shall prevail.

At the end of each financial year, the Bank shall prepare an annual financial report which shall be examined and verified in a manner prescribed by the laws. At each annual general meeting, the Board shall submit an annual financial report prepared by the Bank in accordance with the relevant laws and regulations to the shareholders.

The Board shall make the Bank's legally audited annual financial reports available at the Board office of the Bank 20 days or earlier before the convening of the annual general meeting for inspection by shareholders. Each Shareholder of the Bank shall be entitled to obtain the financial reports mentioned in this section.

Except as otherwise provided in the Articles of Association, the Bank shall send the aforesaid report to each registered holder of H shares by pre-paid post at least twenty-one days prior to the convening of the annual general meeting. The address of the recipients shall be the address registered in the share register. For holders of overseas listed foreign shares who meet the requirements of laws and regulations, the notice may be published on the website of the Bank, website of the Hong Kong Stock Exchange and other websites specified by the Hong Kong Listing Rules from time to time.

NOTICE OF MEETINGS AND BUSINESS TO BE CONDUCTED THEREAT

There are two types of Shareholders' general meetings: annual general meetings and extraordinary general meetings.

An extraordinary general meeting shall be convened within two months from the date of occurrence of any of the following events:

(a) the number of Directors is less than the minimum number required by the PRC Company Law or less than two-thirds of the number stipulated in our Articles of Association;

(b) the outstanding loss of the Bank is at least one-third of the Bank's total paid-up share capital;

(c) shareholder(s) severally or jointly holding above 10% of the total voting shares issued by the Bank (hereinafter referred to as "proposing shareholders", with the number of shares held by them to be calculated according to their shareholdings as of the date of request made by them in writing) have requested to convene the extraordinary general meeting in writing;

(d) the Board deems it necessary to convene the meeting;

(e) above half of the independent Directors require to convene the meeting;

(f) the Board of Supervisors proposes to convene the meeting;

(g) above half of the external Supervisors require to convene the meeting (if there are only two external supervisors, the two external supervisors shall propose to convene the meeting at the same time);

(h) other circumstances as stipulated by laws and regulations and our Articles of Association.

Where the number of Directors is less than the quorum stipulated by the PRC Company Law or less than two-thirds of the number specified in the Articles of Association, or the accumulated outstanding losses of the Bank amount to one-third of the total share capital, and the Board of Directors fails to convene an extraordinary general meeting in the prescribed period, the Board of Supervisors or Shareholders may convene an extraordinary general meeting by themselves following the procedures stipulated by the Articles of Association.

When the Bank is to convene an annual general meeting, a written notice shall be issued 20 days prior to the convening of the meeting. When the Bank is to convene an extraordinary general meeting, a written notice shall be issued 15 days prior to the convening of the meeting to all shareholders whose names appear on the share register, stating the matters to be considered at the meeting and the date and venue of the meeting. If the regulations of the securities regulatory authorities in the place where the Shares of the Bank are listed provide a longer notice period for the Shareholders' general meeting, such provisions shall prevail.

The Shareholders' general meeting shall only resolve on matters set out in the notice, and shall not decide on matters not specified in the notice.

The notice of a Shareholders' general meeting shall meet the following requirements:

(a) be made in writing;

(b) specifies the date, venue and duration of the meeting;

(c) states the matters to be discussed at the meeting;

(d) provides the Shareholders with such information and explanation as necessary for them to make informed decisions regarding the matters to be discussed; this means that when the following matters, which shall include not limited to: any merger, share repurchase, share capital reorganization or other reorganization of the Bank, are involved, the detailed terms and contracts (if any) of the proposed transaction and detailed explanation as to the cause and effect of such a proposed transaction shall be provided;

(e) if any of the Directors, Supervisors and senior management personnel have material interest in the matters to be discussed, they shall disclose the nature and extent of such interest; and if the effects of the matters to be discussed have a different effect on such Director, Supervisor or senior management personnel as Shareholders compared to other Shareholders of the same class, they shall explain this difference;

(f) sets forth the full text of any proposed special resolution to be voted on at the meeting;

(g) states clearly that a shareholder entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote on his/her behalf and such proxies need not be a shareholder;

(h) specifies the time and address for lodging the power of attorney for the voting at the meeting;

(i) specifies the equity registration date of the Shareholders who are entitled to attend the Shareholders' general meeting;

(j) specifies the name and phone number of the contact person of the meeting;

(k) specifies the date on which the notice of the Shareholders' general meeting is sent.

The meeting notice is served in Chinese or English version, and if there is any inconsistency between the two versions, the Chinese version shall prevail.

Unless otherwise specified by laws and regulations and the Articles of Association, the notice of a Shareholders' general meeting shall be delivered by hand or prepaid mail to Shareholders (regardless of whether they have voting rights at the Shareholders' general meeting). The addresses of the recipients shall be the addresses registered in the register of Shareholders.

For holders of Domestic Shares, the notice of a Shareholders' general meeting (including the notice of class meetings for holders of Domestic Shares) may be in the form of an announcement. The announcement referred to herein shall be published on one or more newspaper(s) specified by the securities regulatory authority under the State Council. All holders of Domestic Shares shall be deemed as having been notified of the forthcoming Shareholders' general meeting once the announcement is published.

Subject to the laws and regulations, the Bank may send or dispatch the aforesaid notices of Shareholders' general meeting to the holders of H shares (including notices of class meetings for holders of H Shares) through the websites of the Bank and the Hong Kong Stock Exchange and other websites specified by the Hong Kong Listing Rules from time to time, instead of sending or dispatching the personal delivery or prepaid mail.

The accidental omission to give meeting notice to, or the failure to receive the meeting notice by, any person entitled to receive such notice, shall not invalidate the Shareholders' general meeting and the resolutions adopted thereat.

The Shareholders' general meeting shall be the highest organ of power of the Bank. It shall exercise the following powers in accordance with the laws:

(a) to review and approve the rules of procedure for Shareholders' general meetings, the Board and the Board of Supervisors of the Bank;

(b) to elect and remove Directors, and to determine the remuneration of the relevant Directors;

(c) to elect and remove Shareholders' representative Supervisors and external Supervisors, and to determine the remuneration of the relevant Supervisors;

(d) to review and approve the reports of the Board of Directors;

(e) to review and approve the reports of the Board of Supervisors;

(f) to amend the Articles of Association;

(g) to resolve on the listing or other fund-raising arrangements of the Bank;

(h) to review and approve matters concerning changes of the use of funds raised by the Bank;

(i) to resolve on an increase or reduction in the share capital and the issuance of any class of shares, warrants and other similar securities of the Bank;

(j) to decide on the repurchase of the shares of the Bank;

(k) to review and approve the equity incentive plans of the Bank;

(l) to resolve on matters such as financial restructuring, merger, division, dissolution and liquidation of the Bank;

(m) to resolve on the issuance of bonds of the Bank;

(n) to decide on operational objectives and investment proposals of the Bank;

(o) to review and approve annual financial budget plans and final account plans of the Bank;

(p) to review and approve profit distribution plans and loss recovery plans of the Bank;

(q) to examine and approve important guarantees stipulated in the Article 80 of Articles of Association;

(r) to examine and approve any major investment matters by the Bank beyond its business scope with the amount exceeding 20% of the latest audited net assets of the Bank;

(s) to examine and approve any purchase or sale of major assets beyond the business scope of the Bank with the amount exceeding 20% of the latest audited net assets of the Bank (the purchases or sales of the same or relevant assets in consecutive 12 months shall be calculated on a cumulative basis);

(t) to examine and approve the reports of the Board on implementation of related party transactions management system and on related party transactions;

(u) to decide on the engagement, dismissal or discontinuation of the appointment of the accounting firm responsible for auditing the Bank;

(v) to listen to the Board of Supervisors' reports on the performance evaluation results concerning the Board, senior management and members thereof and the self-evaluation and supervisors' performance evaluation results;

(w) to examine proposals raised by the Shareholders who individually or jointly hold above 3% of the total issued and outstanding voting shares of the Bank;

(x) to examine other issues which should be decided by the Shareholders' general meeting as stipulated by the laws, regulations and Articles of Association.

The following matters shall be approved by ordinary resolutions at a Shareholders' General Meeting:

(a) examination and approval of the rules of procedure for Shareholders' general meetings, the Board and the Board of Supervisors of the Bank;

(b) appointment and dismissal of directors and remuneration of the relevant directors;

(c) appointment and dismissal of shareholder Supervisors and external Supervisors and remuneration of the relevant Supervisors;

(d) reports made by the Board;

(e) reports made by the Board of Supervisors;

(f) business policies and investment plans of the Bank;

(g) annual financial budgets and final accounts of the Bank;

(h) profit distribution plans and loss recovery plans of the Bank;

(i) reports of the Board on the implementation of the related party transactions management system and on related party transactions;

(j) engagement or dismissal of the accounting firm responsible for auditing the Bank;

(k) listening to the Board of Supervisors' reports on the performance evaluation results concerning the Board, senior management and members thereof and the self-evaluation and supervisors' performance evaluation results;

(l) other matters than those that should be passed by special resolutions or be subject to unanimous approval pursuant to the laws and regulations or the Articles of Association.

TRANSFER OF SHARES

The shares of the Bank shall be transferred in accordance with the provisions of relevant laws and regulations. The transferee shall have the qualifications to invest in the Bank as stipulated by the laws and regulations. Where the acquisition or holding of the Bank's shares is subject to relevant examination and approval procedures according to law, such procedures shall be implemented in accordance with the provisions of laws and regulations.

Shares issued prior to the public offering of shares by the Bank cannot be transferred within one year from the date on which the shares of the Bank are listed and traded on the stock exchange. The substantial shareholders of the Bank shall not transfer their shares in the Bank within five years from the date of acquiring such shares.

Substantial shareholders who plan to transfer the shares of the Bank shall inform the Board of the Bank in advance. Any entity's or individual's purchase of more than 5% of the total shares of the Bank shall be subject to prior approval of the banking regulatory authorities. Where relevant provisions of the securities regulatory authorities of the place where the Bank's shares are listed have any other provisions in respect of restrictions on transfer of overseas listed shares, such provisions shall prevail.

Unless otherwise specified by laws and regulations and the Articles of Association, the Bank's shares for which full payment is made can be transferred freely and shall not be subject to any lien.

Transfer of shares of the Bank shall be registered with the share registry designated by the Bank.

Shareholders who shall seek approval from but fail to report to regulatory authorities shall not exercise such rights as the right to request convening the Shareholders' general meeting, voting right, right of nomination, proposal right and right of disposition.

All transfers of H shares shall be executed with a written instrument of transfer in an general or ordinary format or other format accepted by the Board (including the standard transfer format or form of transfer that Hong Kong Stock Exchange may provide from time to time); the said written instrument of transfer may be signed by hand, or be stamped with the valid seal of the Bank (if the Bank is the transferor or the transferee). Where the transferor or transferee is a recognized clearing house as defined by relevant regulations in the Hong Kong laws effective from time to time, or any of its agents, the written instrument of transfer may be signed by hand or by print.

All instruments of transfer shall be kept at the legal address of the Bank, the address of share registrar or address designated by the Board of Directors from time to time.

Pledge of Shares

Any Shareholder of the Bank pledging his/her equity in the Bank shall comply with laws, regulations and provisions of the banking regulatory authorities on pledge of equity in commercial banks and shall not impair the interests of other shareholders and the Bank.

Shareholders shall not pledge the Bank's shares if the outstanding balance of the loans they have borrowed from the Bank exceeds the net value of the Bank's shares held by them in the previous year.

The Bank shall not accept its own shares as collateral. If the Shareholders pledge their shares in the Bank to provide guarantees for themselves or others, they shall comply strictly with the laws, regulations and the requirements of regulatory authorities, and inform the Board of the Bank in advance.

If Shareholders who also act as Directors and Supervisors of the Bank or Shareholders who directly or indirectly, or jointly hold or control above 2% of the shares or voting rights of the Bank pledge the shares of the Bank, they shall make an application to the Board of the Bank for filing in advance to state basic information such as the reason for pledge, the number of shares involved, duration of the pledge and the pledgee. Filing shall not be made if the Board determines that it has material adverse effect on the stability of the Bank's shareholding, corporate governance, control on risk and related party transactions. The Director(s) nominated by a Shareholder proposing to pledge his/her shares in the Bank shall abstain from voting at the meeting of the Board at which such proposal is considered.

Upon completion of shares pledge registration, Shareholders shall in a timely manner provide the Bank with relevant information regarding the pledge of shares in line with the Bank's risk management and information disclosure requirement.

POWER OF OUR BANK TO REPURCHASE OUR OWN SHARES

The Bank may, in accordance with the provisions under the Articles of association and with the approval by the state regulatory authorities, repurchase its issued shares in the following circumstances:

(a) cancellation of shares to reduce the registered capital of the Bank;

(b) merger with other companies holding shares of the Bank;

(c) use of shares for employee shareholding schemes or equity incentive schemes;

(d) Shareholders who object to resolutions of the Shareholders' general meeting on merger or division of the Bank requesting the Bank to purchase their shares;

(e) use of shares for converting corporate bonds convertible into shares issued by the Bank;

(f) the repurchase is necessary for maintaining the Bank's value and protecting Shareholders' rights and interests;

(g) other circumstances as stipulated by the laws and regulations.

Except for the circumstances set out above, the Bank shall not be engaged in any activities of buying and selling its Shares. The Bank purchasing its own shares under any of the circumstances set forth in items (a) and (b) above shall be subject to a resolution of the Shareholders' genera meeting; and the Bank purchasing its own shares under any of the circumstances set forth in items (c), (e) and (f) above may, be subject to resolution at a Board meeting attended by more than two-thirds of the directors in accordance with the provisions of the Articles of Association or the authorization of the Shareholders' general meeting.

After purchasing its own shares pursuant to the provisions of the above paragraph, the Bank shall, under the circumstance set forth in item (a), cancel them within 10 days after the purchase; while under the circumstance set forth in either item (b) or (d), transfer or cancel them within six months; and while under the circumstance set forth in item (c), (e) or (f), aggregately hold not more than 10% of the total shares that have been issued by the Bank, and transfer or cancel them within three years.

If relevant laws and regulations have other provisions on the matters involved in the aforesaid repurchase of shares, such provisions shall apply.

The Bank may repurchase its shares in any of the following ways according to laws and regulations and/or with approval from relevant competent authority of the State:

(a) making a pro rata offer of repurchase to all of its shareholders;

(b) repurchasing shares through public transaction on a stock exchange;

(c) repurchasing shares through an off-market agreement;

(d) other ways as approved by laws and regulations and the regulatory authorities.

A prior approval shall be obtained from the Shareholders' general meeting in respect of any share repurchase by the Bank through an off-market agreement in accordance with the provisions of our Articles of Association. After the Shareholders' general meeting has given its prior approval in the same way, the Bank may rescind or alter any contracts entered into in the said manner or waive any rights under such contracts. The contract to repurchase shares as referred to above includes, but not limited to, an agreement to become obliged to repurchase or to acquire the right to repurchase shares. Bank shall not assign a contract for repurchasing its shares or any of its rights thereunder.

Where the Bank has the right to repurchase redeemable shares by means other than repurchases through the market or by tender, the repurchase price shall be limited to a maximum price; if repurchases are made by tender, an invitation for tenders shall be made to all shareholders alike.

After repurchasing its shares according to law, the Bank shall cancel the part of shares that should be cancelled before the deadline specified by laws and regulations, and register such change with the company registration authority. The aggregate par value of the shares so canceled shall be deducted from the Bank's registered capital.

Unless the Bank is undergoing liquidation, it shall comply with the following requirements with respect to a repurchase of its outstanding shares:

(a) for repurchases of shares by the Bank at their par value, payment shall be made from the book balance of its distributable profits or from the proceeds of a new issuance of shares for that purpose;

(b) where the Bank repurchases its shares at a premium to its par value, payment up to the par value shall be made from the book balance of its distributable profits or from the proceeds of a new issuance of shares for that purpose. Payment of the portion which is in excess of the par value shall be made as follows: i. if the shares being repurchased are issued at par value, payment shall be made from the book balance of its distributable profits; ii. if the shares being repurchased are issued at a premium to its par value, payment shall be made from the book balance of its distributable profits or from the proceeds of the new issuance of shares for that purpose. However, the amount deducted from the proceeds of the new issuance of shares shall not exceed from total premium of the proceeds of the issuance of shares for that purpose or the amount in the Bank's reserve fund account (including premium on new issue) at the time of such repurchase;

(c) the Bank shall make the following payments from the Bank's distributable profits: i. acquisition of the rights to repurchase its own shares; ii. variation of contracts for the repurchase of its shares; iii. release from its obligations under any repurchase contracts;

(d) after the aggregate par value of the cancelled shares is deducted from the Bank's registered capital in accordance with the relevant provisions, the amount deducted from the distributable profits used for the repurchase of the shares at par value shall be credited to the Bank's reserve fund account.

If there are applicable provision(s) to the contrary regarding the financial treatment of the aforementioned share repurchases in the laws and regulations, such provision(s) shall prevail.

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

The Bank may distribute dividends in cash or by Shares.

Our Bank shall appoint for Shareholders of overseas listed shares a recipient agent. The recipient agent shall collect on behalf of the Shareholders concerned the dividends distributed and other funds payable by the Bank in respect of the overseas listed shares. The recipient agent appointed by the Bank shall comply with the laws of the locality in which the Bank's shares are listed or the relevant requirements of the stock exchange. The recipient agent appointed by the Bank for Shareholders of H-shares shall be a company which is registered as a trust company under the Trustee Ordinance of Hong Kong.

PROXIES

Any Shareholder entitled to attend and having voting rights at a Shareholders' general meeting shall be entitled to appoint one or more persons (these persons need not be Shareholders) as proxies to attend and vote on their behalf. A proxy may exercise the following powers according to the entrustment of the Shareholder:

(a) the same right of speech as the Shareholder at the Shareholders' general meeting;

(b) have authority to demand or join other Shareholders in demanding a poll;

(c) have the right to vote by hand or on a poll, but when more than one proxy has been appointed, the proxies only have the right to vote on a poll.

The power of attorney for voting issued by a shareholder to appoint other persons to attend the Shareholders' general meeting shall contain the following information:

(a) the name of the proxy;

(b) whether or not the proxy has any voting right;

(c) instructions to vote for or against or abstain from voting on each matter under consideration included in the agenda of the Shareholders' general meeting;

(d) whether or not the proxy has any voting right(s) in respect of temporary proposals which may possibly be included in the agenda of the Shareholders' general meeting, and, if the proxy has such voting right(s), specific instructions as to the exercise of those voting rights;

(e) the date of issue and validity period of the power of attorney;

(f) the signature (seal) of the principal. If the principal is an institutional shareholder, the corporate seal shall be affixed;

(g) the power of attorney shall specify whether the proxy may vote as he/she thinks fit if the shareholder does not make specific instructions.

The power of attorney for voting shall be placed at the domicile of the Bank or at any other place designated in the notice of meeting at least 24 hours prior to either the convening of the relevant meeting at which the proxy is authorized to vote or the designated voting time. Where the power of attorney is signed by a person authorized by the principal, the authorization letter authorizing signature or other authorization documents shall be notarized. The notarized authorization letter or other authorization documents shall, together with the power of attorney for voting, be placed at the domicile of the Bank or at any other place designated in the notice of the meeting.

A corporate shareholder shall be represented by its legal representative or proxies authorized by the resolutions of the Board and other decision-making bodies to attend the Shareholders' general meeting of the Bank.

If the principal has passed away, lost his/her ability to act, revoked the entrustment or withdrawn the authorization for signing the entrustment or has transferred relevant shares prior to voting, as long as the Bank has not received any written notice regarding these matters before the commencement of the relevant meeting, the vote cast by the proxy in accordance with the proxy form shall remain valid.

CALLS ON SHARES AND FORFEITURE OF SHARES

The Bank shall have the right to cease delivering dividend notice to the holders of H shares by mail, but such right can only be exercised after the dividend notice has not been drawn twice consecutively. If a dividend notice fails to reach the expected recipient in the initial mail delivery and is returned, the Bank may exercise the right promptly.

Subject to the laws and regulations, the Bank shall have the right to sell the shares of the unreachable holders of H Shares through the methods the Board deems appropriate and subject to the following conditions:

(a) the Bank has distributed dividends on such shares at least three times in a period of 12 years and the dividends are not claimed by anyone during that period;

(b) after the expiration of the twelve-year period, the Bank makes a public announcement in one or more newspapers in the place where the Bank's shares are listed, stating its intention to sell such shares and notifies the securities regulatory authority of the place where the Bank's shares are listed of such intention.

RIGHTS OF SHAREHOLDERS (INCLUDING INSPECTION OF REGISTER OF SHAREHOLDERS)

The Shareholders of ordinary Shares of the Bank shall enjoy the following rights:

(a) to receive dividends and other kinds of distributions as determined by the number of shares held by them;

(b) to lawfully require, convene, preside over or attend Shareholders' general meetings either in person or by proxy and exercise the voting right;

(c) to supervise the business operations of the Bank, and to make suggestions and enquiries accordingly;

(d) to transfer, bestow or pledge shares held by them in accordance with laws and regulations and our Articles of Association;

(e) to obtain relevant information in accordance with laws and regulations and our Articles of Association, including: i. to obtain a copy of our Articles of Association after paying the costs and expenses incurred; ii. have the right to inspect and photocopy, after paying a reasonable fee, the following documents: a. all parts of the share register; b. the personal information of the Directors, Supervisors and senior management personnel of the Bank; c. report of share capital issued by the Bank; d. reports on the aggregate par value, number of shares, and highest and lowest prices of each class of shares in relation to any repurchase by the Bank of its own shares since the last financial year, as well as all the expenses paid by the Bank in relation to such repurchases; e. minutes of the Shareholders' general meetings; f. the resolutions of Board meetings and meetings of Board of Supervisors; g. the special resolutions of the Bank; h. the latest audited financial and accounting reports of the Bank, as well as reports of the Board, the Board of Supervisors and auditors; i. stubs of the Bank's bonds; j. a copy of the latest corporate annual return already submitted to the industrial and commercial registration authority or other competent authorities.

    Except the documents set out in b above, the Bank shall keep the above documents at the Hong Kong address of the Bank as required by the Hong Kong Listing Rules for the free inspection by the public and holders of H Shares. Documents set out in e, f, i are for inspection by Shareholders only. If any Shareholder requests to inspect the aforesaid relevant information or asks for relevant data, the said Shareholder shall provide the Bank with written documents bearing evidence of the class and number of shares held by the said Shareholder in the Bank, and the Bank will provide the said information or data as required by the said Shareholder upon authentication of the identity of the said Shareholder.

(f) to subscribe for the new shares of the Bank in accordance with our Articles of Association;

(g) to participate in the distribution of the remaining assets of the Bank based on the number of shares held in the event of the Bank's dissolution or liquidation;

(h) to have other rights conferred in accordance with the laws and regulations and our Articles of Association.

The Bank shall not exercise any right to freeze or otherwise damage the rights attached to any shares directly or indirectly held by any person only on the ground that the said person has not disclosed his/her equity to the Bank, save as otherwise provided by the laws and regulations and our Articles of Association.

QUORUM FOR GENERAL MEETINGS AND SEPARATE CLASS MEETINGS

The quorum of various class meetings (excluding adjourned meetings) convened for to consider modifying the rights of any class of shares shall be at least one third of the holders holding the issued shares of the said class.

RIGHTS OF MINORITY SHAREHOLDERS

In addition to the obligations required under the laws and regulations, when exercising their rights as a Shareholder, Controlling Shareholders shall not exercise their voting rights and make decisions on the following issues as these issues are detrimental to the interests of all or some of the Shareholders:

(a) relieving a Director or Supervisor of their responsibility to act in good faith and in the best interests of the Bank;

(b) approving a Director or Supervisor (for the benefit of himself/herself or others) in depriving the Bank of its assets in any form, including but not limited to any opportunities that are advantageous to the Bank;

(c) approving a Director or Supervisor (for the benefit of himself/herself or others) in depriving other Shareholders of their personal interests, including but not limited to any distribution rights and voting rights, unless the deprivation is made pursuant to the restructuring of the Bank submitted to and adopted at the Shareholders' general meeting in accordance with our Articles of Association;

The "Controlling Shareholder(s)" referred in our Articles of Association shall refer to the person satisfying any of the following conditions:

(a) the shareholder may elect more than half of the Directors when acting alone or in concert with others;

(b) the shareholder may exercise or control the exercise of over 30% of the voting rights of the Bank when acting alone or in concert with others;

(c) the shareholder holds over 30% of issued and outstanding shares of the Bank when acting alone or in concert with others;

(d) the shareholder may de facto control the Bank in any other manner when acting alone or in concert with others.

The abovementioned "acting in concert" shall mean consensus reached between two or more persons by way of agreement, whether verbal or written, to acquire voting rights in the Bank by any one of them, for the purpose of controlling or consolidating the control over the Bank.

PROCEDURES ON LIQUIDATION

The Bank shall be dissolved and liquidated according to laws in any of the following circumstances:

(a) if the Shareholders' general meeting resolves to do so;

(b) if a dissolution is necessary as a result of a merger or division;

(c) if the Bank is declared bankruptcy according to law because it is unable to pay its debts when they fall due;

(d) if the Bank is ordered to close due to violation of laws and regulations;

(e) if the Bank gets into serious trouble in operations and management and continuation may incur material losses to the interests of the shareholders, and no solution can be found through any other channel, the shareholders holding more than 10% of the total voting rights of the Bank may request the people's court to dissolve the Bank;

(f) if the term of operation specified by the Articles of Association expires or any other circumstance for dissolution specified in the Articles of Association arises.

The Bank's liquidation and dissolution matters shall comply with the requirements of the PRC Company Law, the PRC Commercial Banking Law and the exchange where the Bank's securities are listed, and shall be approved by relevant regulatory authorities, if required.

Where the Bank is dissolved under the circumstances set forth in sub-paragraphs (a), (e) and (f) above, a liquidation committee shall be set up within 15 days and the members thereof shall be decided by an ordinary resolution at a Shareholders' general meeting. If no liquidation committee is established after the said timeframe, the creditors may apply to the people's court for appointment of relevant persons to establish a liquidation committee to commence liquidation. Where the Bank is dissolved under the circumstance set forth in sub-paragraph (b) above, the liquidation work shall be handled by the parties to the merger or division in accordance with the contract signed at the time of the merger or division. Where the Bank is dissolved under the circumstance set forth in sub-paragraph (c) above, a liquidation committee comprising shareholders, relevant authorities and professionals shall be established by the people's court in accordance with relevant laws to carry out the liquidation. Where the Bank is dissolved under the circumstance set forth in sub-paragraph (d) above, the relevant competent authorities shall organize shareholders, relevant authorities and relevant professionals to set up a liquidation committee for liquidation.

If the Board decides that the Bank shall be liquidated (except for liquidation resulting from the Bank's declaration of bankruptcy), it shall state in the notice of Shareholders' general meeting convened for such purpose that the Board has conducted a comprehensive investigation into the situation of the Bank and believes that the Bank is able to pay off all its debts within 12 months following the commencement of the liquidation.

After the resolution on liquidation is adopted at the Shareholders' general meeting, the functions and powers of the Board of the Bank shall be terminated immediately.

The liquidation committee shall, as per the instructions of the Shareholders' general meeting, report to the Shareholders' general meeting at least once a year about the revenues and expenses of the liquidation committee, the businesses of the Bank and the progress of liquidation, and deliver a final report to the Shareholders' general meeting at the end of liquidation.

During liquidation, the liquidation committee shall exercise the following functions and powers:

(a) to inform creditors by notice or announcement;

(b) liquidate the assets of the Bank and prepare a balance sheet and a property inventory separately;

(c) to deal with the outstanding businesses of the Bank relating to liquidation;

(d) to pay the outstanding taxes;

(e) to settle creditor's rights and debts;

(f) to dispose of the remaining assets of the Bank after repayment of debts;

(g) to represent the Bank in civil proceedings.

The liquidation committee shall notify the creditors within 10 days after its establishment and shall make announcements on newspapers within 60 days.

The creditors shall declare their creditor's rights to the liquidation committee within 30 days after receipt of the notice or 45 days after announcement if the creditors have not received the notice. During the period of the claim, the creditor shall explain all matters relevant to the creditor's rights he/she has claimed and provide relevant evidential documents. The liquidation committee shall register the creditor's rights.

After the liquidation committee has liquidated the assets of the Bank and prepared a balance sheet and a property inventory, it shall formulate a liquidation proposal and submit it to the Shareholders' general meeting or the relevant competent authorities for confirmation.

The assets of the Bank shall be liquidated in the following order of priority:

(a) to pay liquidation expenses;

(b) to pay employees' salaries, social insurance expenses and statutory compensations of the Bank;

(c) to pay principal and interests of personal savings deposits;

(d) to pay outstanding taxes;

(e) to pay debts of the Bank;

(f) to distribute as per the types of the shares held by the Shareholders and their shareholding percentages.

Before liquidation as specified in (a) to (e) above, the assets of the Bank shall not be distributed to Shareholders.

In the event of liquidation due to dissolution of the Bank, after the liquidation committee has liquidated the assets of the Bank and prepared a balance sheet and a property inventory, if it discovers that the Bank's assets are insufficient to repay its debts in full, it shall apply to the people's court to declare bankruptcy upon the approval of the banking regulatory authority. Once the people's court makes a ruling declaring the Bank bankruptcy, the liquidation committee shall hand over the liquidation matters to the people's court.

After completion of liquidation, the liquidation committee shall prepare a liquidation report and income and expenditure statements and account books in respect of the liquidation period and, after verification of the Chinese certified public accountants, shall submit the same to the Shareholders' general meeting or the relevant competent authority for confirmation.

The liquidation committee shall, within 30 days after the obtaining confirmation on the liquidation report from the Shareholders' general meeting or the relevant competent authority, submit the aforesaid documentation to the company registration authority, and apply to cancel registration of the Bank and announce termination of the Bank.

Members of the liquidation committee shall faithfully perform their duties and carry out their liquidation obligations according to the laws, and shall not abuse their official powers to seek bribes or other illegal income or expropriate the properties of the Bank.

Members of the liquidation committee shall assume compensation liability if the Bank or creditors incur losses as a result of the deliberate or gross default of the said members.

OTHER PROVISIONS MATERIAL TO OUR BANK AND OUR SHAREHOLDERS

General Provisions

After adoption by the Shareholders' general meeting and approval by the banking regulatory authorities, the Articles of Association shall become effective from the date of listing of the H Shares publicly offered by the Bank on the Hong Kong Stock Exchange. The original Articles of Association of the Bank shall automatically become invalid from the date when the Articles of Association takes into effect.

In light of the demands of operation and business development and based on laws and regulations, after obtaining the consent of shareholders through resolutions at the Shareholders' general meeting and the approval of relevant authorities of the State, the Bank may increase its capital by the following means:

(a) offering new shares to non-specific investors;

(b) placing new shares to existing shareholders;

(c) distributing new shares to existing shareholders;

(d) converting funds in the capital reserve into share capital; and

(e) other means stipulated by laws and regulations and approved by relevant competent authorities of the State.

The Bank's increase of capital by issuing new shares shall be conducted in accordance with the procedures provided in the laws and regulations, after being approved according to the Articles of Association.

Shareholder of ordinary Shares of the Bank shall have the following obligations:

(a) to abide by the laws and regulations, regulatory provisions and the Articles of Association;

(b) to contribute to the share capital as determined by the number of shares subscribed by them and the method of subscription;

(c) to bear the Bank's debts and losses to the extent of the shares of the Bank held by them;

(d) not to withdraw their contributed share capital except in circumstances allowed by the laws and regulations;

(e) any related transactions with its affiliates and the Bank shall be conducted in compliance with the laws and regulations and the Articles of Association, and should follow market principles; and

(f) to assume other obligations required by the laws and regulations and the Articles of Association.

Save as otherwise provided by the laws and regulations and the Articles of Association, shareholders shall not be liable for making any additional contribution to the share capital of the Bank other than according to the terms agreed by the subscriber of the shares at the time of subscription.

Directors' Qualification Shares

Directors are not required to hold any shares of the Bank.

BOARD OF DIRECTORS

The Board of Director shall undertake final responsibility of operation and management of the Bank. The Board of Director shall exercise the following functions and powers:

(a) to convene Shareholders' general meeting and report on its work to the Shareholders' general meetings;

(b) to implement resolutions of Shareholders' general meeting;

(c) to determine the Bank's operation and development strategies and medium-and long-term development plans and supervise the implementation of the strategies;

(d) to appoint or dismiss the president and the secretary to the Board of Directors of the Bank; to appoint or dismiss senior management members such as the vice president, the chief financial officer and the chief risk management officer of the Bank as proposed by the President; and to determine remunerations, welfare, rewards and punishments of the aforesaid persons;

(e) to formulate proposals for any amendment to the Articles;

(f) to evaluate and improve the corporate governance of the Bank on a regular basis;

(g) to review and approve the capital management planning of the Bank;

(h) to formulate the listing or other fund-raising and capital supplement plans of the Bank;

(i) to formulate plans for the use of funds raised by the Bank;

(j) to formulate proposals concerning an increase or reduction in the registered capital and the issuance of any class of shares, warrants and other similar securities of the Bank;

(k) to formulate proposals for the repurchase of shares of the Bank;

(l) to formulate the equity incentive plans of the Bank;

(m) to review and approve material changes in shareholding of the Bank;

(n) to formulate proposals for financial restructuring, merger, division and dissolution of the Bank;

(o) to formulate proposals for the issuance of bonds of the Bank;

(p) to decide on operational plans and investment proposals of the Bank;

(q) to formulate annual financial budget plans, final account plans and risk capital allocation plans of the Bank;

(r) to formulate profit distribution plans and loss recovery plans of the Bank;

(s) to formulate the major investment and major asset disposal plans of the Bank;

(t) to decide on other external investments, purchases and sales of assets and external guarantees of the Bank beyond the Bank's operations under authorization of the Shareholders' general meeting;

(u) to approve material related party transactions with the internal personnel and Shareholders of the Bank as approved by the Related Party Transactions Control Committee of the Board in advance;

(v) to propose to the Shareholders' general meeting to appoint or replace the accounting firm auditing the Bank;

(w) responsible for the Bank's information disclosure, consider the Bank's annual reports, and bear the ultimate responsibility for the truthfulness, accuracy, integrity and timeliness of the Bank's accounting and financial reports;

(x) to work out professional norms and value criteria for the Board and the senior management to observe and the Bank's basic management system;

(y) to decide on the risk tolerance, risk management and internal control policies and capital management policies of the Bank;

(z) to determine the remuneration management policies (including basic remuneration, performance-based remuneration, subsidies, allowances and other welfare, medium- and long-term incentives and special rewards) and retirement policies for employees of the Bank;

(aa) to determine the operating performance evaluation indicators and performance evaluation policies of the Bank;

(bb) to decide on the setup of the internal management institutions, domestic tier-one branches and overseas branches (offices) of the Bank;

(cc) to listen to the work reports of senior management, supervise the duty performance of senior management members, and ensure the senior management members' effective performance of management duties;

(dd) to report the regulatory opinions of the CBIRC on the Bank and information about rectification made by the Bank;

(ee) to safeguard interests of depositors and other stakeholders and protect the rights and interests of banking consumers;

(ff) to establish an identification, review and management mechanism for the conflict of interests between the Bank and Shareholders, especially substantial Shareholders;

(gg) to exercise any other functions and powers stipulated by laws, regulations or the Articles of Association, and granted by the Shareholders' general meetings.

The Board shall hold a regular meeting at least once a quarter and the chairman shall convene the meeting. All the Directors shall be notified in writing to attend the meeting, and all the Supervisors shall be notified to be present at the meeting 14 days before the meeting. The meeting agenda and relevant documents shall be served seven days before the meeting. The notice for convening a provisional Board meeting by the Board shall be served to all the Directors four workdays before the meeting.

A Board meeting shall be attended by more than half of the Directors. The Board resolutions may be adopted by way of ballot or by show of hands. Each Director shall have one vote.

Board of Supervisors

The Bank has a Board of Supervisors. The Board of Supervisors is composed of seven Supervisors, including one shareholder Supervisor, who is nominated by the Nomination Committee of the Board of Supervisors of the Bank, and Shareholders who individually or collectively hold more than three percent of the Bank's voting shares, and is elected by the Shareholders' general meeting; three external Supervisors, who are nominated by the Nomination Committee of the Board of Supervisors of the Bank, and Shareholders who individually or collectively hold more than one percent of the Bank's voting shares, and are elected by the Shareholders' general meeting; three employee Supervisors, who are nominated by the Nomination Committee of the Board of Supervisors of the Bank and the Labor Union, and are elected by the employee representative meeting.

The Board of Supervisors has one chairman and may have a vice chairman elected by a majority of all supervisors. The chairman of the Board of Supervisors shall be served by a full-time person, and shall have at least professional knowledge and working experience in such aspects as accounting, audit, finance, and law. If the chairman of the Board of Supervisors is unable to perform his/her duties or fails to perform his/her duties, the vice chairman of the Board of Supervisors shall convene and preside over the meeting of the Board of Supervisors; if the vice chairman of the Board of Supervisors is unable to perform his/her duties or fails to perform his/her duties, more than half of the Supervisors shall jointly recommend a Supervisor to convene and preside over the meeting of the Board of Supervisors.

The Bank's supervisors include shareholder supervisors, employee supervisors and external supervisors. Among them, the proportion of employee supervisors and external supervisors shall not be less than one-third. The Directors, president and other senior executives of the Bank shall not concurrently serve as Supervisors of the Bank.

Each session of Supervisors take office for three years. Shareholder supervisors and external supervisors are elected or replaced by the Shareholders' general meeting, and employee supervisors are elected or replaced by the employee representative meeting of the Bank. Supervisors can be re-elected.

A list of candidates for shareholder supervisors shall be proposed by the Nomination Committee of the Board of Supervisors or Shareholder(s) severally or jointly holding more than 3% of the total voting shares issued by the Bank as per the number of supervisors to be elected to the extent of the number of members of the Board of Supervisors specified in the Articles of Association. Generally, the number of Supervisor candidates nominated by a Shareholder and his/her related party shall not exceed one-third of the number of the members of the Board of Supervisors, except as otherwise prescribed by laws and regulations. Candidates for employee Supervisors shall be nominated by the Nomination Committee of the Board of Supervisors of the Bank and the Labor Union, and are elected at the employee representative meeting. The Nomination Committee of the Board of Supervisors of the Bank, Shareholders who individually or collectively holding more than one percent of the total voting shares issued by the Bank may propose external supervisor candidates to the Board of Supervisors, but shareholders who have nominated shareholder supervisors shall not nominate any external supervisors. In principle, the same shareholder can propose one external supervisor candidate only.

The Board of Supervisors is the Bank's internal supervisory organization and is responsible to the Shareholders' general meeting. With the goal of protecting the legitimate rights and interests of the Bank, Shareholders, employees, creditors and other stakeholders, it shall exercise the following powers and functions:

(a) to supervise the Board to establish a sound business philosophy, value standards and formulate the development strategies in line with the Bank's actual situation;

(b) to regularly evaluate the scientificity, rationality and effectiveness of the development strategy formulated by the Board, and form an evaluation report;

(c) to supervise and inspect the Bank's financial activities, operating decisions, risk management and internal control, and supervise the rectification;

(d) to supervise the election and appointment process of Directors;

(e) to supervise the violation of laws and regulations or Articles of Association by the Directors and senior management members when performing their duties, and comprehensively evaluate the performance of the Directors, Supervisors and senior management members. When behaviors of the Directors and senior management members harm the interests of the Bank, the Directors and senior management members are required to make corrections; the Directors and senior management members who have violated laws and regulations, the Articles of Association or resolutions of Shareholders' general meetings are proposed to be removed;

(f) to supervise scientificity and reasonability of remuneration management system and policies of the Bank and remuneration plan of senior management personnel;

(g) to regularly communicate with the banking regulatory authority about the Bank's condition;

(h) to review the regular reports prepared by the Bank and produce written opinions thereon;

(i) to verify financial information such as financial reports, business reports, and profit distribution plans, etc. that the Board of Directors intents to submit to the Shareholders' general meeting and, if any doubt is found, it may, in the name of the Bank, entrust a certified accountant or practicing auditor to assist in reviewing such information;

(j) to propose the convening of extraordinary general meetings and, in case the Board does not perform the obligations to convene and preside over the Shareholders' general meetings in accordance with the Articles of Association, to convene and preside over the Shareholders' general meetings;

(k) to submit proposals to the Shareholders' general meeting (including the supervisors' remuneration plan);

(l) to communicate with Directors on behalf of the Bank in accordance with laws and regulations and the Articles of Association, and to bring lawsuits against Directors and senior management members;

(m) other functions and powers conferred by laws and regulations, the Articles of Association and the Shareholders' general meetings.

Supervisors may attend Board meetings, meetings of special committees under the Board and senior management meetings, and shall be entitled to make inquiries or suggestions on matters resolved at such meetings but shall have no voting rights. Supervisors attending a Board meeting shall report on the meeting to the Board of Supervisors.

The Board of Supervisors shall convene at least one regular meeting every quarter, which shall be convened and chaired by the Chairman of the Board of Supervisors. The Supervisors may propose to convene an interim meeting of the Board of Supervisors, and the Chairman of the Board of Supervisors shall convene the interim meeting of the Board of Supervisors within five working days.

The meeting of the Board of Supervisors shall only be held when more than half of the Supervisors are present. Resolutions of the Board of Supervisors shall be vote by open ballot or by show of hands. Each of the Supervisors present at the meeting shall have one vote. A resolution of the Board of Supervisors shall be passed by more than half of all Supervisors.

PRESIDENT

The president shall be accountable to the Board and shall perform the following functions and powers:

(a) to take charge of the operation and management of the Bank, and report work to the Board;

(b) to organize the implementation of the resolutions of the Board;

(c) to draw up the business development strategies and medium-and long-term development plans of the Bank;

(d) to organize the implementation of the annual business plans and investment plans of the Bank;

(e) to draw up the annual budget plans, final account plans and risk capital distribution plans of the Bank;

(f) to draw up the Bank's profit distribution plans and loss recovery plans of the Bank;

(g) to draw up the capital management plans and capital management policies of the Bank;

(h) to propose to the Board to appoint or dismiss the vice president, Chief Financial Officer, Chief Risk Management Officer and other senior management members of the Bank;

(i) to authorize other senior management members and the persons in charge of internal functional departments and branches to conduct operation and management activities in accordance with relevant authorizations, management policies and rules;

(j) to appoint or dismiss the Bank's staff members other than those to be appointed or dismissed by the Shareholders' general meetings or the Board, and to decide their remuneration, benefits and rewards and punishments;

(k) to draw up a plan for the establishment of internal management bodies of the Bank and to, in accordance with the authorization of the Board, decide on matters in relation to the establishment of internal management bodies and branches of the Bank;

(l) to draft the Bank's basic management system;

(m) to formulate the Bank's specific regulations and supervise their effective implementation;

(n) to propose the convening of interim Board meetings;

(o) to take emergency measures and immediately report to the relevant regulatory authorities of the State, the Board of Directors and the Board of Supervisors in case of material emergencies such as a run on the Bank;

(p) to exercise other functions and powers conferred by the Article of Association or the Board.

The president shall be present at Board meetings, but shall not have voting rights thereat unless he/her is also a director.

SECRETARY TO THE BOARD

The Bank has set a secretary to the Board, who is a senior management member of the Bank and shall be accountable to the Board.

The main duties of the secretary to the Board are as follows:

(a) to ensure that the Bank has a complete set of constitutional documents and records;

(b) to ensure that the Bank prepares and submits the reports and documents required by relevant departments of the State in accordance with law;

(c) to prepare Board meetings and Shareholders' general meetings, and be responsible for the minutes of meetings and the safekeeping of meeting documents and minutes;

(d) to be responsible for the information disclosure of the Bank, and ensure the timely, accurate, legal, truthful and complete disclosure of the Bank's information;

(e) to receive visitors, answer inquiries and contact shareholders, ensuring that the relevant documents and records of the Bank are duly received by persons who are entitled to receive them;

(f) to ensure the proper establishment of the Bank's register of Shareholders and be responsible for keeping the register of Shareholders, the seal of the Board and relevant materials;

(g) to perform other duties stipulated by the laws and regulations and the Article of Association.

The secretary to the Board shall be nominated by the Chairman of the Board and appointed or dismissed by the Board. Where a Director concurrently serves as the secretary to the Board, if any act needs to be done separately by a Director and the secretary to the Board, the person concurrently serving as Director and the secretary to the Board shall not take such action in both capacities.

SETTLEMENT OF DISPUTES

The Bank shall observe the following rules for settlement of disputes:

(a) Where any disputes or claims arise between a holder of overseas listed foreign shares and the Bank; between a holder of overseas listed foreign shares and a Director, Supervisor or senior management member of the Bank; or between a holder of overseas listed foreign shares and a holder of domestic shares, in relation to the Bank's business and arising from the rights and obligations under the Articles of Association, the PRC Company Law and other relevant laws and administrative regulations, the parties concerned shall submit such disputes or claims to arbitration.

(b) The aforesaid disputes or claims submitted to arbitration shall be the entire disputes or claims, and all the persons who complain for the same reason or persons whose participations are required for the settlement of such disputes or claims shall, if they are in the capacity of the Bank or the Bank's Shareholders, Directors, Supervisors or senior management members, comply with the result of the arbitration.

(c) Disputes with respect to the definition of Shareholders and disputes concerning the register of Shareholders need not to be resolved by arbitration.

(d) The applicant for arbitration may choose to be arbitrated either by the China International Economic and Trade Arbitration Commission in accordance with its arbitration rules or the Hong Kong International Arbitration Centre in accordance with its securities arbitration rules. Once the applicant for arbitration submits a dispute or claim to arbitration, the other party must carry out the arbitration at the arbitration institution selected by the applicant. If the applicant for arbitration opts for arbitration by the Hong Kong International Arbitration Centre, either party may request for the arbitration to be conducted in Shenzhen in accordance with the securities arbitration rules of the Hong Kong International Arbitration Centre.

(e) For the arbitration of any disputes or claims described in item (a), the laws of the PRC shall apply, unless otherwise provided in the laws and administrative regulations.

(f) The decision made by the arbitral body shall be final and binding on all parties.

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 effective laws and practices and no predictions are made about changes or adjustments to relevant laws or policies, and no comments or suggestions will be made accordingly. The discussion does not deal with all possible tax consequences relating to an investment in the H Shares, nor does it take into account the specific circumstances of any particular investor, some of which may be subject to special regulations. Accordingly, you should consult your own tax advisor regarding the tax consequences of an investment in H Shares. The discussion is based upon laws and relevant interpretations in effect as of the date of this prospectus, all of which are subject to change and may have retrospective effect.

This discussion does not address any aspects of PRC or Hong Kong taxation other than income tax, capital gain and profit tax, business tax/appreciation tax, stamp duty and estate duty. Prospective investors are urged to consult their financial advisors regarding the PRC, Hong Kong and other tax consequences of owning and disposing of H Shares.

The PRC Taxation

Taxation on Dividends

Individual Investors

Pursuant to the Individual Income Tax Law of the PRC (《中華人民共和國個人所得稅法》) (the "**IIT Law**"), which was last amended on August 31, 2018 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》), which was last amended on December 18, 2018, dividends paid by PRC enterprises are subject to individual income 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 an enterprise in the PRC is normally subject to individual income 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 SAT 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 June 28, 2011, domestic non-foreign-invested enterprises issuing shares in Hong Kong may, when distributing dividends to overseas resident individuals in the jurisdiction of the tax treaty, withhold individual income tax at the rate of 10%. For the individual holders of H Shares receiving dividends who are citizens of countries that have entered into a tax treaty with the PRC with tax rates lower than 10%, the non-foreign-invested enterprise whose shares are listed in Hong Kong may apply on behalf of such holders for enjoying the lower preferential tax treatments, and, upon approval by the tax authorities, the amount which is over withheld will be refunded. For the individual holders of H Shares receiving dividends who are citizens of countries that have entered into a tax treaty with the PRC with tax rates higher than 10% but lower than 20%, the non-foreign-invested enterprise is required to withhold the tax at the agreed rate under the treaties, and no application procedures will be necessary. For the individual holders of H Shares receiving dividends who are citizens of countries without taxation treaties with the PRC or are under other situations, the non-foreign-invested enterprise is 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**"), which came into effect as of January 1, 2008 and was last amended on December 29, 2018, and the Implementation provisions 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》), which came into effect as of January 1, 2008 and was last amended on April 23, 2019, a non-resident enterprise is generally subject to a 10% enterprise income tax on PRC-sourced income (including dividends received from a PRC resident enterprise that issues shares in Hong Kong), 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 aforesaid income tax may be reduced pursuant to applicable treaties to avoid double taxation. Such withholding tax for non-resident enterprises are deducted at source, where the payer of the income are required to withhold the income tax from the amount to be paid to the non-resident enterprise when such payment is made or due.

The Circular of the SAT on Issues Relating to the Withholding of Enterprise Income Tax by PRC Resident Enterprises on Dividends Paid by Chinese Resident Enterprises to Overseas Non-PRC Resident Enterprise Shareholders of H Shares (《國家稅務總局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》) (Guo Shui Han [2008] No. 897) which was issued by the SAT on November 6, 2008, further clarified that a PRC-resident enterprise must withhold enterprise income tax at a rate of 10% on dividends paid to overseas non-resident enterprise shareholders of H Shares for 2008 and subsequent years. In addition, the Response to Questions on Levying Enterprise Income Tax on Dividends Derived by Non-resident Enterprise from Holding Stock such as 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》) (Guo Shui Han [2009] No. 394) which was issued by the SAT and came into effect on July 24, 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 of 2008 and onwards that it distributes to non-resident enterprises. Such tax rates may be further modified pursuant to the tax treaty or agreement that China has concluded with a relevant jurisdiction, where applicable.

Pursuant to the Arrangement between the Mainland and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》) signed on August 21, 2006, PRC Government may levy taxes on the dividends paid by a Chinese company to Hong Kong residents (including natural persons and legal entities) in an amount not exceeding 10% of total dividends payable by the Chinese company. If a Hong Kong resident directly holds 25% or more of the equity interest in a Chinese company, then such tax shall not exceed 5% of the total dividends payable by the Chinese company. The Fifth Protocol of the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region on the Avoidance of Double Taxation and the Prevention of Fiscal Evasion issued by the SAT (《國家稅務總局關於<內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排>第五議定書》) effective on December 6, 2019 states that such provisions shall not apply to those arrangements or transactions, the main purpose of which includes to gain such tax benefit. The application of the dividend clause of tax agreements shall be subject to the PRC tax laws and regulations, such as the Notice of the SAT on the Issues Concerning the Application of the Dividend Clauses of Tax Agreements (《國家稅務總局關於執行稅收協定股息條款有關問題的通知》) (Guo Shui Han [2009] No. 81).

Tax Treaties

Non-PRC resident investors residing in countries which have entered into treaties for the avoidance of double taxation with the PRC are entitled to a reduction of the withholding taxes imposed on the dividends received from PRC companies. The PRC currently has entered into Avoidance of Double Taxation Treaties/Arrangements with a number of countries and regions including HK, Macau, Australia, Canada, France, Germany, Japan, Malaysia, the Netherlands, Singapore, the United Kingdom and the United States. Non-PRC resident enterprises entitled to preferential tax rates in accordance with the relevant income tax treaties or arrangements are required to apply to the Chinese tax authorities for a refund of the withholding tax in excess of the agreed tax rate, and the refund payment is subject to approval by the Chinese tax authorities.

Taxation on Share Transfer

Value-Added Tax ("VAT") and Local Surcharges

Pursuant to the Notice on the Full Implementation of Pilot Program for Transition from Business Tax to VAT (《關於全面推開營業稅改徵增值稅試點的通知》, Cai Shui [2016] No. 36, "**Circular 36**"), effective from May 1, 2016, entities and individuals engaged in sales of services within the PRC shall be subject to VAT and 'sales of services within the PRC' refers to the situation where either the seller or the buyer of a taxable service is located within the PRC. Circular 36 also provides that transfer of financial products, including transfer of the ownership of marketable securities, shall be subject to VAT at 6% on the taxable turnover (which is the balance of sales price upon deduction of purchase price), for a general or a foreign VAT taxpayer. However, individuals are exempt from VAT upon transfer of financial products.

In accordance with these rules, upon the sale or disposal of H shares, the holders are exempt from VAT in the PRC if they are non-resident individuals; in case the holders are non-resident enterprises, they may not be subject to the VAT in the PRC if the purchasers of the H shares are individuals or entities located outside of the PRC whereas the holders may be subject to the VAT in the PRC if the purchasers of the H shares are individuals or entities located in the PRC.

However, in absence of explicit rules, there remains uncertainty in the interpretation and application of the foregoing rules as to whether the disposal of H Shares by non-PRC resident enterprises is subject to PRC VAT.

Meanwhile, VAT taxpayers are also subject to urban maintenance and construction tax, education surcharge and local education surcharge (collectively, "local surcharges"), which is usually at 12% of the VAT payable, if any.

Income Tax

Individual Investors

According to the IIT Law and its implementation provisions, gains realized on the sale of equity interests in the PRC resident enterprises are subject to the individual income tax at a rate of 20%.

Pursuant to the Circular of the MOF and the SAT on Declaring that Individual Income Tax Continues to be Exempted over Individual Income from Transfer of Shares (《財政部、國家稅務總局關於個人轉讓股票所得繼續暫免徵收個人所得稅的通知》) (Cai Shui Zi [1998] No. 61) issued by the MOF and the SAT on March 20, 1998, from January 1, 1997, income of individuals from the transfer of shares of listed enterprises shall continue to be exempted from individual income tax. In the latest IIT Law and its implementing rules, the SAT has not explicitly stated whether it will continue to exempt individuals from income tax on income derived from the transfer of listed shares.

However, on December 31, 2009, the MOF, the SAT and the CSRC jointly issued the Circular on Relevant Issues Concerning the Collection of Individual Income Tax over the Income Received by Individuals from Transfer of Listed Shares Subject to Sales Limitation (《關於個人轉讓上市公司限售股所得徵收個人所得稅有關問題的通知》 (Cai Shui [2009] No. 167) which states that individuals' income from the transfer of listed shares on certain domestic exchanges shall continue to be exempted from individual income tax, except for the relevant shares which are subject to sales restriction as defined in the Supplementary Circular on Relevant Issues Concerning the Collection of Individual Income Tax over the Income Received by Individuals from Transfer of Listed Shares Subject to Sales Limitation (關於個人轉讓上市公司限售股所得徵收個人所得稅有關問題的補充通知) (Cai Shui [2010] No. 70). As of the Latest Practicable Date, the aforesaid provision has not expressly provided that individual income tax shall be collected from non-PRC resident individuals on the sale of shares of PRC resident enterprises listed on overseas stock exchanges. To our knowledge, in practice, there are no laws and regulations expressly requiring that the income tax from non-PRC resident individuals on gains from the sale of shares of PRC resident enterprises listed on overseas stock exchanges shall be collected.

Enterprise Investors

In accordance with the EIT Law and its implementation provisions, a non-resident enterprise is generally subject to a 10% enterprise income tax on 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 in reality with such establishment or premise. Such income tax for non-resident enterprises are deducted at source, where the payer of the income are required to withhold the income tax from the amount to be paid to the non-resident enterprise when such payment is made or due. The withholding tax may be reduced or exempted pursuant to applicable treaties or agreements on avoidance of double taxation.

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 October 1, 1988 and amended on January 8, 2011, and the Detailed Rules for Implementation of Provisional Regulations of the PRC Concerning Stamp Duty (《中華人民共和國印花稅暫行條例施行細則》) effective as of October 1, 1988, PRC stamp duty only applies on specific proof executed or received within the PRC and having legally binding force in the PRC and protected under the PRC laws, thus the requirements of the 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 of the PRC.

Estate Duty

As of the date of this prospectus, no estate duty has been levied in China under the PRC laws.

Hong Kong Taxation

Tax on Dividends

Under the current practice of the Inland Revenue Department of Hong Kong, 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 can prove that the investment securities are held for long-term investment purposes.

Trading gains from sales of the 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 realized 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 February 11, 2006.

PRINCIPAL TAXATION OF OUR BANK IN THE PRC

Enterprise Income Tax

Pursuant to the EIT Law, enterprises and other organizations which generate income within the PRC are enterprise income tax payers and shall pay enterprise income tax at a tax rate of 25%.

Business Tax/Value-added Tax

Pursuant to Notice on Implementing the Pilot Reform for Transition from Business Tax to Value-added Tax Nationwide issued by the MOF and SAT (《關於全面推開營業稅改徵增值稅試點的通知》) (Cai Shui [2016] No. 36) promulgated on March 23, 2016, the pilot reform for the transition from business tax to VAT (the "**Business Tax to VAT**") is implemented nationwide from May 1, 2016, and the financial industry is included in such pilot and is required to pay VAT instead of business tax. Pursuant to the Implementation Measures for Transition from Business Tax to Value-added Tax (《營業稅改徵增值稅試點實施辦法》), unless otherwise provided in the implementation measures, the tax rate is generally 6% for tax payers who conducted taxable behaviors. The Bank started to calculate and pay VAT instead of business tax since May 1, 2016.

TAXATION OF OUR BANK IN HONG KONG

Our Directors do not consider that any of the Bank's income is derived from or arises in Hong Kong for the purpose of Hong Kong taxation, and therefore our Bank will not be subject to Hong Kong taxation arising therefrom.

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, with the authorization of the PBoC, is empowered with the functions of administering all matters relating to foreign exchange, including the enforcement of foreign exchange control regulations.

On January 29, 1996, the State Council promulgated the 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 April 1, 1996. The Foreign Exchange Control Regulations classifies all international payments and transfers into current items and capital items. Most of the current items are no longer subject to SAFE's approval, while capital items remain unchanged. The Foreign Exchange Control Regulations were subsequently amended on January 14, 1997 and August 5, 2008. The latest amendment to the Foreign Exchange Control Regulations clearly states that the State will not impose any restriction on international current payments and transfers.

On June 20, 1996, 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 July 1, 1996. The Settlement Regulations abolished the remaining restrictions on convertibility of foreign exchange under current items, while retaining the existing restrictions on foreign exchange transactions under capital account items.

According to the Announcement on Improving the Reform of the Renminbi (《關於完善人民幣匯率形成機制改革的公告》) (PBoC Announcement [2005] No. 16), issued by PBoC on July 21, 2005 and effective on the same date, the PRC began to implement a managed floating exchange rate system in which the exchange rate would be determined based on market supply and demand and adjusted with reference to a basket of currencies. The Renminbi exchange rate was no longer pegged to the U.S. dollar. PBoC would publish the closing price of the exchange rate of the Renminbi against trading currencies such as the U.S. dollar in the interbank foreign exchange market after the closing of the market on each working day, as the central parity of the currency against Renminbi transactions on the following working day.

Starting from January 4, 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 practice of matching was 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. On July 1, 2014, the PBoC further improved the formation mechanism of the RMB exchange rate by authorizing the China Foreign Exchange Trade System to make inquiries with the market makers before the interbank foreign exchange market opens every day for their offered quotations which are used as samples to calculate the central parity of the RMB against the USD on that day using the weighted average of the remaining market makers' offered quotations after excluding the highest and lowest quotations, and announce the central parity of the RMB against currencies such as the USD at 9:15 a.m. on each working day. On August 11, 2015, the PBoC announced to improve the central parity quotations of RMB against the USD by authorizing market-makers to provide central parity quotations to the China Foreign Exchange Trading System before the interbank foreign exchange market opens every day with reference to the interbank foreign exchange market closing rate of the previous day, the supply and demand for foreign exchange as well as changes in major international currency exchange rates.

On August 5, 2008, the State Council promulgated the revised Foreign Exchange Control Regulations of the PRC, which have made substantial changes to the foreign exchange supervision system of the PRC. First, it has 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 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, it has improved the RMB exchange rate floating system based on market supply and demand under management; third, in the event that international balance of payment 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 against international balance of payment; fourth, it has enhanced the supervision and administration of foreign exchange transactions and grant extensive authorities to the SAFE to enhance its supervisory and administrative powers.

According to the relevant laws and regulations in the PRC, PRC enterprises (including foreign-invested enterprises) which need foreign exchange for current item transactions may, without the approval of the SAFE, effect payment from foreign exchange accounts at the designated foreign exchange banks, on the strength of valid transaction receipt or evidence. Foreign-invested enterprises which need foreign exchange for the distribution of profits to their shareholders and PRC enterprises which, in accordance with regulations, are required to pay dividends to their shareholders in foreign exchange (such as our Bank) may, on the strength of resolutions of the board of directors or the shareholders' meeting on the distribution of profits, effect payment from foreign exchange accounts at the designated foreign exchange banks or effect exchange and payment at the designated foreign exchange banks.

On October 23, 2014, the State Council promulgated the Decisions on Matters including Canceling and Adjusting a Batch of Administrative Approval Items (《國務院關於取消和調整一批行政審批項目等事項的決定》) (Guo Fa [2014] No. 50), which canceled the approval requirement of the SAFE and its branches for the remittance and settlement of the proceeds raised from the overseas listing of the foreign shares into RMB domestic accounts.

On December 26, 2014, the SAFE issued the Notice of the SAFE 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 which a domestic company shall, within 15 business days of the date of the end of its overseas listing issuance, register the overseas listing with the SAFE's local branch at the place of its incorporation; and the proceeds from an overseas listing of a domestic company 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.

On February 13, 2015, the SAFE issued the Notice of the SAFE on Further Simplifying and Improving Policies for the Foreign Exchange Administration of Direct Investment (國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知) (Hui Fa [2015] No. 13), which came into effect on June 1, 2015. The notice has cancelled the confirmation of foreign exchange registration under domestic direct investment and the confirmation of foreign exchange registration under overseas direct investment, instead, banks shall directly examine and handle foreign exchange registration under domestic direct investment and foreign exchange registration under overseas direct investment, and the SAFE and its local offices shall indirectly regulate the foreign exchange registration of direct investment through banks.

According to the Notice of the SAFE of the PRC on Revolutionize and Regulate Capital Account Settlement Management Policies (《國家外匯管理局關於改革和規範資本項目結匯管理政策的通知》) (Hui Fa [2016] No. 16) issued by the SAFE on June 9, 2016, foreign currency earnings in capital account that relevant policies of willingness exchange settlement have been clearly implemented on (including the recalling of raised capital by overseas listing) may undertake foreign exchange settlement in the banks according to actual business needs of the domestic institutions. The tentative percentage of foreign exchange settlement for foreign currency earnings in capital account of domestic institutions is 100%, subject to adjust of the SAFE in due time in accordance with international revenue and expenditure situations.

1. FURTHER INFORMATION ABOUT OUR BANK

A. Establishment

With the approval from the CBRC, we were established on December 30, 2005 and jointly promoted by seven promoters, namely TEDA Holding, SCB, China Ocean Shipping (Group) Company (中國遠洋運輸(集團)總公司), SDIC, Shanghai Baosteel Group Corporation (上海寶鋼集團公司, currently known as China Baowu Steel Group Corporation Limited (中國寶武鋼鐵集團有限公司)), Tianjin Shanghui Investment Holding Company Limited (天津商匯投資(控股)有限公司) and Tianjin Trust and Investment Company Limited (天津信託投資有限責任公司, currently known as Tianjin Trust Co., Ltd. (天津信託有限責任公司)).

Our registered address is 218 Haihe East Road, Hedong District, Tianjin, China. Our Bank has established a representative office and place of business in Hong Kong at Suites 1201-1209 and 1215-1216, 12/F, Two International Finance Centre, Central, Hong Kong, and our Bank has been registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on July 25, 2017. Mr. TANG Xiaoning 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 service of process is Suite 1201, 12/F, Two International Finance Centre, 8 Finance Street, Central, Hong Kong.

We conduct our banking business in the PRC under the supervision and regulation of the CBIRC and the PBoC, and our local representative office in Hong Kong is subject to the supervision of HKMA. We are not an authorized institution within the meaning of the Banking Ordinance (Chapter 155 of the Laws of Hong Kong), not authorized to carry on banking and/or deposit-taking business in Hong Kong, and not subject to the supervision of the HKMA other than our local representative office in Hong Kong.

As we are established in the PRC, our corporate structure and Articles of Association are subject to the relevant laws and regulations of the PRC. A summary of certain relevant aspects of the laws and regulations of the PRC is set out in Appendix IV. A summary of the relevant provisions of our Articles of Association is set out in Appendix V.

B. Changes in Share Capital

At the time of establishment, the registered capital of our Bank was RMB5,000,000,000, divided into 5,000,000,000 Shares, including 4,000,500,000 Domestic Shares and 999,500,000 unlisted Foreign Shares, with a nominal value of RMB1.00 each. Since the establishment of our Bank, there have been two increases of registered capital of our Bank.

On April 20, 2010, the registered capital of our Bank was increased from RMB5,000,000,000 to RMB8,500,000,000 (the "**First Capital Increase**"). During the First Capital Increase, we issued and allotted 3,500,000,000 new Shares, including 2,800,350,000

Domestic Shares and 699,650,000 unlisted Foreign Shares, with a nominal value of RMB1.00 each to the seven promoters of our Bank on a basis of seven Shares for every ten existing Shares according to their then shareholding ratio.

On November 1, 2019, the registered capital of our Bank was increased from RMB8,500,000,000 to RMB14,450,000,000 (the "**Second Capital Increase**"). During the Second Capital Increase, we issued and allotted 5,950,000,000 new Shares, including 4,760,595,000 Domestic Shares and 1,189,405,000 unlisted Foreign Shares, to all the then Shareholders of our Bank on a basis of seven Shares for every ten existing Shares according to their then shareholding ratio.

As of the Latest Practicable Date, the registered capital of our Bank was RMB14,450,000,000, divided into 11,561,445,000 Domestic Shares with a nominal value of RMB1.00 each and 2,888,555,000 unlisted Foreign Shares with a nominal value of RMB1.00 each.

Immediately following the Global Offering and conversion of the unlisted Foreign Shares (assuming the Over-allotment Option is not exercised), our total issued share capital will be RMB17,330,000,000, consisting of 11,561,445,000 Domestic Shares and 5,768,555,000 H Shares, which represent approximately 66.71% and 33.29% of our total issued share capital, respectively.

C. Restriction on Share Repurchase

For details of the restriction on the share repurchase by our Bank, please see Appendix IV – "Summary of Principal Legal and Regulatory Provisions" and Appendix V – "Summary of Articles of Association".

D. Resolution of Our Shareholders

Resolutions were passed by the Shareholders on October 15, 2019, pursuant to which, among other matters:

(a) the Global Offering, the Listing and the Over-allotment Option were approved; and

(b) our Board of Directors and the persons authorized by our Board of Directors were authorized to handle all matters relating to the Listing.

On October 15, 2019, our Board of Directors and the authorized persons approved by the Board of Directors were authorized to make further amendments to our Articles of Association according to the opinions given by the relevant regulatory authorities of the PRC and Hong Kong. The relevant amendments will become effective from the Listing Date.

Resolutions were passed by the Shareholders on November 14, 2019, pursuant to which, among other matters, certain amendments to our Articles of Association in compliance with the requirements of the Listing Rules and other applicable laws and regulations were approved.

2. FURTHER INFORMATION ABOUT OUR BUSINESS

A. Summary of our 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:

(1) a cornerstone investment agreement dated June 26, 2020 entered into among our Bank, Yichang HEC Health Pharmaceutical Co., Ltd. (宜昌東陽光健康藥業有限公司), CCB International Capital Limited (建銀國際金融有限公司), Haitong International Capital Limited (海通國際資本有限公司), Haitong International Securities Company Limited (海通國際證券有限公司), ABCI Capital Limited (農銀國際融資有限公司), CLSA Capital Markets Limited (中信里昂證券資本市場有限公司) and CLSA Limited (中信里昂證券有限公司) pursuant to which Yichang HEC Health Pharmaceutical Co., Ltd. (宜昌東陽光健康藥業有限公司) agreed to subscribe for the H Shares in the amount of US$200 million;

(2) a cornerstone investment agreement dated June 26, 2020 entered into among our Bank, WAH LI (HONG KONG) LIMITED (香港華麗有限公司), CCB International Capital Limited (建銀國際金融有限公司), Haitong International Capital Limited (海通國際資本有限公司), Haitong International Securities Company Limited (海通國際證券有限公司), ABCI Capital Limited (農銀國際融資有限公司), CLSA Capital Markets Limited (中信里昂證券資本市場有限公司) and CLSA Limited (中信里昂證券有限公司) pursuant to which WAH LI (HONG KONG) LIMITED (香港華麗有限公司) agreed to subscribe for the H Shares in the amount of US$50 million;

(3) a cornerstone investment agreement dated June 26, 2020 entered into among our Bank, Zhejiang Rongsheng Venture Capital Co., Ltd. (浙江榮盛創業投資有限公司), CCB International Capital Limited (建銀國際金融有限公司), Haitong International Capital Limited (海通國際資本有限公司), Haitong International Securities Company Limited (海通國際證券有限公司), ABCI Capital Limited (農銀國際融資有限公司), CLSA Capital Markets Limited (中信里昂證券資本市場有限公司) and CLSA Limited (中信里昂證券有限公司) pursuant to which Zhejiang Rongsheng Venture Capital Co., Ltd. (浙江榮盛創業投資有限公司) agreed to subscribe for the H Shares in the amount of US$50 million;

(4) a cornerstone investment agreement dated June 26, 2020 entered into among our Bank, RISESUN LAND DEVELOPMENT (HONGKONG) LIMITED (榮盛房地產發展(香港)有限公司), CCB International Capital Limited (建銀國際金融有限公司), Haitong International Capital Limited (海通國際資本有限公司), Haitong International Securities Company Limited (海通國際證券有限公司), ABCI Capital Limited (農銀國際融資有限公司), CLSA Capital Markets Limited (中信里昂證券資

本市場有限公司) and CLSA Limited (中信里昂證券有限公司) pursuant to which RISESUN LAND DEVELOPMENT (HONGKONG) LIMITED (榮盛房地產發展(香港)有限公司) agreed to subscribe for the H Shares in the amount of US$50 million;

(5) a cornerstone investment agreement dated June 26, 2020 entered into among our Bank, Shenzhen Cuilin Industrial Development Co., Ltd. (深圳市翠林實業發展有限公司), CCB International Capital Limited (建銀國際金融有限公司), Haitong International Capital Limited (海通國際資本有限公司), Haitong International Securities Company Limited (海通國際證券有限公司), ABCI Capital Limited (農銀國際融資有限公司), CLSA Capital Markets Limited (中信里昂證券資本市場有限公司) and CLSA Limited (中信里昂證券有限公司) pursuant to which Shenzhen Cuilin Industrial Development Co., Ltd. (深圳市翠林實業發展有限公司) agreed to subscribe for the H Shares in the amount of US$50 million;

(6) a cornerstone investment agreement dated June 26, 2020 entered into among our Bank, Jinlian (Tianjin) Finance Lease Co., Ltd. (津聯(天津)融資租賃有限公司), CCB International Capital Limited (建銀國際金融有限公司), Haitong International Capital Limited (海通國際資本有限公司), Haitong International Securities Company Limited (海通國際證券有限公司), ABCI Capital Limited (農銀國際融資有限公司), CLSA Capital Markets Limited (中信里昂證券資本市場有限公司), CLSA Limited (中信里昂證券有限公司) and ICBC International Capital Limited (工銀國際融資有限公司) pursuant to which Jinlian (Tianjin) Finance Lease Co., Ltd. (津聯(天津)融資租賃有限公司) agreed to subscribe for the H Shares in the amount of US$30 million;

(7) a cornerstone investment agreement dated June 26, 2020 entered into among our Bank, Chengde Jianlong Special Steel Co., Ltd. (承德建龍特殊鋼有限公司), CCB International Capital Limited (建銀國際金融有限公司), Haitong International Capital Limited (海通國際資本有限公司), Haitong International Securities Company Limited (海通國際證券有限公司), ABCI Capital Limited (農銀國際融資有限公司), CLSA Capital Markets Limited (中信里昂證券資本市場有限公司), CLSA Limited (中信里昂證券有限公司) and CMB International Capital Limited (招銀國際融資有限公司) pursuant to which Chengde Jianlong Special Steel Co., Ltd. (承德建龍特殊鋼有限公司) agreed to subscribe for the H Shares in the amount of US$30 million;

(8) a cornerstone investment agreement dated June 26, 2020 entered into among our Bank, Shenghong Holding Group Co., Ltd. (盛虹控股集團有限公司), CCB International Capital Limited (建銀國際金融有限公司), Haitong International Capital Limited (海通國際資本有限公司), Haitong International Securities Company Limited (海通國際證券有限公司), ABCI Capital Limited (農銀國際融資有限公司), CLSA Capital Markets Limited (中信里昂證券資本市場有限公司) and CLSA Limited (中信里昂證券有限公司) pursuant to which Shenghong Holding Group Co., Ltd. (盛虹控股集團有限公司) agreed to subscribe for the H Shares in the amount of US$30 million;

(9) a cornerstone investment agreement dated June 26, 2020 entered into among our Bank, Xinao Group Co., Ltd. (新奧集團股份有限公司), CCB International Capital Limited (建銀國際金融有限公司), Haitong International Capital Limited (海通國際資本有限公司), Haitong International Securities Company Limited (海通國際證券有限公司), ABCI Capital Limited (農銀國際融資有限公司), CLSA Capital Markets Limited (中信里昂證券資本市場有限公司), CLSA Limited (中信里昂證券有限公司) and CMB International Capital Limited (招銀國際融資有限公司) pursuant to which Xinao Group Co., Ltd. (新奧集團股份有限公司) agreed to subscribe for the H Shares in the amount of US$30 million; and

(10) the Hong Kong Underwriting Agreement.

B. Intellectual Property Rights

As of the Latest Practicable Date, we have registered or applied for registration of the following intellectual property rights which are material to our business:

(a) Trademarks

As of the Latest Practicable Date, we have registered the following trademarks which are material to our business:

No.	Trademark	Place of Registration	Class	Registration No.	Effective Period
1.	CBHB	PRC	36	10938066	January 28, 2014 to January 27, 2024
2.	渤海银行 CBHB	PRC	36	10842450	March 21, 2014 to March 20, 2024
3.	渤海银行 CHINA BOHAI BANK	PRC	36	9127834	February 21, 2014 to February 20, 2024
4.		PRC	36	9127843	May 7, 2012 to May 6, 2022
5.	渤海银行 CBHB	Hong Kong	36	302704653	August 15, 2013 to August 14, 2023
6.	渤海银行 CHINA BOHAI BANK	Hong Kong	36	302704662	August 15, 2013 to August 14, 2023
7.	CBHB	Hong Kong	36	302704671	August 15, 2013 to August 14, 2023

(b) Classification of Goods for Trademarks

The table below sets out the classification of goods for trademarks (the detailed classification in relation to the relevant trademarks depends on the details set out in the relevant trademark certificates and may differ from the list below):

Class Number	Goods
36	Insurance; financial affairs; monetary affairs; real estate affairs

(c) Domain Names

As of the Latest Practicable Date, we have registered the following material Internet domain name:

No.	Domain Name	Place of Registration	Owner	Effective Period
1.	cbhb.com.cn	PRC	Our Bank	From June 23, 2004 until June 23, 2021

Save as disclosed herein, there are no other trademarks, domain names, patents or other intellectual or industrial property rights which are material to our business.

C. Our Depositors and Borrowers

Our five largest depositors and five largest borrowers accounted for less than 30% of the respective total deposits from customers and total loans and advances to customers as of the Latest Practicable Date.

3. FURTHER INFORMATION ABOUT OUR SUBSTANTIAL SHAREHOLDERS, DIRECTORS, MANAGEMENT AND STAFF

A. Substantial Shareholders

For detailed information on the persons who, as far as the Directors are aware, will have or be deemed or taken to have interests and/or short positions in the Shares or underlying Shares which would be required to be disclosed to our Bank and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or will, directly or indirectly, be interested in 10% or more of the nominal value of any class of our share capital carrying rights to vote in all circumstances at the general meetings of our Bank, immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised), see “Substantial Shareholders” in this prospectus.

B. Disclosure of the Directors' and Supervisors' interests in our issued share capital or our associated corporations

Immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised), none of our Directors, Supervisors and chief executive will have any interests or 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), or any interests or short positions, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies under the Listing Rules which will be required to be notified to us and the Hong Kong Stock Exchange upon the Listing, or any interests or short positions, pursuant to section 352 of the SFO, which will be required to be entered in the register referred to therein. For this purpose, the relevant provisions of the SFO shall be construed as if they are applicable to our Supervisors.

C. Particulars of Service Contracts

Pursuant to Rules 19A.54 and 19A.55 of the Listing Rules, our Bank has entered into a service 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, our Bank has not entered, and does not propose to enter, into any service contracts with any of our Directors or Supervisors in their respective capacities as Directors or Supervisors (other than contracts expiring or determinable by the employer within one year without payment of any compensation (other than statutory compensation)).

D. Directors' and Supervisors' Remuneration

The aggregate amounts of remuneration paid by us to our Directors and Supervisors for the years ended December 31, 2017, 2018 and 2019 were approximately RMB9.3 million, RMB15.7 million and RMB11.1 million, respectively.

It is estimated that remuneration equivalent to approximately RMB16.9 million in aggregate will be paid to the Directors and Supervisors by our Bank for the year ending December 31, 2020 based on the arrangements in force as of the date of this prospectus and historical data in 2019.

E. Personal Guarantees

No Director or Supervisor has provided personal guarantees for the benefit of the lenders in connection with any banking facilities granted to our Bank.

F. Agency Fees or Commissions Paid or Payable

Save as disclosed in "Underwriting" in this prospectus, none of the Directors or any of the persons whose names are listed in "– 4. Other Information – E. Qualification of Experts" had received any commissions, discounts, agency fees, brokerages or other special terms from us in connection with the issuance or sale of any of our capital within the two years preceding the date of this prospectus.

G. Disclaimers

(a) none of the Directors, Supervisors or the parties listed in "– 4. Other Information – E. Qualification of Experts" is interested in our promotion, or in any assets which have, within the two years immediately preceding the date of this prospectus, been acquired or disposed of by or leased to our Bank, or are proposed to be acquired or disposed of by or leased to our Bank;

(b) none of the Directors or Supervisors is materially interested in any contract or arrangement subsisting as of the date of this prospectus which is significant to our business;

(c) save in connection with the Hong Kong Underwriting Agreement and the International Underwriting Agreement, none of the parties listed in "– 4. Other Information – E. Qualification of Experts":

(i) is interested legally or beneficially in any of 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;

(d) save as disclosed in "– 3. Further Information about our Substantial Shareholders, Directors, Management and Staff – B. Disclosure of the Directors' and Supervisors' interests in our issued share capital or our associated corporations" in this appendix and "Directors, Supervisors and Senior Management" in this prospectus, none of our Directors or Supervisors is a director or employee of a company which has an interest or short position in the Shares and underlying Shares of our Bank that has to be disclosed pursuant to Divisions 2 and 3 of Part XV of the SFO after the Listing; and

(e) save as disclosed in "– 3. Further Information about our Substantial Shareholders, Directors, Management and Staff – A. Substantial Shareholders" in this appendix, so far as is known to any Director or chief executive of our Bank, no person has an interest or a short position in the Shares and underlying Shares which would fall to be disclosed to our Bank and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at our general meetings, once our H Shares are listed on the Hong Kong Stock Exchange.

4. OTHER INFORMATION

A. Estate Duty

Our Directors have been advised that currently there is no material liability for estate duty under PRC law that is likely to be imposed on us.

B. Litigation

Save as disclosed in "Business – Legal and Administrative Proceedings", our Bank is not involved in any litigation, arbitration or administrative proceedings of material importance as of the Latest Practicable Date, and so far as we are aware, no litigation, arbitration or administrative proceedings of material importance is pending or threatened against us as of the Latest Practicable Date.

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 to be issued or sold (including any additional H Shares that may be issued or sold pursuant to the exercise of the Over-allotment Option) under the Global Offering. All necessary arrangements have been made to enable the securities to be admitted into CCASS.

Each of the Joint Sponsors satisfies the independence criteria set out in Rule 3A.07 of the Listing Rules.

Our Bank has entered into an engagement agreement with each of the Joint Sponsors pursuant to which our Bank agreed to pay a total amount of HK$4 million to the Joint Sponsors to act as the sponsors to our Bank in the Global Offering.

D. Preliminary Expenses

Our Bank has not incurred any material preliminary expenses.

E. Qualification of Experts

The qualifications of the experts (as defined under the Listing Rules and the Companies (Winding Up and Miscellaneous Provisions) Ordinance) who have given opinions or advice in this prospectus are as follows.

Name	Qualifications
CCB International Capital Limited	Licensed corporation under the SFO permitted to conduct type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities as defined under the SFO
Haitong International Capital Limited	Licensed corporation under the SFO permitted to conduct type 6 (advising on corporate finance) regulated activities as defined under the SFO
ABCI Capital Limited	Licensed corporation under the SFO permitted to conduct type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities as defined under the SFO
CLSA Capital Markets Limited	Licensed corporation under the SFO permitted to conduct type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities as defined under the SFO
KPMG	Certified Public Accountants under the Professional Accountants Ordinance (Chapter 50 of the Laws of Hong Kong) Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance (Chapter 588 of the Laws of Hong Kong)
Commerce & Finance Law Offices	Legal advisors as to PRC laws

F. No Material Adverse Change

Our Directors confirm that there has been no material adverse change in our financial or trading position or prospect since December 31, 2019 (being the date on which our latest audited financial statements were made up).

G. 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.

H. Miscellaneous

Save as disclosed in this prospectus:

(a) within the two years preceding the date of this prospectus, (i) our Bank has not issued nor agreed to issue any share or loan capital fully or partly paid either for cash or for a consideration other than cash; (ii) no commissions, discounts, brokerage fee or other special terms have been granted in connection with the issue or sale of any shares or loan capital of our Bank; and (iii) no commission had been paid or payable (but not including commission to sub-underwriters) for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any share or loan capital in 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) our Bank has 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 purchase of any plant to or by us for a period of over 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 overseas;

(j) our Bank has no outstanding convertible debt securities; and

(k) our Bank currently does not intend to apply for the status of a sino-foreign investment joint stock limited company and does not expect to be subject to the Foreign Investment Law of the PRC (《中華人民共和國外商投資法》)[1].

Note:

(1) The Foreign Investment Law of the PRC has become effective on January 1, 2020, and the Sino-foreign Joint Venture Law of the PRC was abolished on the same date.

I. Consents

Each of CCB International Capital Limited, Haitong International Capital Limited, ABCI Capital Limited, CLSA Capital Markets Limited, KPMG and Commerce & Finance Law Offices has given and has not withdrawn its written consents to the issue of this prospectus with the inclusion of its report, letter and/or opinion (as the case may be) and the references to its name included herein in the form and context in which it respectively appears.

J. 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).

K. Promoters

Our promoters comprised of TEDA Holding, SCB, China Ocean Shipping (Group) Company (中國遠洋運輸(集團)總公司), SDIC, Shanghai Baosteel Group Corporation (上海寶鋼集團公司, currently known as China Baowu Steel Group Corporation Limited (中國寶武鋼鐵集團有限公司)), Tianjin Shanghui Investment Holding Company Limited (天津商匯投資(控股)有限公司) and Tianjin Trust and Investment Company Limited (天津信託投資有限責任公司, currently known as Tianjin Trust Co., Ltd. (天津信託有限責任公司)).

Save for the Global Offering and as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus, no cash, securities or other benefits has been paid, allotted or given, or has been proposed to be paid, allotted or given, to any of the promoters in connection with the Global Offering or the transactions described in this prospectus.

L. Compliance Advisor

We have appointed Haitong International Capital Limited, as our compliance advisor upon listing pursuant to Rule 3A.19 and Rule 19A.05 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, our compliance advisor will advise us in the following circumstances:

- before the publication of any regulatory announcement, circular or financial report;
- where a transaction, which might be a notifiable or connected transaction, is contemplated, including share issues and share repurchases;
- where we propose to use the proceeds of the Global Offering in a manner different from that described in this prospectus or where our business activities, developments or results deviate from any forecast, estimate or other information set out in this prospectus; and
- where the Hong Kong Stock Exchange makes an inquiry on us regarding unusual movements in the price or trading volume of H Shares of our Bank, the possible development of a false market in H Shares of our Bank or any other matters.

Pursuant to Rule 19A.06(3) of the Listing Rules, our compliance advisor will, on a timely basis, inform us of any amendment or supplement to the Listing Rules that are announced by the Hong Kong Stock Exchange. Our compliance advisor will also inform us of any amendment or supplement to the applicable laws and guidelines.

The term of appointment shall commence on the Listing Date and end on the date on which we publish our annual report in respect of our financial results for the first full financial year commencing after the Listing Date.

1. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this prospectus and delivered to the Registrar of Companies in Hong Kong for registration were:

(a) copies of the Application Forms;

(b) the written consents referred to in the paragraph headed "4. Other Information – I. Consents" in Appendix VII to this prospectus; and

(c) copies of the material contracts referred to in the paragraph headed "2. Further Information about our Business – A. Summary of our Material Contracts" in Appendix VII to this prospectus.

2. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Paul Hastings at 21-22/F, Bank of China Tower, 1 Garden Road, Hong Kong, during normal business hours from 9:00 a.m. to 5:00 p.m. up to and including the date which is 14 days from the date of this prospectus:

(a) the Articles of Association;

(b) the accountants' report from KPMG in respect of the financial information of the Bank for each of the three years ended December 31, 2017, 2018 and 2019, the text of which is set forth in Appendix I to this prospectus;

(c) the unaudited supplementary financial information of our Bank, the text of which is set out in Appendix II to this prospectus;

(d) the report from KPMG in respect of the unaudited pro forma financial information of our Bank, the text of which is set forth in Appendix III to this prospectus;

(e) the audited financial statements of the Bank for each of the three years ended December 31, 2017, 2018 and 2019;

(f) the material contracts referred to in the paragraph headed "2. Further Information about our Business – A. Summary of our material contracts" in Appendix VII to this prospectus;

(g) the written consents referred to in the paragraph headed "4. Other Information – I. Consents" in Appendix VII to this prospectus;

(h) the service contracts referred to in the paragraph headed "3. Further Information about our Substantial Shareholders, Directors, Management and Staff – C. Particulars of Service Contracts" in Appendix VII to this prospectus;

(i) the legal opinions issued by Commerce & Finance Law Offices, the legal advisors of our Bank as to the PRC laws, in respect of, among other things, the general matters and property interests of our Bank; and

(j) the following PRC laws and regulations, together with unofficial English translations thereof:

(i) the PRC Company Law;

(ii) the PRC Securities Law;

(iii) the Special Regulations;

(iv) the Mandatory Provisions;

(v) the Provisional Regulations Concerning the Issue and Trading of Shares;

(vi) the PRC Arbitration Law;

(vii) the PRC Civil Procedure Law; and

(viii) the PRC Commercial Banking Law.

渤海银行
CHINA BOHAI BANK

渤海銀行股份有限公司
CHINA BOHAI BANK CO., LTD.